

MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
FINANCE & ADMINISTRATION COMMITTEE

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

TUESDAY, SEPTEMBER 19, 2017  
11:09 A.M.

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

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Mr. John Chiang, represented by Ms. Jeree Glasser-Hedrick  
and Mr. Matthew Saha

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. Rob Feckner, President

Mr. Michael Bilbrey

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. Ron Lind

Ms. Priya Mathur

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

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. Tanya Black, Committee Secretary

Mr. Ken Hall, Manager, Supplemental Income Plan

Ms. Rose McAuliffe, Chief, Financial Planning, Policy, and Budgeting

Mr. Andy Nguyen, Manager, Pension Contract Management Program

Mr. Julian Robinson, Senior Pension Actuary

Mr. Kurt Schneider, Senior Pension Actuary

Mr. Wylie Tollette, Chief Operating Investment Officer

Mr. Michael Younger, Staff Services Manager

ALSO PRESENT:

Mr. Claude Alber, Peace Officers Research Association of California (PORAC)

Mr. Tim Behrens, California State Retirees

Mr. Robin Bertagna, City of Yuba City

Mr. Bruce Channing, City of Laguna Hills

Mr. Lance Christensen, Senator John Moorlach's Office

Mr. Al Darby, Retired Public Employees Association

Mr. Scott Dowell, City of Chico

Mr. Michael Flaherman, Board Candidate

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

ALSO PRESENT:

Mr. Dillon Gibbons, California Special Districts  
Association

Mr. Dane Hutchings, League of California Cities

Mr. Neal Johnson, Service Employees International Union,  
Local 1000

Mr. Daniel Keen, City of Vallejo

Ms. Sara Lamnin, City of Hayward

Mr. Sean McGlynn, Santa Rosa

Ms. Judith Painter, Free Speech for People & Courage  
Campaign

Ms. Karen Reid, City of Concord

Mr. Steve Schwabauer, City of Lodi

Mr. Jai Sookprasert, California School Employees  
Association

Ms. Ann Willmann, Chico Parks and Rec District

Mr. Phil Wright, City of West Sacramento

Ms. Ruth Wright, City of Oroville

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

1  
2 CHAIRPERSON COSTIGAN: Okay. We're going to call  
3 to order the September -- you should have told me that  
4 sooner -- the Finance and Administration meeting for  
5 September. Can we start with please the call of the roll.

6 COMMITTEE SECRETARY BLACK: Richard Costigan?

7 CHAIRPERSON COSTIGAN: Here.

8 COMMITTEE SECRETARY BLACK: Theresa Taylor?

9 VICE CHAIRPERSON TAYLOR: Here.

10 COMMITTEE SECRETARY BLACK: Matthew Saha for John  
11 Chiang?

12 ACTING COMMITTEE MEMBER SAHA: Here.

13 COMMITTEE SECRETARY BLACK: J.J. Jelincic?

14 COMMITTEE MEMBER JELINCIC: Here.

15 COMMITTEE SECRETARY BLACK: Henry Jones?

16 COMMITTEE MEMBER JONES: Here.

17 COMMITTEE SECRETARY BLACK: Bill Slaton?

18 COMMITTEE MEMBER SLATON: Here.

19 COMMITTEE SECRETARY BLACK: Lynn Paquin for Betty  
20 Yee?

21 ACTING COMMITTEE MEMBER PAQUIN: Here.

22 CHAIRPERSON COSTIGAN: Great. Thank you. All  
23 right. We're going to start off with the executive report  
24 please.

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: Thank you. Good morning, Mr. Chair, Madam Vice  
2 Chair, members of the Committee and the Board. Marlene  
3 Timberlake-D'Adamo, CalPERS team member.

4 Our two action items today, Items 5a and 5b will  
5 cover Trinity County Waterworks, number one, and Niland  
6 Sanitary District by recommending that the Board declare  
7 these entities in default.

8 In addition to these employers, our first  
9 information Item 6a will be an overview of our quarterly  
10 report on participating employers. This report was last  
11 presented in May and includes additional information and  
12 improvements per your request. Agenda Item 6b is our  
13 annual customer service and cost effectiveness  
14 measurements, CEM update, for fiscal year 2015-16  
15 resulting in an overall score of 76.

16 Agenda Item 6c is a proposed discussion of  
17 requests received in July by CalPERS Finance and Admin,  
18 and Risk and Audit Committee Chairs from State Senator  
19 John Moorlach requesting assistance in having CalPERS  
20 provide cost estimates for two proposals affecting CalPERS  
21 members and beneficiaries.

22 The last three information items are from our  
23 Actuarial Office. The first of those, Agenda Item 7a  
24 presents our -- the annual actuarial valuation for the  
25 Terminated Agency Pool as of June 30th, 2016.

1           Agenda Item 7b, longevity and inflation risk  
2 examines how changing inflation and mortality assumptions  
3 impact system liabilities, and how to mitigate those  
4 risks.

5           Our final agenda item today is the amortization  
6 policy discussion explaining how amortization parameters  
7 affect CalPERS' objective to sustainably fund the system.  
8 I would like to take the opportunity to thank our outgoing  
9 budget chief, Rose McAuliffe for her service. Rose will  
10 be moving on to the California Housing Finance Agency.  
11 Thank you, Rose, and good luck.

12           FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

13 McAULIFFE: Thank you.

14           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

15 D'ADAMO: Stand up. Let everybody --

16           (Applause.)

17           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

18 D'ADAMO: Thank you for that.

19           The next Finance and Admin Committee meeting is  
20 scheduled for November 14th, 2017, and will include the  
21 2016-17 basic financial statements, proposed regulation of  
22 employer actuarial liability significant increase, as well  
23 as the first readings of 2017-18 mid-year budget, and  
24 amortization policy. Also being presented are the  
25 experience study, risk profile review, long-term care

1 valuation, and semi-health plan financial reports.

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

4 CHAIRPERSON COSTIGAN: All right. Any questions  
5 on the report?

6 And yes, Rose, we are disappointed to see you go.  
7 I did see in the morning report -- it's a great move for  
8 you, so congratulations. So going to be tough to find  
9 someone to backfill you.

10 Our next item is going to be consent action  
11 before we get to information. I know, Mr. Jelincic, you  
12 have some issues. So I'm looking for approval of the June  
13 21st 2017 --

14 COMMITTEE MEMBER JELINCIC: I'll move it.

15 COMMITTEE MEMBER JONES: Second.

16 CHAIRPERSON COSTIGAN: Moved by Jelincic,  
17 seconded by Jones.

18 All in favor?

19 (Ayes.)

20 CHAIRPERSON COSTIGAN: Opposed?

21 Motion carries.

22 On Information Consent, I have three items that  
23 we're going to discuss. The first is going to be 4d,  
24 Annual Contract and Procurement Activity Report.

25 Mr. Jelincic, push your button, please.

1 Mr. Jelincic.

2 COMMITTEE MEMBER JELINCIC: I'm not going to go  
3 on my tirade about the units protecting their work or the  
4 cost effectiveness, but there were three I did not  
5 understand that I wanted to ask about.

6 On page three of five of attachment 1, there's  
7 MUFG Capital Analytics, private equity, accounting, and  
8 data services, amendment number 2 name change. What's  
9 that contract?

10 CHAIRPERSON COSTIGAN: We have the Investment  
11 office coming up.

12 COMMITTEE MEMBER JELINCIC: And he's on his way.

13 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

14 Hello. Wylie Tollette, CalPERS Investment Office  
15 staff.

16 MUFG is Mitsubishi Bank, which bought Capital  
17 Analytics, which is our accounting service provider for  
18 our private equity product. It's part of the PEARS  
19 platform.

20 COMMITTEE MEMBER JELINCIC: And it goes back to  
21 '13. Okay.

22 On the next page, page four, QS Investors,  
23 provide quarterly portfolio information, amendment number  
24 2. What do they do?

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1           You'll give me a moment --

2           COMMITTEE MEMBER JELINCIC:    Sure.

3           CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4           -- to find the page?

5           COMMITTEE MEMBER JELINCIC:    If you had your iPad,  
6 I'd tell you it was page 18.

7           CHAIRPERSON COSTIGAN:    What page is it, J.J.?

8           COMMITTEE MEMBER JELINCIC:    It's attachment 1,  
9 four of five.  It's like the fifth one down.  Eighteen of  
10 the iPad.

11           CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:  I  
12 think that's an abbreviation that was used in the report  
13 that I'm not familiar with.  So I'll have to follow up on  
14 the answer to that question

15           COMMITTEE MEMBER JELINCIC:    Okay.  There was one  
16 other one, but I don't see my highlight, so I'll settle  
17 for the two questions.

18           CHAIRPERSON COSTIGAN:    All right.  Don't go far.  
19 Mr. Jelincic, I believe also -- actually, Wylie, I think  
20 you're done on this one.  You had 4i, the Quarterly Chief  
21 Information Officer IT Report was your next item you had a  
22 question on.

23           COMMITTEE MEMBER JELINCIC:    Yes.

24           CHAIRPERSON COSTIGAN:    Do you recall your  
25 question, Mr. Jones -- or Mr. Jelincic?

1           COMMITTEE MEMBER JELINCIC: I had marked -- yeah,  
2 it was on the -- page 12. It's in warning. And I was  
3 just -- actually, 11 and 12 are about the warning. Can  
4 you give us some update on what's going on there?

5           CHAIRPERSON COSTIGAN: Mr. Hoffner.

6           DEPUTY EXECUTIVE OFFICER HOFFNER: Excuse me.  
7 Yeah, I'm trying to track exactly which.

8           COMMITTEE MEMBER JELINCIC: It's attachment 2,  
9 pages 10, 11, and 12 were all -- overall status is  
10 warning.

11           DEPUTY EXECUTIVE OFFICER HOFFNER: Oh. Okay. So  
12 we have, as the agenda item states, several items that are  
13 in warning stage. So it's a yellow. So it would be  
14 highlighted in terms of things that we're looking at. The  
15 first one, page 10, is deals with our back-up restoration  
16 recovery, RFP. This is put out on the street basically in  
17 July. We're under a very tight timeframe to get to  
18 deliver a little of this project by June 30th of 2018. So  
19 we have put on a warning status given the timeline is  
20 contracted in order to get that deliverable done.

21           We are in confidential discussions with a variety  
22 of vendors right now, but we wanted to highlight for the  
23 Committee that is something that is under a short timeline  
24 to complete. So that's the reason for that warning.

25           You want me to keep going?

1 COMMITTEE MEMBER JELINCIC: Yeah, 11 and 12.

2 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay, 11 and  
3 12. So CalPERS Education Center redesign. As identified  
4 in the materials, we had lost a critical individual in  
5 terms of a resource on the accessibility side. And so  
6 that -- we want to identify that as a challenge that we're  
7 looking to backfill in order for that project to move  
8 forward.

9 So we just want to tee that up for you as an item  
10 that has a warning level as well.

11 COMMITTEE MEMBER JELINCIC: And you extended the  
12 date?

13 DEPUTY EXECUTIVE OFFICER HOFFNER: The date has  
14 been extended, yeah, five months as well related to --  
15 we're 50 percent completed the project. But essentially,  
16 we look to mitigate that loss of a resource and be able to  
17 move the project forward.

18 And the final one is infrastructure  
19 modernization. This has actually been mitigated since the  
20 material was published. We had some databases that need  
21 to migrated. That occurred on September 6th. And so when  
22 we posted this material it was in yellow stage, a warning,  
23 but that has been mitigated and no longer a warning now.

24 COMMITTEE MEMBER JELINCIC: Then you should have  
25 pointed to that one.

1 DEPUTY EXECUTIVE OFFICER HOFFNER: Well, I should  
2 have started with that one, but it's a point in time when  
3 the report was done. So we'll keep you abreast of the  
4 changes. And this will be material that will be in the  
5 Enterprise performance reporting dashboard, so when we go  
6 forward in the future months.

7 COMMITTEE MEMBER JELINCIC: Thank you.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Sure.

9 CHAIRPERSON COSTIGAN: I was trying not to cough  
10 into it.

11 The next item, I'm actually going to pull off,  
12 because I want to talk with Mr. Gillihan, is going to be  
13 K, which is Supplemental Income Plan Program report.

14 Mr. Gillihan, microphone, please.

15 Thank you, sir.

16 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

17 So I just wanted to raise a point on this. It  
18 looks like, you know, our program, the Supplemental Income  
19 Program, isn't sort of generating the type of take-up that  
20 we would expect, given the broad audience we have access  
21 to. And I just want to know for the record, CalHR, we  
22 have a program that's available to State employees. It's  
23 also available to employees of the California State  
24 University system, as well as employees of the  
25 legislature.

1           And as of August 31st, we have about 205,000  
2 participants and \$13 billion in assets under management.  
3 And I'm just wondering, given the scale of our program and  
4 what I think may be a lower fee structure, if there's not  
5 some opportunity to perhaps consolidate or leverage these  
6 programs in some way to the benefit of those  
7 participating?

8           So I throw that out there as an offer and a point  
9 of discussion.

10           CHAIRPERSON COSTIGAN: I think that is a great  
11 suggestion, Mr. Gillihan. I think as Ms. Frost and I have  
12 spoken, actually, this is one of the long term objectives  
13 we should look at is the management of these -- of this  
14 program for local governments, while at the same time  
15 having a disconnect between our DBs, and what you're doing  
16 with Savings Plus, which I think is, as a participant of  
17 Savings Plus, I find it fantastic. It's just there's a  
18 lack of coordination.

19           So I would ask is that Wylie, that runs this  
20 program, that you work with CalHR, both look at the fee  
21 structure and what we can do with the two programs,  
22 because we are running a bifurcated system right now.

23           And so is that accept, Mr. Gillihan?

24           COMMITTEE MEMBER GILLIHAN: Yeah, absolutely.

25           CHAIRPERSON COSTIGAN: Great. Thank you, sir.

1 Oh.

2 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

3 Yes, it's absolutely acceptable. And I think we  
4 share the ownership of the program between the CFO and the  
5 Investment Office.

6 CHAIRPERSON COSTIGAN: Yes.

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: So  
8 we'll collaborate with Marlene's team first.

9 CHAIRPERSON COSTIGAN: Thank you.

10 Mr. Jones.

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

13 Yeah, just a point of clarification on that.  
14 Since you brought up this item on Supplemental Incomes, I  
15 notice that you make reference to school districts having  
16 457 plans. But it was my understanding that school  
17 districts use 403(b) plans.

18 So I just wanted to know are we now -- school  
19 districts are now participating in these State plans as  
20 opposed to the 403(b)s.

21 CHAIRPERSON COSTIGAN: Have a seat.

22 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Mr.  
23 Jones, I believe the distinction is that teachers  
24 participate in the 403(b). Whereas, the administrative  
25 staff, support staff in the school districts participate

1 in 457 plans.

2 COMMITTEE MEMBER JONES: No, 403(b) is for  
3 administrators. I have 403(b) as an administrator.

4 SUPPLEMENTAL INCOME PLAN MANAGER HALL: Ken Hall,  
5 CalPERS staff.

6 Yes, that's true. They do supply both 457 --

7 COMMITTEE MEMBER JONES: Okay.

8 SUPPLEMENTAL INCOME PLAN MANAGER HALL: -- and a  
9 403(b).

10 COMMITTEE MEMBER JONES: Okay.

11 SUPPLEMENTAL INCOME PLAN MANAGER HALL: Our plan  
12 is designed for non-certificated staff in school -- for  
13 public school employers.

14 COMMITTEE MEMBER JONES: So but it's a choice of  
15 the employee to go with --

16 SUPPLEMENTAL INCOME PLAN MANAGER HALL: Correct.  
17 Based off the district or the agency that's contracted,  
18 yes.

19 COMMITTEE MEMBER JONES: Okay. Thank you.

20 CHAIRPERSON COSTIGAN: Mr. Jelincic.

21 COMMITTEE MEMBER JELINCIC: Yeah, and I actually  
22 think it makes sense to look at, you know, consolidating  
23 our 457 and Savings Plus, but I would not necessarily say  
24 we ought to go there. It may make sense to come here.  
25 And I will tell you that a lot of State employees over the

1 years have said, well, how come PERS doesn't run our  
2 deferred comp.

3 So as you look at it, don't go in with a  
4 preconceived notion that it ought to go one way or the  
5 other.

6 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:  
7 Understood.

8 CHAIRPERSON COSTIGAN: No, Mr. Jelincic, that's a  
9 great point. Actually, Mr. Gillihan and I'd had a  
10 discussion awhile back along with Ms. Frost. One of the  
11 issues for our members is you -- for a State member is you  
12 have 401, 457, and you have your defined benefit, and  
13 trying to figure out the fact you have two. So it's just  
14 a preliminary discussion to have.

15 We have one other item, because I keep getting  
16 updated lists. Mr. Flaherman, you may come on down. You  
17 want to speak seek on Item 4f, if that's correct?

18 Is that correct?

19 MR. FLAHERMAN: Good morning. I'm Michael  
20 Flaherman. I'm a candidate --

21 CHAIRPERSON COSTIGAN: Hang on second.

22 MR. FLAHERMAN: Okay.

23 CHAIRPERSON COSTIGAN: Are we ready?

24 Okay. Go ahead, Mr. Flaherman.

25 MR. FLAHERMAN: Okay. Good morning. I'm Michael

1 Flaherman. I'm a candidate for the Board. I wanted to  
2 just comment about Item 4f, which is the annual discharge  
3 of responsibility for money that's owed to the system.  
4 I'm a little bit surprised that there -- there's a summary  
5 here, but there's no back-up in terms of who owes this  
6 money.

7           When I was on the Board, this was a standing  
8 agenda item in the same way that it is now, but even the  
9 discharges that were done under delegated authority were  
10 reported out individually. So you can see here, for  
11 example, that it is noted that the largest loan forgive --  
12 forgiveness of amounts owed is \$52,000. So somebody is  
13 receiving a \$52,000 benefit, but it's not accounted for  
14 who that is.

15           And it seems like that element of transparency is  
16 a very vital check on the potential for abuse. It doesn't  
17 mean that you think somebody is abusing something. It  
18 just is a check on the possibility and the temptation for  
19 abuse.

20           I know that in the past there was a lot of  
21 complaint about excessive back-up in Board agenda items,  
22 because once upon a time there were these massive binders,  
23 right? I mean, people had, in your role, binders that  
24 were a foot tall.

25           CHAIRPERSON COSTIGAN: We still have them.

1 MR. FLAHERMAN: Okay. Well, but now you have --  
2 you have your iPads. And so it's a lot easier -- it's a  
3 lot easier to include back-up material. And I really just  
4 hate to see the Board put in a position of ever approving  
5 anything, whether it's a report, whether it's a discharge  
6 of debts without all of the information that somebody who  
7 really wants to look at it. And maybe none of you do, but  
8 there's also still the issue of the public being able to  
9 look at it to know that there's a transparent process.

10 I hate to see that happen, and I would encourage  
11 you to put over this item to ask the staff to provide the  
12 back-up, and to then just move it forward that way. And I  
13 think -- I think that way you can really be satisfied that  
14 your fiduciary duty is being fulfilled to the Maximum  
15 extent.

16 Thank you.

17 CHAIRPERSON COSTIGAN: Thank you, Mr. Flaherman.

18 Any other items on information consent?

19 All right. We're going to go ahead and move on  
20 to Item 5, Program Management.

21 5a, which is Trinity County.

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: Yes. Just give me second. I'm a little  
24 discombobulated here.

25 (Thereupon an overhead presentation was



1 They wait the time that they need to wait, and then they  
2 give us their resolution. And that's the terminating  
3 process.

4           What has happened with Trinity is that they have  
5 been given their final termination valuation, and have  
6 been unable to pay. And so, at that point, it shifts into  
7 a discussion around -- that they can't pay. And then we  
8 have to reduce the benefit. So, at that point, it looks  
9 like a lot of the -- well, the reports that you've seen  
10 previously.

11           So here on slide 3, we talk about the collection  
12 efforts. And if you know, this is a format that we use  
13 for giving you this information, including when folks are  
14 being notified of these events, because we know that  
15 that's important.

16           On slide 4, here is the impact for Trinity in  
17 terms of what their employer and member looks -- member  
18 base looks like. The contract -- the owed amount  
19 represents, as of September of '16 when they had  
20 terminated, the amount is now about 1,534,409, which is  
21 also listed in the appendix.

22           And so what we have -- what happens if they are  
23 unable to pay, or if they have not paid, is that they  
24 would have a reduction in the amount of 68.55 for the  
25 classic members, and that the reductions would start in

1 December.

2           What I wanted to update you on is that given --  
3 last week, we had initiated some conversations with  
4 Trinity, some very positive comments, conversations with  
5 Trinity, where we are working with them on collecting  
6 additional monies to be put towards the termination. And  
7 so what we would like to do is have you go ahead and  
8 declare them in default, as is the process, but that we  
9 would come back to you and let you know at the next  
10 meeting what we're able to collect, and then what the  
11 ultimate reductions will look like.

12   --o0o--

13           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

14 D'ADAMO: So that really is our recommendation.

15           CHAIRPERSON COSTIGAN: I just want to make sure,  
16 it is my understanding that Trinity was aware that that  
17 was what the staff recommendation was going to be was to  
18 go ahead and declare default today --

19           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: Yes.

21           CHAIRPERSON COSTIGAN: -- and then that you would  
22 be back in November, since it's a mathematical issue at  
23 that point --

24           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: Yes.

1           CHAIRPERSON COSTIGAN: -- as to what the final  
2 reduction would be and would not require a subsequent.

3           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
4 D'ADAMO: Yes, I spoke to the representatives from Trinity  
5 twice last week, and told them that we were going to make  
6 this recommendation, and that we would continue to work  
7 with them, and that we would let them know how -- how  
8 it -- you know, what it was going to be.

9           Based on the conversations that we have post this  
10 decision, to go ahead and get the collections. The  
11 representatives from Trinity was going to be here, but  
12 they are actually having their board meeting today, so  
13 they're actually talking about this today at their board  
14 meeting. So they're, you know, actively interested in  
15 what we're going to do.

16           CHAIRPERSON COSTIGAN: Okay. We have a couple  
17 questions.

18           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
19 D'ADAMO: Sure.

20           CHAIRPERSON COSTIGAN: Mr. Jelincic.

21           COMMITTEE MEMBER JELINCIC: So right -- assuming  
22 nothing else happens, we're looking at a 68 percent cut.

23           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
24 D'ADAMO: Correct.

25           COMMITTEE MEMBER JELINCIC: If they came up with

1 a million and a half in the next month, we would be  
2 looking at no cut.

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
4 D'ADAMO: Correct.

5 COMMITTEE MEMBER JELINCIC: And the expectation  
6 is that sometime in the next month or so they come up with  
7 at least partial payment, and that will drive what the cut  
8 is.

9 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
10 D'ADAMO: Correct.

11 COMMITTEE MEMBER JELINCIC: What happens if they  
12 say, well, we'll give you this much now, and this much a  
13 year from now? How does that get treated?

14 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
15 D'ADAMO: Well, we would have conversations with them to  
16 determine if that's something that we -- that we are  
17 willing to do. I mean, we are here to try to protect the  
18 benefits of the members. And so each of these discussions  
19 is a case-by-case determination around what they're going  
20 to be able to do and where their sources of income are.

21 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

22 CHAIRPERSON COSTIGAN: Mr. Jones.

23 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.  
24 Chair. Yeah, I concur that there would be no need to  
25 bring back a item for decision, if the amounts change.

1 But I think it would be important to at least have a  
2 report, so that the public all knows what this final  
3 number is, so there's no debate later.

4 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

5 D'ADAMO: Absolutely.

6 CHAIRPERSON COSTIGAN: And that's exactly if this  
7 action is adopted, and they would come back and report in  
8 November as to what the final action is, because by the  
9 declaration of default, they would then have 60 days prior  
10 to November -- the November Board meeting to true up, work  
11 out the payment plan, or accept the reductions. But they  
12 were aware that this -- this is what the staff  
13 recommendation was for today.

14 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

15 D'ADAMO: Yes.

16 CHAIRPERSON COSTIGAN: Mr. Bilbrey.

17 BOARD MEMBER BILBREY: What would be -- I mean,  
18 would there be any problem with waiting to take an action  
19 until after you've had this conversation and figured out  
20 that they're going to pay and all to make sure we're clear  
21 on what -- what the shortfall may be or may not be? Is  
22 there any limitations or anything that -- why we couldn't  
23 do this a little bit later?

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: Well, I mean, the only distinction I think with

1 holding it over is that it's sort of outside of our  
2 process. So what we've been trying to do is come to you  
3 with a very, you know, clean process around how this is  
4 going to occur. And so declaring them in default, in my  
5 opinion, doesn't really change the fact that they are in  
6 default. They terminated, and they have not paid.

7 Really, what we're trying to do is work out some  
8 information or, you know, an agreement from them as to  
9 what they're going to be willing and able to contribute  
10 towards their termination liabilities. And so if you  
11 decide that today or decide that in November, it doesn't  
12 really affect the fact that we're still going to be  
13 working that out.

14 BOARD MEMBER BILBREY: Okay. And the reason I  
15 ask this is in the previous actions we take -- took, I  
16 think it was common amongst the Board members that said  
17 that we wanted to do every possible way to work something  
18 out before taking an action. And I think we're doing it  
19 before the fact, but that's just --

20 CHAIRPERSON COSTIGAN: Well, Mr. Bilbrey --

21 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
22 D'ADAMO: And that's true. I think what I would note here  
23 though is that this is a voluntary termination, and so  
24 they've already terminated.

25 BOARD MEMBER BILBREY: All right. Thank you.



1 COMMITTEE MEMBER JONES: So moved.

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

4 COMMITTEE MEMBER SLATON: Second.

5 CHAIRPERSON COSTIGAN: Seconded by Slaton to  
6 adopt staff recommendation.

7 All in favor?

8 (Ayes.)

9 CHAIRPERSON COSTIGAN: Opposed?

10 Motion carries.

11 Thank you.

12 Niland next, please.

13 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

14 D'ADAMO: Thank you.

15 So Niland is also a voluntary termination  
16 situation. This is one where they have been in the system  
17 for awhile. They adopted their resolution. We have been  
18 reporting to you in our quarterly report that they've done  
19 that. They've adopted their final termination resolution.  
20 And this is also a situation where once given the final  
21 coll -- the final termination bill, they were unable to  
22 pay.

23 --o0o--

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: The amount -- it's a very small entity, five

1 employer -- five employers, sorry. Five members

2           And this -- the amounts that are owed are listed  
3 here. We -- the benefit reduction would be significant  
4 for Niland. It would 92.49 for the classic members and  
5 100 percent for the PEPRA members. The reductions would  
6 occur in the first pay period in December. And again,  
7 like Trinity, we initiated conversations with the County  
8 of Imperial on behalf of Niland last week. And they have  
9 again expressed an interest in helping to contribute  
10 towards the final termination valuation.

11           And so similarly with Trinity, we are going to  
12 ask that you go ahead and declare them -- the sanitary  
13 district in default, but give us the time, as we've talked  
14 about, to go ahead and enter into those negotiations with  
15 the county, and then report back to you in November on  
16 what that ultimately looks like.

17           CHAIRPERSON COSTIGAN: Thank you.

18           Mr. Jelincic.

19           COMMITTEE MEMBER JELINCIC: Yeah. In the  
20 write-up one of the comments is that from 1999 to 2013 no  
21 annual payments were required until somebody said, hey, by  
22 the way, I'm here. How do we avoid getting in that  
23 situation again? Have we put something in place to track  
24 it?

25           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: We did. So thank you for the question. We have  
2 created in our system a mechanism where once someone stops  
3 reporting for a period of 60 days, so they separate their  
4 employees and they don't report, we then get a notice  
5 where we reach out to them and then they're on our radar.  
6 So we will not have a situation where someone ceases to  
7 report and then we don't reach out to them for some period  
8 of time.

9 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

10 CHAIRPERSON COSTIGAN: All right. And again, as  
11 in the case with Trinity, Niland was aware of today's  
12 staff recommendation to move to -- enter in default  
13 termination.

14 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

15 D'ADAMO: Yes.

16 CHAIRPERSON COSTIGAN: Thank you.

17 All right. Any further questions?

18 COMMITTEE MEMBER SLATON: Move staff  
19 recommendation.

20 CHAIRPERSON COSTIGAN: All right. Moved by  
21 Slaton. Seconded by?

22 COMMITTEE MEMBER JONES: Second.

23 CHAIRPERSON COSTIGAN: Jones that we adopt staff  
24 a recommendation.

25 All in favor?

1 (Ayes.)

2 CHAIRPERSON COSTIGAN: Opposed?

3 Motion carries. Thank you.

4 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

5 D'ADAMO: Thank you.

6 CHAIRPERSON COSTIGAN: All right. Next item is  
7 Item 6. Go back to my agenda.

8 All right. We're going to start on Program  
9 Management, 6a.

10 (Thereupon an overhead presentation was  
11 Presented as follows.)

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: Right. So this is the quarterly report on  
14 participating employers that we bring to you. This is  
15 essentially the report that we use to keep you updated as  
16 to what's happening within our employer population as it  
17 relates to our collections activity.

18 And so this report should look familiar to you.  
19 This is actually the third time that I'm bringing this  
20 report to you.

21 --o0o--

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: And so what we will note here is that -- the  
24 public agency demographics. I will note that the last  
25 time we brought this report to you in May we had listed

1 the valuation information as of June 30th, 2015. So with  
2 this report, it has been updated to include the 2016  
3 valuations. And if you notice, this is where we are  
4 basically giving you information about the total  
5 participants and the types of agencies that are in our  
6 population for public agencies.

7 GENERAL COUNSEL JACOBS: I'm sorry to interrupt,  
8 Mr. Costigan.

9 CHAIRPERSON COSTIGAN: Mr. Jacobs.

10 GENERAL COUNSEL JACOBS: But did you have a  
11 request for public comment on 5b?

12 CHAIRPERSON COSTIGAN: No, I don't have a  
13 public --

14 GENERAL COUNSEL JACOBS: Okay.

15 CHAIRPERSON COSTIGAN: I'm so sorry if we missed  
16 someone.

17 GENERAL COUNSEL JACOBS: I've got the wrong list.

18 CHAIRPERSON COSTIGAN: Hang on a second.

19 I only -- unless they signed up. I'm sorry, it  
20 goes 4f and then we jump to 6c, of which we have a lot of  
21 people. Is there someone that wanted to talk on 5b?

22 GENERAL COUNSEL JACOBS: I've been told it was  
23 canceled.

24 CHAIRPERSON COSTIGAN: Okay. Thank you.

25 I try -- I mean, again if you want to speak,

1 please -- we get updated lists, so I only have what's in  
2 front of me, so make sure you sign up in the back if you  
3 want to speak. Okay. Sorry.

4 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

5 D'ADAMO: No problem.

6 --o0o--

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

8 D'ADAMO: Slide 4, this is also updated to include the  
9 June 30th, 2016 information. And this has actually been  
10 improved per your request to provide you this information  
11 in increments of ten percent on the funded status versus  
12 25. So if you remember last time, we had 25 to 50, 50 to  
13 75, 75 to 100. And the ask was to provide it a little bit  
14 more -- a little bit more succinct. So that's what we  
15 have here.

16 Slide 5 is the comparison of the 15 versus the 16  
17 numbers. So blue would be '15, and the, we'll call it,  
18 gray is the '16 valuation numbers for the agency types  
19 that we're -- that we're -- that we're listing.

20 And then, of course, the funded status is on the  
21 left-hand side. And again, all of this is meant to  
22 provide you with information about what's happening with  
23 our -- within our employer population.

24 --o0o--

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: The joint powers authority summary. So this is  
2 an information around this is really around the contracts,  
3 and where we have entities that are essentially obligated  
4 to help fund the activities of these JPAs or the  
5 liabilities, I should say, of these JPAs. And so what we  
6 have been doing for sometime now is collecting that  
7 information and reviewing it as it relates to the JPA  
8 agreements, and providing information about what those  
9 entities look like in terms of where we have that support  
10 in terms of the employers.

11 And so, the first column shows the number of  
12 agencies that we've been able to go through for the JPAs.  
13 We've gone through 135 of 166 right now, so we still have  
14 about 31 to go through. We have 10 that we have found  
15 that have an obligation to another member agency. And  
16 then on the right-hand side are the agencies where we have  
17 the State as the obligor. So this is just providing you  
18 with that information around the sponsoring entities of  
19 JPAs.

20 And as you know, we are doing separate work on  
21 JPAs around legislation and other things to try to help  
22 strengthen and shore up the JPA community, and what we  
23 know about the JPA community.

24 --o0o--

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: On slide 7, we're moving to the inactive  
2 agencies, and this is another topic that we've been let --  
3 giving you information on. This is really an update for  
4 the inactive agencies review that was done at the  
5 beginning of the year. And so we have 59 inactive  
6 agencies that we have to -- that we are tracking. And we  
7 sent our audit team in the end of last year, beginning of  
8 this year to do audits on these agencies.

9           What you're seeing is the findings that our audit  
10 team had found, and so now we're continuing to work  
11 through those findings with the inactive agencies. And so  
12 it's a little bit of a moving target in that we're trying  
13 to resolve these findings with these agencies. And we  
14 continue -- we'll continue to keep this on our report so  
15 that you can see the progress that is being made every  
16 quarter as we come in.

17                               --o0o--

18           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

19 D'ADAMO: On slide 8, this is a recent employer activity.  
20 So this is where we're providing you information about  
21 entities that have provided us with a Notice of Intent to  
22 terminate. And I will note here that we have four listed.  
23 The next slide is actually where the -- have adopted  
24 resolutions to terminate. And I'll note that Alhambra,  
25 the first one, and Exposition have actually terminated and

1 paid their full termination costs. So not every  
2 termination ends in a reduction of benefits, and that's a  
3 great thing.

4           On slide 10, this is -- essentially, this is our  
5 slide where we're telling you who we are working with that  
6 is experiencing financial hardship. You'll know that on  
7 this slide Niland and Trinity are listed. And so with  
8 today's decision, they will come off and this will be the  
9 slide where we're starting to bring you information around  
10 employers that are delinquent or that are having trouble  
11 financially.

12                           --o0o--

13                   INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

14 D'ADAMO: Slide 11 is the legislative strategies that  
15 we're working for, and I know we've brought this to you  
16 before, but this is essentially the work that we're trying  
17 to do around how to make the process smoother or improve  
18 it in a way that is -- that is -- that is -- I'm --  
19 that -- to improve the process for both us and members and  
20 employers, and really to try to be very visible with the  
21 information that we're provided.

22           And so the JPAs is the second bullet. We're  
23 talking about joint and several liability. We're talk --  
24 looking at ways that we can improve this process and at  
25 least provide more transparency. That's the word I was

1 looking for, transparency.

2 --o0o--

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

4 D'ADAMO: And then slide 12 the next steps are these are  
5 things that we are looking to do in terms of the overall  
6 process. I think, as you know, we started bringing you  
7 this report a couple of quarters ago. It's an iterative  
8 improvement process, but we really think that we are on  
9 the right path in terms of providing you with information  
10 to help you make great decisions.

11 --o0o--

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: The appendix is something that's part -- a  
14 standing part of this report. And this really is the  
15 timeline for how we do the collection process. And this  
16 is full information about what happens when and at what  
17 time period it's supposed to happen.

18 And then the last slide --

19 --o0o--

20 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

21 D'ADAMO: -- is our glossary of terms, because what we  
22 have found in these conversations is that certain terms  
23 mean certain things to other people. And so we want to  
24 make sure that in our conversations we're all speaking the  
25 same language, so we continually add to this slide as

1 these matters come to our attention.

2 CHAIRPERSON COSTIGAN: Okay. We have several  
3 questions.

4 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
5 D'ADAMO: Yes.

6 CHAIRPERSON COSTIGAN: Mr. Jelincic.

7 COMMITTEE MEMBER JELINCIC: On slide 14  
8 legislative strategies, do we not have the authority now  
9 to not let JPAs in to the system? Don't we have -- don't  
10 we have discretion on who's allowed to enter the system?

11 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
12 D'ADAMO: We have discretion, but we -- but we want  
13 something that is much more formal and press -- what's the  
14 word I'm looking for?

15 CHAIRPERSON COSTIGAN: Precedential.

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

18 GENERAL COUNSEL JACOBS: Yes, we have that  
19 currently. I think what Ms. Timberlake-D'Adamo is just  
20 saying is we would like it to be more clarif -- clarified  
21 in the statute.

22 COMMITTEE MEMBER JELINCIC: Okay.

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
24 D'ADAMO: Right. So we don't necessarily want it to just  
25 be case-by-case decisions, but we really want to have

1 something that is visible and seen by everyone and  
2 understood.

3 COMMITTEE MEMBER JELINCIC: So we currently have  
4 the discretion. And what we want is a statute we can't  
5 point to and say see you don't meet that criteria or we're  
6 not letting you in.

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
8 D'ADAMO: I'm sorry, I didn't hear that.

9 COMMITTEE MEMBER JELINCIC: We currently have the  
10 authority to say you're not coming in, but we want  
11 something in statute that we can point and say that  
12 statute says you can't come in, if you don't have the  
13 joint liability.

14 CHAIRPERSON COSTIGAN: I think it's two things,  
15 Mr. Jelincic. I think one is it should be -- it should be  
16 a public policy discussion. As we determined or found out  
17 with East San Gabriel, that was the fact. You had 191  
18 employees who had no recourse because there was no  
19 mechanism available, whether we had the discretion or not.

20 We don't have the discretion right now to  
21 mandate. It's discretionary. I think the mandatory  
22 aspect of any new JPA -- and we'll have a discussion on  
23 it, but that they're coming in, and it's either the  
24 revenue source or the joint liability would go to protect  
25 the employees. And I think that's what really this

1 discussion is designed for.

2 But you're absolutely right, we have the  
3 discretion now, and that discretion showed -- actually  
4 came quite clear through East San Gabriel determined there  
5 was no recourse. And having a statutory provision, I  
6 think, would be -- it will be for the Board to decide, but  
7 it's just a part of the item discussion.

8 COMMITTEE MEMBER JELINCIC: And then on 7, this  
9 is in -- the inactive agencies. But we've got five  
10 reporting, but back on 14, where we define inactives they  
11 are people who are not reporting. So I'm just confused  
12 how you reconcile those two.

13 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
14 D'ADAMO: So the reporting column --

15 COMMITTEE MEMBER JELINCIC: And I was looking at  
16 the special districts just to make it clear, because  
17 there's non-profits, but...

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
19 D'ADAMO: Okay. So your question is how do we reconcile?

20 COMMITTEE MEMBER JELINCIC: Well, how do we say  
21 they're inactive agencies when they're -- and are  
22 reporting, when back in the appendix we define inactive  
23 agencies as those who don't have a payroll and aren't  
24 reporting.

25 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

1 NGUYEN: Good morning, Andy Nguyen, CalPERS staff member.

2 For these inactive agencies, what we have  
3 identified is seven employers. These are the one that  
4 currently still have some active employees, currently  
5 working at the agency, but they decide not to report these  
6 employees to CalPERS. So we are working with program area  
7 to try to resolve this issue.

8 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

9 D'ADAMO: So the reporting column means that they are  
10 reporting issues related to these employers.

11 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

12 NGUYEN: They have reporting compliance issue with  
13 CalPERS.

14 COMMITTEE MEMBER JELINCIC: So it -- okay. So it  
15 doesn't -- now, I'm really confused.

16 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

17 D'ADAMO: Are you -- are you trying to understand how they  
18 became and why they're categorized as an inactive  
19 employer?

20 COMMITTEE MEMBER JELINCIC: Yeah.

21 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

22 D'ADAMO: Okay.

23 COMMITTEE MEMBER JELINCIC: I mean, if they're --  
24 because we define inactives as those who aren't reporting,  
25 and then we say we've got these seven inactives that are

1 reporting. And I'm just trying to --

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: No, no. What we're saying is that we have seven  
4 employers that are not reporting, and that they do -- that  
5 they have active employees -- as Andy said, they have  
6 active employees, but they're not reporting them to us.  
7 So for our purposes, they are an inactive reporter,  
8 because they're not -- employer, because they're not  
9 reporting them to us.

10 And so in going out and finding those seven  
11 employers, our audit team and our program areas are now  
12 working to resolve those issues. So the hope is that that  
13 column moves into some other column, and hopefully it goes  
14 into out -- into -- back into active.

15 COMMITTEE MEMBER JELINCIC: Okay. So I'm  
16 misreading the heading when I -- when it says reporting,  
17 because they're really people who are not reporting.

18 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

19 D'ADAMO: Well, column, the heading --

20 COMMITTEE MEMBER JELINCIC: We're aware there's a  
21 problem.

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: Right. The heading is meant to be the audit  
24 findings. So those were the audit findings. So the  
25 reporting is an audit finding as in lack of reporting.

1 COMMITTEE MEMBER JELINCIC: Okay.

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: Sorry about that.

4 COMMITTEE MEMBER JELINCIC: Yeah, you may want to  
5 think about changing the heading to not confuse me.

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

7 D'ADAMO: Okay.

8 COMMITTEE MEMBER JELINCIC: Thank you.

9 CHAIRPERSON COSTIGAN: Well, thank you for  
10 pointing it out, Mr. Jelincic.

11 Mr. Slaton.

12 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

13 So on page six, what's the significance of the  
14 right-hand column, number of agencies with State as a  
15 member agency? What's the impact of that? Does that mean  
16 they have liabilities or don't have liability?

17 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

18 D'ADAMO: That they're part of the State, yes.

19 COMMITTEE MEMBER SLATON: I'm sorry?

20 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

21 D'ADAMO: That they're -- that they're -- that they're  
22 part of the State or that the State is the -- is the  
23 entity that is the source entity.

24 COMMITTEE MEMBER SLATON: Okay. As a member  
25 agency, so that's -- it's a JPA between the State and some

1 other bodies?

2 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

3 NGUYEN: Yes, that's correct.

4 COMMITTEE MEMBER SLATON: Okay. But that doesn't  
5 imply that there's -- that they're joint and severally  
6 responsible for the liabilities, is that correct?

7 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

8 NGUYEN: Yes.

9 COMMITTEE MEMBER SLATON: Okay. So I'm not sure  
10 I understand the value of -- in other words, the  
11 reconciliation between the two columns, are these five  
12 others, is the State responsible or not responsible for  
13 the obligations?

14 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

15 NGUYEN: For this one, we just want to point it out that  
16 out of these 135 JPA's, five of them the Department of the  
17 State is a member agency.

18 COMMITTEE MEMBER SLATON: Is a member agency, but  
19 we don't know whether, in fact --

20 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

21 NGUYEN: But it doesn't mean that the State is --

22 COMMITTEE MEMBER SLATON: Is behind the  
23 obligations.

24 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

25 NGUYEN: Yeah.

1 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

2 D'ADAMO: So, for instance, as it relates to the three  
3 -- the one -- the ten and the 15 columns, right, the third  
4 column, and the fourth column. What we're trying to say  
5 is that as it relates to the State, it would be one of the  
6 places, or the place, that we would go to if we were  
7 experiencing an issue with a JPA.

8 Just like for the third column, those 10 entities  
9 that have other member agencies we would go to those  
10 member agencies. So it's really just showing where there  
11 might be another avenue for us to have discussions,  
12 negotiations, or get information from.

13 COMMITTEE MEMBER SLATON: Okay. I would also  
14 point out that, you know, even though the -- out of the  
15 135, there's at least 125 in this list that don't have --  
16 there's no financial liability obligation reverting back  
17 to the members. Many of them are very different. You  
18 know, East San Gabriel was -- essentially, it's revenue  
19 was based on a contract. Whereas, some of these,  
20 sanitation districts, and water flood districts have  
21 essentially tax revenue, that is essentially their funding  
22 source.

23 So I think from a credit standpoint, there's many  
24 different variations in this list. So, you know, I don't  
25 want us to go too far over to the issue of joint and

1 several liability as -- and this is -- gets to the  
2 litigation -- to the legislation issue. I'm not sure --  
3 we might be going too far is what I'm saying, that I think  
4 you have to make a credit decision --

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: Right.

7 COMMITTEE MEMBER SLATON: -- rather than just a  
8 black and white, you know, they have joint and several or  
9 they don't.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: Right. And so I go back to this slide, because  
12 what we have pointed out is that the JPAs are funded at 80  
13 percent last year, 75 percent on average this year.

14 So to your point, some of them -- you know, it  
15 doesn't -- it's -- just because someone is JPA is not  
16 necessarily indicative of the fact that they might have a  
17 problem --

18 COMMITTEE MEMBER SLATON: Right.

19 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: -- which is I think the point that you're trying  
21 to make. What we are doing as it relates to JPAs is in  
22 addition to legislative strategies, we're also looking at  
23 things like credit review, and other things that we can do  
24 as we come into contact with these entities to understand  
25 what their triggers are, what their levers are, where they

1 might have difficulty.

2           So we would not say that, you know, all JPAs are  
3 in the same situation. We understand that situations are  
4 really case by case, and that we will look at them as they  
5 come up.

6           COMMITTEE MEMBER SLATON: Right. And now the  
7 flip side of that coin, if you go to chart 4, where we  
8 have a break-out of funded status, and in particular the  
9 two -- column 2 and 3, which is essentially under 60  
10 percent funded status, those 16 agencies, which are mostly  
11 in special districts, how many of those fall into this  
12 category of not having a liability obligation by the  
13 members?

14           So if you -- if you take the -- that data and  
15 combine it with slide 6, in other words, how many JPAs  
16 have very low funded status, and do not have a liability  
17 protection by the members -- by the member agencies? Do  
18 we know that data? Is that discoverable?

19           PENSION CONTRACT MANAGEMENT PROGRAM MANAGER  
20 NGUYEN: Yeah. So the two agency -- the two JPA agencies  
21 that have below 60 percent funded status, those are the  
22 one that doesn't have any -- the member agency doesn't  
23 have any obligation for the pension obligation.

24           COMMITTEE MEMBER SLATON: Okay. So both those  
25 two are in that same category. But the column -- it's

1 not just JPAs, it's the fire district -- are these -- or  
2 these are all JPAs. So even though they're a fire  
3 district, they happen to be formed as a JPA rather than as  
4 a stand-alone agency.

5 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

6 NGUYEN: For those 12 special district agencies that have  
7 60 -- below 60 percent funded, those are the special  
8 districts who form and come under certain California  
9 codes.

10 COMMITTEE MEMBER SLATON: So they're not JPA's

11 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

12 NGUYEN: They are not a JPA, no.

13 COMMITTEE MEMBER SLATON: Okay. Very good.

14 Thank you.

15 VICE CHAIRPERSON TAYLOR: Okay. So I just wanted  
16 to add really quickly Ms. Timberlake-D'Adamo that we do  
17 appreciate this report. It looks like there might be some  
18 consideration here -- and pardon me, because I'm handling  
19 two things right here -- some consideration for some  
20 changes that it's sound like the Committee might want.  
21 But it looks like it's a pretty clear process that you've  
22 put together for our benefit to make sure that we're  
23 well-informed beforehand, before anything happens, so I do  
24 appreciate that, and I wanted to acknowledge that.

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: Thank you. That is the goal.

2 VICE CHAIRPERSON TAYLOR: So Ms. Paquin. I'm  
3 sorry -- yeah, Ms. Paquin.

4 Come on. There you go.

5 ACTING COMMITTEE MEMBER PAQUIN: Thank you.  
6 Thank you for the report. And I appreciate all the  
7 thinking and the work that staff has done in dealing with  
8 the JPA issue. And I'm just curious of the two JPAs that  
9 have been identified as -- with less than 60 percent  
10 funded status, have you heard from any employee groups  
11 that are concerned?

12 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER  
13 NGUYEN: For those two JPAs, they are part of the inactive  
14 JPA agency, and we have continued to try work with them to  
15 see were we -- were we able to merge the contract or  
16 working out an issue with them, because they -- currently,  
17 they don't have any active employees.

18 ACTING COMMITTEE MEMBER PAQUIN: Okay.

19 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

20 D'ADAMO: They're also not delinquent.

21 ACTING COMMITTEE MEMBER PAQUIN: Okay. So  
22 because they're not delinquent, we -- CalPERS would not  
23 have reached out to --

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

25 D'ADAMO: No, no, no. I'm just saying that, you know,

1 there's a concern about the funded status, but the note is  
2 that they're not delinquent. So Andy says we're working  
3 with them. They're inactive, and we're working with them.  
4 But it's not an issue that has yet risen to being on your  
5 delinquent report.

6 ACTING COMMITTEE MEMBER PAQUIN: Okay. And so at  
7 what point would CalPERS attempt to reach out to any of  
8 the affected members of these inactive JPA's? Only once  
9 they become delinquent and start down that process?

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
11 D'ADAMO: Yeah, I mean, it depends on -- exactly. When  
12 you say CalPERS reaches out to them, it would be at the  
13 point that -- pursuant to this process, it would be at the  
14 point that they were delinquent more than 60 days. These  
15 entities are not delinquent. And so we've identified them  
16 as being within a certain band for their funded status,  
17 and we're working with them, as Andy indicates, to  
18 understand sort of what's happening with them or what  
19 triggers they have.

20 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank  
21 you.

22 CHAIRPERSON COSTIGAN: Mr. Jelincic.

23 COMMITTEE MEMBER JELINCIC: Okay. Can I go back  
24 to 6 of 14, and the other line. We're -- are the  
25 five -- in the last column, the five, are they included in

1 the nine or are they not?

2 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

3 NGUYEN: No, they are not.

4 COMMITTEE MEMBER JELINCIC: They are not. Okay.

5 So in -- even though the State is a member, it has no  
6 liability?

7 PENSION CONTRACT MANAGEMENT PROGRAM MANAGER

8 NGUYEN: That is correct.

9 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

10 CHAIRPERSON COSTIGAN: Okay. We have one member  
11 of the public that would like to comment on this. Dane  
12 Hutchings, League of California Cities. Come down and  
13 have a seat next to Marlene, please. I'll give you three  
14 minutes.

15 Oh, Mr. Jacobs.

16 GENERAL COUNSEL JACOBS: Yes, I just wanted to  
17 add that from a legal perspective, Mr. Nguyen may or may  
18 not be correct as to whether the State has liability.  
19 We'd have to look at that on a case-by-case basis, but I  
20 don't think a blanket statement --

21 CHAIRPERSON COSTIGAN: He did not make a legal  
22 conclusion in his remarks.

23 GENERAL COUNSEL JACOBS: Bingo.

24 CHAIRPERSON COSTIGAN: Thank you.

25 So you have three minutes.

1 MR. HUTCHINGS: Good morning, Chair and  
2 members -- oh, good morning, Chair and members. Dane  
3 Hutchings with the League of California Cities. I just  
4 quickly wanted to first thank the staff for showing that  
5 report. I think this comes from -- the genesis of this  
6 was a joint informational hearing that happened earlier  
7 this year, which I was fortunate to participate in, along  
8 with Marcie Frost and her team.

9 I just wanted to -- you know, a couple things.  
10 First off, I -- you know, Mr. Slaton, your comments are  
11 very well noted. JPAs are incredibly complex, and each of  
12 them are a case-by-case basis. You know, oftentimes the  
13 League of Cities and as well as my counterparts at CSAC  
14 and Special Districts and such, we're on the defense,  
15 meaning we see language that's introduced into a bill, you  
16 know, and we then have to immediately oppose it, because  
17 it's just sort of the shock, and then have to try to work  
18 through -- and I would -- you know, I would request  
19 that -- that this Board and, of course, our -- your  
20 fantastic CalPERS staff, we are here. We're willing to  
21 work with you. I've made those same appeals to the chief  
22 consultants of both the Assembly and Senate PERS Committee  
23 that should there be a legislative remedy that is  
24 introduced in 2018, we would love to work with this body  
25 over the fall and even into January and February to try to

1 figure out language.

2 We would love to come in and either go neutral or  
3 support something, you know, to identify these issues.  
4 Certainly, none of our cities want to, you know, what  
5 happened with LA Works, you know, we certainly don't want  
6 to see that happening on a grander scale.

7 So I just -- I want to be on record as saying  
8 that the League of Cities is eager to work with you on  
9 this issue, and we would love to be a part of those  
10 collaborative discussions before a bill is introduced in  
11 the legislature. So thank you very much.

12 CHAIRPERSON COSTIGAN: All right. Thank you very  
13 much.

14 Mr. Jones.

15 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.  
16 Chair. Yeah, on that same issue about the legislative  
17 strategies regarding the JPAs. While we recognize that it  
18 may take a year or two to have enabling legislation to  
19 reflect our desires, but I would suggest that until that  
20 occurs that since we will be entering into a contract with  
21 an agency, that the contract include provisions of this  
22 liability to the funding agency, otherwise we would not  
23 accept them.

24 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
25 D'ADAMO: Yes.

1           COMMITTEE MEMBER JONES:  So that it's there until  
2 the legislation is passed.

3           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
4 D'ADAMO:  Yes.

5           CHAIRPERSON COSTIGAN:  I believe that's what  
6 we're currently doing.

7           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
8 D'ADAMO:  That is what we're currently doing.

9           CHAIRPERSON COSTIGAN:  Mr. Slaton.  Sorry.  
10 Sir, there you go.

11          COMMITTEE MEMBER SLATON:  No, I -- you know, just  
12 to reiterate my point.  And I would respectfully disagree  
13 with Mr. Jones.  I think that it's a credit decision.  So  
14 to automatically take someone out or not allow someone in,  
15 based on the issue of that liability, I think ignores the  
16 point of, well, what is the funding source, what is the  
17 structure of the JPA?

18                 So I think we have the capacity and the  
19 capability to make a judgment about whether we are  
20 comfortable that the funding strategy of that particular  
21 JPA gives us comfort, that, in fact, the obligation is  
22 going to be met.

23                 A blanket thing saying -- I just think it's a  
24 little overkill to say by definition a JPA has to always  
25 have the member agencies joint and several liability.  So

1 I'd rather see a credit decision made than a blanket  
2 statement.

3 CHAIRPERSON COSTIGAN: Thank you, Mr. Slaton.  
4 Back to Mr. Jones.

5 COMMITTEE MEMBER JONES: Yeah, I respectfully  
6 disagree --

7 (Laughter.)

8 COMMITTEE MEMBER JONES: -- because we --  
9 regardless of the funding source, we have to enter into a  
10 contract with the JPA anyway. And I don't see any harm in  
11 requiring an additional line or additional paragraph that  
12 talks about the liability. So that's my viewpoint that it  
13 should be there.

14 CHAIRPERSON COSTIGAN: Okay. Mr. Jelincic.

15 COMMITTEE MEMBER JELINCIC: And just on a  
16 practical level, if the JPA has its own funding source,  
17 and it's actually secure, then I, as one of the agencies  
18 joining the JPA, would have no problem guarantying  
19 something that's never going to get called on.

20 CHAIRPERSON COSTIGAN: Ms. Taylor.

21 VICE CHAIRPERSON TAYLOR: And I will just remind  
22 everybody that we had a JPA that was very well funded at  
23 the time until the very end, so -- and then we ended up  
24 with no city guarantee, so that made it a difficult  
25 situation, so I would agree with Mr. Jones.

1 CHAIRPERSON COSTIGAN: Thank you.

2 Ms. Paquin.

3 ACTING COMMITTEE MEMBER PAQUIN: I also agree  
4 with Mr. Jones. I think it's just prudent business  
5 practices to require this after the experiences that we've  
6 had.

7 CHAIRPERSON COSTIGAN: So again, this is an  
8 information item. I know before move forward we will  
9 agendize it for action and have a more thorough  
10 discussion, so...

11 All right. Anything else on 6a? I don't think  
12 we have -- oh, you want to come speak now.

13 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: Mr.  
14 Chair, if I might interrupt the proceedings briefly with a  
15 follow up on a consent question that came up earlier from  
16 Mr. Jelincic.

17 CHAIRPERSON COSTIGAN: Yes, sir.

18 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

19 It's very quick. It has to do with his question  
20 on the contract with QS Investors. QS Investors is a  
21 provider of one of those alternative beta strategies that  
22 you heard about yesterday from Dan Bienvenue and the  
23 Global Equity Program. It's a maximum diversification  
24 strategy focused on an emerging market and international  
25 stocks provides a quarterly index update, and that's the

1 fee we pay.

2 COMMITTEE MEMBER JELINCIC: Thank you.

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4 Thank you.

5 CHAIRPERSON COSTIGAN: Thank you.

6 Okay. Mr. Gibbons, we're going to give you three  
7 minutes. You're speaking on 6a.

8 MR. GIBBONS: Chair, members of the Committee,  
9 Dillon Gibbons with the California Special Districts  
10 Association. I want to align my comments along with the  
11 League of Cities, and thank the Board, and say that we are  
12 here willing to work with you and work on potential  
13 legislation. Thank you, Mr. Slaton, for your comments.  
14 And that's exactly right, a lot of our -- a lot of our  
15 special districts are arranged with different revenue  
16 sources.

17 And I think that it would -- it would be  
18 premature to try and offer up some legislation that would  
19 prohibit some of those districts who might join a JPA from  
20 participating in that process. But also I'd like to offer  
21 up some additional legislative strategies that we may want  
22 to consider as a Board, particularly for those agencies  
23 who pass a final resolution to terminate their contract  
24 with CalPERS.

25 When they receive that final payment, and they

1 might not be able to pay that payment, or they might not  
2 be able to enter into a 30-year agreement to make payments  
3 towards that total fund in the TAP, that they might also  
4 have the option to withdraw their resolution and get back  
5 into CalPERS prior to having the benefits to their  
6 retirees reduced.

7           So I just wanted to offer that up as something  
8 that the Board and this Committee may want to consider.

9           CHAIRPERSON COSTIGAN: Thank you, sir.

10           Okay. Anybody else want to speak on 6a?

11           All right. If not, thank you, Ms. Lum. We're  
12 going to go -- anything else, Marlene, on this one?

13           INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

14 D'ADAMO: No, sir.

15           CHAIRPERSON COSTIGAN: Thank you.

16           All right. We're going to go to 6b, the Annual  
17 Customer Service and Cost Effectiveness Measure update.

18           Ms. Lum.

19           (Thereupon an overhead presentation was  
20 presented as follows.)

21           STAFF SERVICES MANAGER YOUNGER: Good afternoon,  
22 Mr. Chair, Madam Vice Chair, members of the Committee. My  
23 name is Michael Younger, CalPERS team member. I'm pleased  
24 to be here this afternoon to present our annual customer  
25 services and cost effective measurement results for the

1 fiscal year 2015-2016 CEM report, along with Donna Lum,  
2 Executive -- Deputy Executive Officer of Customer Service  
3 and Support Branch, and Rose McAuliffe, Division Chief of  
4 the Financial Planning, Policy, and Budget Division.

5 To begin with a bit of background, CEM provides  
6 performance reporting, cost analysis, management  
7 information and peer comparison to other systems in  
8 various areas of pension benefit administration.

9 The CEM report provides CalPERS leadership with  
10 an analysis of how CalPERS compares to its peers, and a  
11 view of our performance in key areas using standardized  
12 measures.

13 --o0o--

14 STAFF SERVICES MANAGER YOUNGER: July 1 marked  
15 the commencement of the CalPERS strategic plan, 2017-'22,  
16 which encompasses five strategic goals. One of our  
17 strategic goals is to reduce complexity, which focuses on  
18 Simplifying programs, improving, and/or reducing costs, as  
19 well as streamlining operations to gain efficiencies,  
20 improve productivity, and reduce costs.

21 This agenda item further supports our strategic  
22 efforts, as two of our strategic measures are focused on  
23 reducing the weighted average of CEM pension complexity  
24 score by three percent, as well as reducing the CEM cost  
25 per member by two percent annually.

1                   --o0o--

2                   STAFF SERVICES MANAGER YOUNGER: As part of the  
3 CEM global universe, there are 67 pension systems that  
4 participate. Highlighted in yellow on this slide before  
5 you are the systems within our peer group that were  
6 benchmarked -- that we are benchmarked against. The  
7 pension system that we are selected to be a part -- that  
8 we have selected to be a part of our peer group, both  
9 throughout the U.S. as well as in Canada operate much like  
10 we do, and also offer similar services. But you'll notice  
11 throughout the presentation, they are also very different  
12 in terms of their level of complexity.

13                   --o0o--

14                   STAFF SERVICES MANAGER YOUNGER: This slide  
15 provides an overview of the number of active members and  
16 annuitants for the system within our peer group. Please  
17 note that our inactive members are not included in this  
18 chart. In comparison to those we are benchmarked against,  
19 CalPERS has the largest number of active members and  
20 annuitants, and in looking at the peer average has almost  
21 doubled the total number of participants.

22                   I'd now like to turn it over to Donna Lum who  
23 will share additional information with you regarding our  
24 CEM complexity and service scores.

25                   DEPUTY EXECUTIVE OFFICER LUM: Good afternoon,

1 Mr. Chair, members of the Committee. Donna Lum, CalPERS  
2 team member.

3 So today again, I'm pleased to bring to you the  
4 results of our CEM benchmarking report for fiscal year  
5 '15-'16. And not to be surprised, as we have been in  
6 previous years, our total relative complexity score  
7 continues to remain the highest in CEM's global universe  
8 of participants.

9 However, as just noted, we do have a number of  
10 initiatives that are on our strategic plan that are  
11 specifically aimed at reducing the complexity of the  
12 system. And one that you were ex -- that you were very  
13 engaged in a couple of years ago was related to the  
14 retirement options simplification. And as we continue to  
15 move efforts like that forward, we will continue to see  
16 some reduction in our complexity score.

17 --o0o--

18 DEPUTY EXECUTIVE OFFICER LUM: I think it's  
19 important to note that complexity does drive impact to  
20 productivity, and it does increase the costs of our  
21 system. And as you'll see at the top left-hand corner of  
22 this slide, and again, it does negatively impact services,  
23 I think one of the things that's also important to note,  
24 and something that we haven't spoken about in previous  
25 reports is that CEM does capture, what we call, an IT

1 capability score.

2           And what that score does is it does benchmark our  
3 IT services and the products that we support, and the cost  
4 of those services against the other pension systems. Our  
5 score for IT capability is an 85, and the average score  
6 for our peer group in IT capability is an 81. And the  
7 reason why I bring that to your attention is that in the  
8 areas of customer service and all these areas of which  
9 we're providing these activities, we are heavily dependent  
10 on technology. And the fact that our technology score is  
11 higher, meaning that the capabilities are proficient and  
12 meeting our needs, I think it's an important factor.

13           Now, you'll see in the costs later that our IT  
14 services are higher than our average peers. However,  
15 again, looking at the complexity of the business rules  
16 that we have, I think that really speaks to why those  
17 costs are higher.

18           In brief, when you look at this chart, you can  
19 see the areas in which we are complex. Certainly, it's  
20 related to the various customizations that we have with  
21 regards to our plan choices, as well as some of the other  
22 business rules centered around compensation and our  
23 divorce rules.

24           I think one thing again to take away is that as  
25 we continue, as previously mentioned, to work on reducing

1 our complexity, you'll start to see some shift in this  
2 area.

3 --o0o--

4 DEPUTY EXECUTIVE OFFICER LUM: Next up is the  
5 information that comprises our total service score. And I  
6 think important to note here again, is that when you think  
7 about the fact that we are the most complex system, and  
8 you look at our service score, we are at or near the  
9 average of our peer group, which means that we are  
10 doing -- we are providing a high level of customer  
11 service, even though we are very complex.

12 In terms of the overall service scores, again,  
13 you can see from the chart here that there are some areas  
14 that we excel in, and a couple of them that I'd like to  
15 point out. When we look at pension payments, we put a lot  
16 of time, focus, and attention, and with the use of our  
17 technology in ensuring that our benefit payments are made  
18 timely. And certainly there, you can see that we do that  
19 very well.

20 In addition to that, we do score very highly in  
21 the area of refunds and ensuring that we process refunds  
22 on a very timely basis. And then another area that I  
23 wanted to point out, and this is something that we worked  
24 on for quite some time in business initiatives previously  
25 was building a dynamic website.

1           And if you look at our website score at a 91, it  
2 really does exceed the peer average, and it really does  
3 indicate that all the work and effort that we put into  
4 redoing the website has really paid off.

5                               --o0o--

6           DEPUTY EXECUTIVE OFFICER LUM: This next chart  
7 just shows a historical overview for the last couple of  
8 years of the work that we have been doing related to our  
9 CEM survey and data, and a couple of the areas that I'd  
10 like to bring to your attention.

11           You will see that in the area of member contacts,  
12 we did have an increase, which was -- which in this  
13 particular score is a negative increase, in the number of  
14 undesirable calls, as well as the average call wait time.  
15 It did go up from the previous year of 2015. And just to  
16 share some background as to why that was the case, and  
17 this was a decision that you were also involved in that  
18 really benefited us, is at that point in time, we were  
19 operating with a large amount of temporary contact center  
20 agents.

21           And in going forward, we were able to -- which  
22 then impacted our retention. We had a lot of turnover.  
23 We had a lot of new agents having to be trained, and we  
24 lost some consistency within the contact center.

25           In 2016, the Board approved establishing those

1 positions as permanent positions. And as we are currently  
2 collecting the data today for our next report, we are  
3 please to let you know that both of these categories, in  
4 terms of the undesirable calls and the call wait times  
5 have dropped significantly. And, in fact, I think next  
6 year you will see a report that our average call wait time  
7 now is 90 seconds. And so again making some transitions,  
8 and streamlining some of our processes, and having more  
9 stability has helped.

10 In addition to that, the other area that I wanted  
11 to point out, again and I mentioned previously, is our  
12 pension inceptions, and that's our payments. And you can  
13 see that year over year we continue to improve.

14 CHAIRPERSON COSTIGAN: Hang on, Ms. Lum.

15 DEPUTY EXECUTIVE OFFICER LUM: Yes.

16 CHAIRPERSON COSTIGAN: Mr. Jones, do you want to  
17 do your question now.

18 COMMITTEE MEMBER JONES: Yeah, I could do it now.

19 CHAIRPERSON COSTIGAN: Okay.

20 COMMITTEE MEMBER JONES: Well, this is two  
21 questions. On this particular slide on 7, looking at  
22 2013, 577 seconds, was that the year of my|CalPERS  
23 implementation?

24 DEPUTY EXECUTIVE OFFICER LUM: We launched  
25 my|CalPERS in 2011, the latter part. It was -- I think it

1 was in September of 2011. And then, if you recall, it was  
2 very painful and we went through about a year of  
3 transition, and normalizing, and stabilizing our  
4 processes. And what you're seeing is kind of the ongoing  
5 effect of that into the following year.

6 But certainly, once we started to get into our  
7 optimization projects, and normalizing our processes, and  
8 making some important changes from 2014 forward, we  
9 started to see a decrease.

10 COMMITTEE MEMBER JONES: Okay. And the other  
11 question or clarification is on a previous chart, you  
12 showed the total number of members at 1.5 million. And I  
13 saw you had an asterisk, so I assume that that's 300,000  
14 members that have funds with us, but they're not active  
15 employees anywhere or retired?

16 DEPUTY EXECUTIVE OFFICER LUM: That's correct.  
17 Those are what we call our inactive members.

18 COMMITTEE MEMBER JONES: Okay. Okay. Thanks.

19 CHAIRPERSON COSTIGAN: Just a quick question I do  
20 have also on slide 7. It says do statements provide an  
21 estimate of the future pension entitlements, and we say  
22 no. I assume that's a COLA question, but 88 percent of  
23 our peers provide that information.

24 DEPUTY EXECUTIVE OFFICER LUM: So what that is,  
25 is our annual member statement comes out in October of

1 every year. And it's using data from June. So that's why  
2 on the question above that you can see there's a lag of  
3 four months, whereas other systems have their information  
4 up and available in about 2.7 months.

5 What other systems do on their statements, some  
6 of the other systems, is that they will take information  
7 about the member so they can tell that you're at  
8 retirement age or nearing retirement age, and then they  
9 have the capability of projecting what your retirement may  
10 be for future entitlements.

11 We do not currently have that capability. That  
12 is something that we can look at doing. But certainly  
13 because our annual member statements are on-line right  
14 now, that was our focus was to get them on-line. We have  
15 not yet focused attention to that particular area.

16 CHAIRPERSON COSTIGAN: Okay. Thank you.

17 --o0o--

18 DEPUTY EXECUTIVE OFFICER LUM: So now what I'd  
19 like to do is turn the presentation over to Mrs. McAuliffe  
20 and she'll talk to you about the costs.

21 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

22 McAULIFFE: Thank you, Donna. Good afternoon, Mr. Chair  
23 and members of the CalPERS Board. Rose McCauliffe,  
24 CalPERS team member.

25 Let's take a look at the costs as they relate to

1 our peers and CEM, and the cost drivers behind the  
2 numbers.

3 --o0o--

4 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

5 McAULIFFE: Our total pension and administration costs per  
6 active member are at -- and annuitants is \$217 compared to  
7 our peer average of \$121. These pension administration  
8 costs include administrative operating costs, our  
9 headquarters building costs, and Enterprise project costs.

10 I did want to make note that this cost comparison  
11 doesn't exclude -- it excludes investment costs, and  
12 non-pension costs, such as our Health Program, Long-Term  
13 Care Program, and the CERBT Program as -- for example.  
14 And the investment costs have a separate CEM study that is  
15 also presented to the Board every May.

16 As Donna has already mentioned, some of our cost  
17 drivers are complexity, are higher back-office operations,  
18 and a higher number of employees.

19 --o0o--

20 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

21 McAULIFFE: This scattergram chart shows our CalPERS  
22 relative service scores and costs, that they have moved  
23 slightly towards the peer group from the previous year.  
24 We are currently in the low-service high-cost quadrant.  
25 But with the recently implemented strategic initiative of

1 reducing member costs by two percent per year, the target  
2 is to continue to move towards a program of high service,  
3 and lower costs, which is our upper left quadrant.

4 --o0o--

5 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

6 McAULIFFE: This slide displays the high complexity of our  
7 organization. CalPERS continues to be the most complex  
8 pension plan with relatively high costs in comparison to  
9 our peers. This score has not moved much since the  
10 previous year, and ours is the square in the upper area of  
11 that chart.

12 As our per member costs decrease, we are  
13 targeting towards the upper left quadrant, which is the  
14 high-complexity low-cost quadrant.

15 --o0o--

16 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

17 McAULIFFE: This slide is showing us comparing our CalPERS  
18 costs with our peer average. CalPERS' front-office costs  
19 are \$22 per member higher in the front office, mainly due  
20 to member transactions, and collections and data.

21 Our CalPERS back-office costs are \$72 higher than  
22 our peers, specifically in the areas of IT, our building  
23 costs, and support services, which includes Human  
24 Resources, Actuarial Office, Audits, and the State pro  
25 rata. Pro rata accounts for \$14 of our overhead costs.

1 These are the mandatory costs assigned to our organization  
2 by the State to cover their central organization, such as  
3 CalHR and Department of Finance.

4 Our major costs are in projects, and those differ  
5 from year to year. So a better comparison is a difference  
6 in costs before the major projects, which would put us at  
7 \$202 per member and \$108 for our peers for a difference of  
8 the \$96.

9 --o0o--

10 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

11 McAULIFFE: So to get into more specifics on our cost  
12 drivers. For the front office, we process fewer  
13 transactions per employee compared to our peers. However,  
14 we continue to work towards reducing our complexity and  
15 streamlining our business processes.

16 Our IT costs are \$53 higher in comparison to  
17 peers. However, our IT costs do include database  
18 maintenance, applications, IT infrastructure, and the  
19 security of our members' data.

20 --o0o--

21 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

22 McAULIFFE: For the building costs, we are \$25 higher in  
23 comparison to our peers of \$9. CalPERS prides itself in  
24 investing in LEED Platinum and Gold Standard initiatives,  
25 which include the purchase of green energy.

1 I also wanted to commend Marcie and her -- under  
2 her leadership Doug, Kim, and Dallas Stone and the  
3 Operations team have worked really hard to address the  
4 headquarters building costs. And they have found  
5 significant efficiencies, and you'll see those trends over  
6 the next coming years.

7 As far as support services, I guess just focusing  
8 on the actuarial costs, which is about \$5 in comparison to  
9 our peers. We perform over 3,000 unique plans. Our peers  
10 do not. So that's just a perfect example of how complex  
11 our organization is.

12 --o0o--

13 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

14 McAULIFFE: This slide displays our per member cost over a  
15 four-year period. And as you can see, we are trending  
16 downward. However, in '15'-16, our costs were slightly --  
17 slightly up due to an increase in our cost -- in our  
18 project costs.

19 --o0o--

20 FINANCIAL PLANNING, POLICY & BUDGETING CHIEF

21 McAULIFFE: This slide shows our CalPERS membership has  
22 increased over the last three years for our active members  
23 and annuitants. And the reason I present this slide to  
24 you is because as our membership grows, our cost per  
25 member decreases. This is the denominator in that

1 calculation for CEM.

2           And just a preliminary figure four 2016-17, which  
3 is not displayed here, there is a slight uptick in our  
4 membership. The preliminary figure is coming in at about  
5 1.556 million.

6           And again, as Donna and Michael have mentioned,  
7 CEM does not take into consideration our inactive  
8 membership as part of this calculation, and our inactive  
9 members are estimated to be 370,000 and they still call.

10           With that, I will hand it back over to Michael.

11                           --o0o--

12           STAFF SERVICES MANAGER YOUNGER: Thank you, Rose.

13           So in summary, benchmarking provides us with an  
14 opportunity to compare the similar pension systems,  
15 measure and manage our performance, and gain best practice  
16 insights with opportunities for improvement, and provides  
17 us with a better understanding of our unique  
18 characteristics.

19           We are pleased that the service scores are  
20 expected to improve slightly with more satisfaction  
21 surveys, enhanced functionality and options, as well as  
22 transaction timeliness improvements.

23           Additionally, greater focus on our per member  
24 costs is supported by our strategic plan goal to reduce  
25 member cost by two percent per year over the next five

1 years.

2 In closing, the main messages of today's  
3 presentation are improvements in service and greater focus  
4 on our costs relative to our peers.

5 With that, we'd be happy to take your questions  
6 at this time.

7 CHAIRPERSON COSTIGAN: All right. I think we've  
8 had the questions answered. Excellent report.

9 Thank you, Ms. Lum.

10 Okay. So I'm going to propose something and see  
11 how everybody likes it. So you guys are done. Thank you.

12 All right. So it's 12:25. We're going to  
13 probably need to break in about 40 minutes. The next  
14 item, we have 18 people signed up to speak before there  
15 are any questions from the Board members and  
16 presentations. So we're looking at anywhere from a 60 to  
17 90 minute presentation.

18 What I would like to do, unless there's a lot of  
19 objection, is take 7a next, Scott; take the actuarial,  
20 because that's about a 40 minute presentation. That will  
21 bump us up to 1:00 o'clock. Get that one out of the way,  
22 and then we can take up 6c without interruptions. Because  
23 what I'm concerned about is we're going to land right in  
24 the middle of when we're going to bump up on our two  
25 hours. I know you would keep going, but we try to adhere

1 to the two-hour rule.

2 Is there any objection from the left side, first?

3 On the right? Because I know you guys have  
4 questions.

5 CHAIRPERSON COSTIGAN: Well -- I'm sorry?

6 No, you're going to get 40 minutes for lunch. I  
7 mean, we're going to vary -- unless we want to break --  
8 Mr. Feckner, do you think about -- all right. Why don't  
9 we do this. Why don't we break now. We will come back at  
10 1:00 o'clock -- 1:05, 40 minutes, very quickly, and then  
11 we will go to 6a -- or 6b. So we'll start -- or 6c. 6c.  
12 Sorry.

13 (Laughter.)

14 CHAIRPERSON COSTIGAN: It's the medicine. And  
15 then Scott we'll just stay in order.

16 So we'll break until 1:05. Thank you.

17 (Off record: 12:25 p.m.)

18 (Thereupon a lunch break was taken.)

19

20

21

22

23

24

25

1                   A F T E R N O O N   S E S S I O N

2                   (On record: 1:07 p.m.)

3                   CHAIRPERSON COSTIGAN: Okay. We're going to  
4 reconvene. I just want to say something. If you see me  
5 pop up, I apologize in advance. My brother lives in  
6 Mexico City, and if you haven't heard Mexico City was hit  
7 by a 7.1 earthquake, so he's been sending me videos. And  
8 so I've been trying to reach him. So if you see me get up  
9 and walk out and take my phone, I just want to let you  
10 know, I'm just waiting to hear from him, because he's sent  
11 me some videos. There's been some pretty extensive  
12 damage.

13                   If you haven't seen it, just think about the  
14 folks down in Mexico City and what they're going through  
15 right now. So with that, Mr. Pacheco, we're going to go  
16 to Item 6c.

17                   DEPUTY EXECUTIVE OFFICER PACHECO: Good  
18 afternoon, Mr. Chair, members of the Committee. Brad  
19 Pacheco, CalPERS team.

20                   Before you is an information item related to two  
21 letters sent to two members of our Board by Senator John  
22 Moorlach. The letters were addressed to the Chair, Mr.  
23 Costigan and also the Chair of our Risk and Audit  
24 Committee, Ms. Hollinger.

25                   Just in summary, there are two requests that are

1 being asked of CalPERS assistance, to provide cost  
2 estimates if current classic members were switched to  
3 PEPRA formulas on a prospective basis. And the second  
4 request is to provide cost estimates, if we temporarily  
5 suspended the cost of living adjustment for our retirees  
6 for a period of time until the fund was stable, and stable  
7 is not defined in the letter.

8           So we are asking for direction on these two  
9 letters. Our Chief Actuary Scott Terando is available to  
10 provide information on the effort that it would take to  
11 provide these estimates. And with that, Mr. Chair, we'll  
12 turn it over for questions and discussion.

13           CHAIRPERSON COSTIGAN: All right. So I think  
14 this is a -- we don't get many legislative requests. I  
15 think before we take questions. I think Mr. Christensen  
16 from Senator Moorlach's office is here and could give us  
17 the impetus for the letter. And then we'll take questions  
18 from the Committee and Board members.

19           So Mr. Christensen, we'll give you three minutes,  
20 sir.

21           MR. CHRISTENSEN: Thank you, Mr. Chair.

22           Mr. Chair, members, thanks for letting me be  
23 here. Lance Christensen. I am Senator John Moorlach's  
24 chief of staff. And we're appreciative that you're  
25 hearing our request in succeed of this agenda.

1           And you all are in receipt and probably reviewed  
2 the letters. Just by background, Senator Moorlach is  
3 really concerned about the fiscal solvency of the State in  
4 total. And his history is back to the bankruptcy of  
5 Orange County back in 1994, both predicting and then  
6 fixing it, which was the largest, at that point in time,  
7 municipal bankruptcy in United States history.

8           He has experience serving on pension boards at  
9 OCERS, prison reforms in the county, and doing other  
10 things that have saved the county millions of dollars.  
11 And he's put forward multiple measures, as you've seen  
12 over the last few years, two about addressing pension,  
13 defined benefit, and CalPERS issues.

14           And so he's very appreciative for CalPERS, the  
15 staff, leadership and the Board for taking this seriously.  
16 It is our desire that we want to get in front of any  
17 impending fiscal crisis, especially those that we're  
18 seeing at the local level. And we've been watching other  
19 States what they're doing in Arizona, Michigan, and  
20 Pennsylvania as they're addressing a lot of their  
21 deficiencies there, and partnering up with public employee  
22 unions and other stakeholders to make sure that they can  
23 get to a place of being hole fiscally.

24           And we're happy legislatively, as we've, I think,  
25 demonstrated, that we're willing to work and deal with

1 incremental modifications, if we can't get significant  
2 reforms done, something that everybody can be on board  
3 for.

4           So as we look from the outside, some of the  
5 issues that drive these costs are COLAs, as you know. And  
6 we wanted to just get what best information we could from  
7 CalPERS. Again, we appreciate all the work that we've  
8 been having and conversations we've been having with both  
9 staff and leadership as well at CalPERS, and hoping that  
10 we can get some balance on both sides of the ledger.

11           Pensions are not an easy -- very simple thing to  
12 discuss. It's complex. There's a lot of different  
13 stories. And as you'll see from some of the commentary  
14 today, as we discussed earlier about some of the joint  
15 powers challenges, as well as cities, we know that we've  
16 got to get in front of this.

17           And the more information we have, the better. We  
18 believe that CalPERS and your very competent and capable  
19 actuarial staff can provide good information for us so  
20 that we can ask better questions in the future. It's our  
21 position that once we get this information, then we can  
22 actually have a better conversation with the legislature  
23 about what next steps we can have to help CalPERS get on a  
24 more stable level, and provide whatever legislation needed  
25 at that point in time.

1           And with that, Chair, I'm happy to answer any  
2 questions.

3           CHAIRPERSON COSTIGAN: Great. Thank you, sir.  
4 Okay. Any questions from Board members yet?

5           If not, we have, I believe, 18 speakers. So what  
6 I'm going to do is call you all up in groups of six.

7           Thank you, Mr. Christensen, we're going to take  
8 your seat. Just the way you all signed in and you each  
9 have three minutes each. And then we'll do -- so we're  
10 going to start with Sara Lamnin, Dane Hutchings, Bruce  
11 Channing, Steve Schwabauer -- I probably -- I'm sorry  
12 about butchering that, sir. Phil Wright, and then Robin  
13 Bertagna.

14           If you would please again state your name so I  
15 get it right, and then your affiliation. You will have  
16 three minutes each for this item.

17           And I think Ms. Lamnin we're going to start with  
18 you.

19           Okay. Three minutes, please.

20           MS. LAMNIN: All right.

21           Thank you, Board and Chair and Vice Chair. My  
22 name is Sara Lamnin I'm a member of the Hayward City  
23 Council, and happy to talk with you today.

24           We have a lot of tough decisions ahead. I know  
25 this Board has been wrangling with a lot of them and

1 working to make this the Pension and Health care funds as  
2 robust and stable as possible. And I appreciate your  
3 work, and I appreciate this opportunity to offer the  
4 opportunity to be collaborative.

5 As you know, these solutions don't come just from  
6 one party, they come from all of us, all of the  
7 stakeholders, and I look forward to working with you in  
8 that way.

9 So the decision before you regarding studying the  
10 financial impacts of retiree COLAs and PEPRAs enrollment,  
11 it's really critical to that stakeholder engagement and to  
12 a level of transparency. And we urge you to have that  
13 study done.

14 I mean, there was a time when case law and  
15 political will said that we couldn't reform work hours, or  
16 have good benefits or safety precautions. And so while  
17 this is not that situation, it is time again to have  
18 collaborative productive conversations that protect all  
19 members of the group of the pension system.

20 And we ask you for data, because that is what  
21 will get these conversations to be productive and useful  
22 and inclusive.

23 In Hayward, 68 percent of our unfunded pension  
24 cost is retiree benefits. This means that the promises of  
25 the past weren't paid for, frankly. And over the next

1 three fiscal years, the City of Hayward's revenue is  
2 projected to grow 1.4 percent, but our cost for PERS is  
3 going to go up 30.5 percent.

4 We can spend lots of time and energy on blaming  
5 someone, but that's really not productive. What we look  
6 at, our best resources are best used on understanding, and  
7 that comes through sound data, so then we can have  
8 productive conversations involving all stakeholders.

9 And our city is not alone in these kinds of  
10 statistics. Unfunded issues affect all of California.  
11 And having the data-driven tools we need will enable us to  
12 work together to find lasting solutions.

13 Thank you.

14 CHAIRPERSON COSTIGAN: Thank you.

15 MR. HUTCHINGS: Good afternoon, Chair and  
16 members. Dane Hutchings with the League of California  
17 Cities. Cities across the State are struggling with  
18 future pension obligations. For example, I have members  
19 who, by all accounts, are considered financially healthy  
20 cities, yet there's stochastic models -- I'm not an  
21 actuary. I hope I said that right -- there's stochastic  
22 modeling projects that by fiscal years '27-'28 as much as  
23 \$0.94 of every current dollar of payroll will be allocated  
24 to CalPERS contributions.

25 So that's assuming that there are no raises, no

1 new hires for the next decade. More and more, this is  
2 becoming the rule and not the exception. This is the  
3 reality that we face and this is why we are here today.  
4 Transparency and data sharing is critical to ensuring that  
5 we understand all the factors that are contributing to the  
6 strain on the CalPERS fund.

7           The League of California Cities believes that  
8 shared accountability and responsibility is the only way  
9 to achieve long-term sustainability to the fund. We are  
10 in this together. Having all data open to the public will  
11 enable the League to work with stakeholders from across  
12 the spectrum to find meaningful solutions to address the  
13 challenging times ahead.

14           As such, all options should be on the table as we  
15 try and assess our service needs and protect our employees  
16 and our retirees. But simply put, we cannot have an  
17 honest conversation in the abstract. We need the data to  
18 be able to have those conversations.

19           As you heard, I have members here with me today  
20 that have traveled to Sacramento to share their story, and  
21 you will hear from cities large and small, coastal and  
22 inland that each faces, you know, a different type of  
23 challenge, but really the situations are uniquely the same  
24 with regards to their unfunded liabilities.

25           And so, you know, the League of Cities again, as

1 I testified earlier, absolutely a willing partner, want to  
2 be collaborative as best we can, and we are certainly  
3 willing to be at the table with any and all stakeholders  
4 to have these honest conversations.

5           When you look at numbers, that -- that are  
6 looking at numbers as high again as \$0.94 or \$0.98 of  
7 every dollar. You know, simply put, how do we -- how do  
8 we maintain that? It's really unsustainable. And simply  
9 saying that we have to invest our way out of this is  
10 really not the answer, especially given the current status  
11 of the fund.

12           So I think having a full perspective of where all  
13 of the cost drivers are within the system would be --  
14 would prove incredibly valuable. I ask that you move  
15 forward with Item 6c.

16           Thank you.

17           CHAIRPERSON COSTIGAN: Thank you.

18           Mr. Channing.

19           MR. CHANNING: Good morning. Actually, it's good  
20 afternoon now, isn't it?

21           Mr. Chairman, members of the Board. I am Bruce  
22 Channing. I'm the city manager for the City of Laguna  
23 Hills. That's in Orange County. And I'm also the Chair  
24 of the League of California Cities' Pension Sustainability  
25 Committee, which I've been on for quite a number of years.

1           And I'm here just to say that the League has been  
2 actively engaged in gathering information from its members  
3 to better understand the magnitude of the challenges we  
4 face in coping with the current and future pension costs.  
5 And what we've learned is that cities all across the State  
6 of California are gravely concerned about the rising costs  
7 of their annual retirement contributions, and the growing  
8 size of their unfunded actuarial liability, particularly  
9 as we forecast the impact of lowering the discount rate,  
10 as is going to be phased in over the next couple of years.

11           It's comes as little surprise, I suspect, that  
12 cities have been struggling to get back on their feet,  
13 since the Great Recession. And many have found that their  
14 traditional tax sources have not been returned to the  
15 levels they were pre-recession, particularly sales tax at  
16 least in a number of cities around me.

17           So the combination of limited revenue growth over  
18 the last decade and the prospect of significantly higher  
19 increasing personnel costs, due in part to the rising  
20 pension costs is creating a severe hardship for a great  
21 many of our cities. Cutting staff, as we've done in my  
22 city, is becoming a recurring pattern.

23           We believe that the course we are on, as Dane  
24 just said, is unsustainable, and all possible options that  
25 would save us money and/or perhaps improve the funded

1 status of the PERF need to be investigated.

2           From what I've learned in the recent meetings  
3 I've had with some of your staff is that the investment  
4 outlook over the next five to 10 years is not strong  
5 enough to expect that we're going to just invest our way  
6 out of the situation of negative cash flow that we're in  
7 now.

8           Consequently, the information being requested by  
9 Senator Moorlach is important information to have  
10 available, so that we, as you, can better assess other  
11 possible solutions. And both immediate -- addressing both  
12 the immediate and long-term challenges. We strongly  
13 request that you would direct your staff to undertake the  
14 requested analysis and provide your Board and all of us  
15 with the information.

16           We do need good data, and we do need good facts  
17 to guide our conversations about the future of our pension  
18 system. We are all partners in this endeavor, and we have  
19 shared -- have a shared interest in protecting the  
20 long-term solvency of the retirement fund, irrespective of  
21 one's working status.

22           To that end, we must be realistic about the  
23 challenges that lie ahead of us, and begin to consider  
24 what might be necessary in the way of future changes to  
25 ensure that the system adequately meets its obligations.

1 Thank you.

2 MR. SCHWABAUER: Good afternoon, Chair and Board  
3 members. My name is Steve Schwabauer. I'm the city  
4 manager of Lodi, California just to the south of you.

5 I'd like to start by thanking the Board for the  
6 courage that it's shown in recognizing that there is, in  
7 fact, a funding crisis. So often in government today, and  
8 I realize I'm casting a stone at myself, we wait until the  
9 Oroville Dam is leaking water before we fix things. And I  
10 recognize that the actions that you've taken so far took a  
11 great deal of political courage, and I commend you for it.

12 What I have haven't seen so far is any discussion  
13 about whether or not there's other options, other than  
14 asking cities for more money. And that's what we're here  
15 to ask you to explore, just the data, not to explore the  
16 decision. We recognize the limits of your authority as a  
17 board.

18 Why am I, as a member of PERS, and a beneficiary  
19 who some day hopes to receive my PERS benefit, asking you  
20 to take such an incredible action?

21 The reason is simple, Lodi is already  
22 experiencing reduced services from its local government.  
23 In 2008, we had 490 employees. Today, we have 390. In  
24 2008, we had 78 police officers. Today, we have 71. In  
25 2008, we had five active fire stations, today we have four

1 and a quarter.

2           Lodi's -- notwithstanding the fact that we've  
3 shrunk, we are planning. Every dollar that we've had in  
4 either savings -- budget savings or growth, we've  
5 dedicated to a pension stabilization fund. We've put \$5  
6 million into a pension stabilization fund on top of our  
7 standard \$8 million reserves.

8           We are prepaying our unfunded actuarial  
9 liability. I'd be remiss if I didn't say thank you to  
10 Lodi's Chief Actuary who's been remarkably responsive to  
11 my Finance staff. So thank you to her.

12           Yet, notwithstanding those steps, our PERS rates  
13 are projected by our 2016 PERS actuary to go to 38 percent  
14 and 78 percent of payroll. Our PERS cost is projected to  
15 go from six and a half to 13 million dollars in 2022. All  
16 of our reserves, we will have swept through by 2021.  
17 We'll have no money left, not our general fund reserve,  
18 not our pension stabilization fund. All of that will be  
19 gone.

20           That's a pretty daunting prospect from me as a  
21 city manager up to -- we're looking at by the time the  
22 discount rate is fully phased in, we're looking at up to a  
23 \$10 million a year increase in our PERS Bill.

24           Now, to my friends out in the audience who are  
25 representing their various union boards, I'm not saying

1 this as a threat. I'm just trying to give you a sense of  
2 what that means in my community, a sense of scale. That  
3 is, one of my police beat officers 24-hours a day.

4 CHAIRPERSON COSTIGAN: I need you to wrap-up.

5 MR. SCHWABAUER: All right. It's a fire station,  
6 it's all of my parks and rec, and all of my library.

7 CHAIRPERSON COSTIGAN: Thank you. Sorry.

8 MS. SCHWABAUER: Not a choice we can make.

9 CHAIRPERSON COSTIGAN: Mr. Wright.

10 MR. WRIGHT: Good afternoon, Mr. Chair, Madam  
11 Chair -- Vice Chair, members of the Committee. My name is  
12 Phil Wright. I'm the Assistant City Manager for the City  
13 of West Sacramento.

14 CHAIRPERSON COSTIGAN: You need to lean in.

15 MR. WRIGHT: Excuse me. I'm the Assistant City  
16 Manager for the City of West Sacramento. I'm the Finance  
17 Director and the Director of Labor Relations.

18 I'll take a different approach. I want to say  
19 that everything my colleagues to my right have said, and  
20 I'm sure that Robin will say to my left, apply in West  
21 Sacramento as well.

22 But let me just tell you that since 2008, we've  
23 had a wonderful working relationship with all of our  
24 bargain units. And as we went through the Great  
25 Recession, we worked together and we got through it, and

1 we solved some very difficult challenges.

2           And they did it -- we did it collaboratively with  
3 our union brothers and sisters. Now, I'm sitting at the  
4 table telling them there's no money, after they've taken  
5 five percent cuts, paid all their PERS, and it's because  
6 we can't afford any money, because every penny that has  
7 been returned to our general fund in property tax and  
8 sales tax is going to pay for our PERS benefits, which  
9 they obviously recognize as important.

10           As we begin to try to again work collaboratively  
11 to figure out the solutions and we start talking about  
12 things like COLAs, and things like PEPRA going forward,  
13 the question they ask me is, well, Phil, will that solve  
14 the problem?

15           And so we need this data. We need the data  
16 because none of us sitting here are interested in trying  
17 to negotiate anything with our bargaining units that takes  
18 away from them and doesn't solve the problem. We need to  
19 solve the problem.

20           So I would encourage this Committee to direct  
21 staff to collect the data provided to us, so that we can  
22 then determine what the next steps are to solving this  
23 problem collaboratively.

24           Thank you.

25           CHAIRPERSON COSTIGAN: Thank you, Mr. Wright.

1 Ma'am.

2 MS. BERTAGNA: Good afternoon. I'm Robin  
3 Bertagna, City of Yuba City's Finance IT Director. And  
4 I'm here to tell you the story about City of Yuba City  
5 today.

6 In fiscal year '15-'16, the City paid a total of  
7 6.5 million to CalPERS for retirement costs. That is  
8 projected to now grow to 12.3 million by fiscal year  
9 '24-'25, almost double. I've been employed by Yuba City  
10 now for 19 years, in excess of 10 years as the City's  
11 Finance Director. We are a very fiscally conservative  
12 city. We have no supplemental revenues, such as  
13 additional sales tax or utility users tax to help support  
14 our full service city.

15 During the recession, the city had an  
16 across-the-board 10 percent furlough for all employees.  
17 When we bargained with our unions to eliminate the  
18 furlough, we returned the ten percent pay to employees,  
19 but negotiated that they begin paying the employee's share  
20 of PERS, either seven percent or eight percent, nine  
21 percent, depending upon what plan they were in.

22 So we traded them ten percent and they no longer  
23 got the time off. Does that sound like a good deal to  
24 you? Our unions weren't particularly thrilled with it,  
25 but I sit at the bargaining table as part of the

1 management group, and told them we have to get back to  
2 zero, before we can give you anything else. This is where  
3 things are headed. We have to do this. Everybody got on  
4 board and we were able to implement that.

5           Since 2008, Yuba City has provided one two  
6 percent salary adjustment to general employees. This  
7 occurred in September 2015. The City currently has all  
8 bargain unit contracts open and is in negotiation with all  
9 of our unions. We quantified for city staff that instead  
10 of providing raises in their paychecks, Yuba City would be  
11 putting in 3.38 percent towards their retirement cost  
12 every year for the next six years. And we were asked by  
13 the folks sitting across from the table from us - the  
14 first ones to ask it was our police officers union - does  
15 that mean we will never get another raise for the  
16 foreseeable future?

17           We didn't have a really good answer for that. We  
18 keep losing officers to surrounding jurisdictions that  
19 have an ability to pay better than we do. It's a huge  
20 problem for us. It's one that we're trying to deal with.

21           We need CalPERS to work with us to find a viable  
22 solution to funding employee retirement costs. We have  
23 made commitments to employees who are now retired, those  
24 who are still working, and future retirees. I concur that  
25 there is problem. The system as it is today is not

1 sustainable. I've warned employees for over a year now  
2 that, in my opinion, eventually all classic members will  
3 have the same benefit formulas as PEPRA employees. I  
4 don't see that there's any other option.

5           So I'm here today to be part of the solution. A  
6 city with the demographics of Yuba City can't afford to  
7 double in essence what we're contributing towards  
8 retirement costs, and never, ever give employees another  
9 raise

10           CHAIRPERSON COSTIGAN: I need yo to wrap-up,  
11 please.

12           MS. BERTAGNA: So I ask of you please make this  
13 information available, whether it's the no COLAs or  
14 potentially moving all classic employees to PEPRA.

15           CHAIRPERSON COSTIGAN: Thank you.

16           MS. BERTAGNA: Thank you.

17           CHAIRPERSON COSTIGAN: All right. We're going to  
18 call up the next six, please. Sean McGlynn, Daniel Keen,  
19 Scott Dowell, Karen Reid, Ruth Wright, and Ann Willmann.

20           And then, Mr. McGlynn, if you'll take the first  
21 seat, because -- and just go in the order we called,  
22 please.

23           All right. Mr. McGlynn, are you ready, sir?

24           MR. McGLYNN: I am ready.

25           CHAIRPERSON COSTIGAN: Good. Pam, three minutes,

1 please.

2 MR. McGLYNN: Thank you, Chair, Vice Chair, and  
3 Committee Members for the opportunity to speak. I'm Sean  
4 McGlynn, the City Manager for Santa Rosa, California.  
5 This City of Santa Rosa is struggling with CalPERS-related  
6 rate increases. In the current fiscal year, we will pay  
7 nearly an Additional \$9 million to CalPERS based on  
8 assumption changes alone. Funds that are desperately  
9 needed to address the city's housing and homeless crises,  
10 repair decaying infrastructure, and sustain service levels  
11 for public safety and quality of life programs.

12 In an effort to mitigate, the city has worked  
13 Cooperatively with its bargaining units, and together we  
14 have mutually agreed to employee cost-sharing measures,  
15 which helps offset, but far from fully address these  
16 costs.

17 However, the constant increase in CalPERS rates  
18 will lead to impacts to the community. The city has  
19 embarked on an extensive organizational review in addition  
20 to slowing its hiring processes, with the goal of  
21 streamlining our service delivery model. While the hope  
22 is to avoid layoffs, there will be reductions in quality  
23 of life programs, including reductions in parks, street  
24 repairs, and public safety. A gradual strangulation  
25 process is underway in Santa Rosa.

1           Transparency and data sharing are critical to  
2 ensuring we understand all the factors that are  
3 contributing to the strain on the CalPERS fund. As such,  
4 all options should be on the table as we try to assess our  
5 service needs and protect our employees. I echo what has  
6 been said before, shared commitment and responsibility is  
7 the only way to achieve long-term sustainability of the  
8 fund.

9           We are in this together. Having all data open to  
10 the public will enable us to work with stakeholders from  
11 across the spectrum to find meaningful solutions to  
12 address the challenging times ahead.

13           Thank you.

14           CHAIRPERSON COSTIGAN: Mr. Gibbons, I think  
15 you'll be the last one of this group, why don't you come  
16 down and have a seat. All right. Mr. Keen.

17           MR. KEEN: Thank you, Mr. Chair, members of the  
18 Committee. My name is Daniel Keen. I'm the City Manager  
19 of the City of Vallejo.

20           I assumed leadership of the City of Vallejo about  
21 three months after it exited bankruptcy in 2011. As the  
22 city manager of a city that had recently exited  
23 bankruptcy, I have think a somewhat unique perspective on  
24 what happens in communities when they make decisions  
25 without adequate information, and make commitments that

1 they then cannot fulfill later on.

2 I have borne witness to the wrenching kinds of  
3 changes that have to occur in cities when they are facing  
4 rising costs. And even though we went through bankruptcy  
5 prior to the Great Recession, we continue to see  
6 reductions in services, and the same gradual erosion of  
7 services that my colleagues here have talked about today,  
8 despite the fact that we have passed taxes on both sales  
9 tax, as well as medical marijuana.

10 We are facing dramatic increases in our PERS  
11 rates, as many cities. We will be looking at 98 percent  
12 rates for public safety by '27-'28, and 55 percent rates  
13 for our miscellaneous employees in that time frame, and an  
14 increase in our unact -- unfunded actuarial liability of  
15 13 -- from 13.2 million to 20.9 million.

16 Simply said, if we do not have information, we  
17 cannot make intelligent decisions about the kinds of  
18 changes that we all need to look at, in order to make this  
19 system sustainable. We are all in it to see that this  
20 system remains sustainable. It is a way of -- for us to  
21 recruit the best and for those who want to come and work  
22 for cities. And yet, without some changes, we're going to  
23 see that gradual erosion of services and the loss of our  
24 competitiveness in the marketplace for employees that will  
25 be devastating to communities like Vallejo, and many, many

1 other cities around the State.

2 So I encourage you to support Item 6c, and I  
3 thank you for the opportunity to speak to you today.

4 CHAIRPERSON COSTIGAN: Thank you, Mr. Keen for  
5 being here.

6 Mr. Dowell -- or Ms. Dowell -- Mr. Dowell.

7 MR. DOWELL: Thank you. Good afternoon,  
8 everyone. I am Scott Dowell, Administrative Services  
9 Director for the City of Chico. Last month, I came and  
10 shared the Chico story during the open comment at the full  
11 Board meeting. Just a brief recap of the Chico story is  
12 that the City of Chico was greatly hampered by the Great  
13 Recession. We had a net general fund deficit of \$7.6  
14 million in 2013 and on the road to bankruptcy.

15 Due to prudent budgeting, conservative spending,  
16 employee concessions, and staff layoffs, the city has  
17 recovered from that difficult time. We're still not out  
18 of the woods, as we continue to try and rebuild adequate  
19 and prudent financial reserves.

20 We are progressing. We're now faced with the  
21 significant challenge of the new CalPERS retirement  
22 contribution rates. For us, we're looking at an 80  
23 percent increase in CalPERS payments in five years to 20  
24 million from the current year payment of 11 million.

25 These increased costs will require the city

1 leadership to request additional taxes, or greatly reduce  
2 staffing and service levels. These choices are not good  
3 to a city that has not fully recovered from the Great  
4 Recession.

5 Today, you have two options to direct staff to  
6 research and to publicly provide information for ways to  
7 minimize the future costs to CalPERS pensions. I'm here  
8 to voice support for that direction. Please direct staff  
9 to research and provide transparent reporting of their  
10 research to the public.

11 The City of Chico also supports expanding those  
12 ideas or options to staff to provide a list of all  
13 reasonable options to minimize or reduce future retirement  
14 payment increases. All options should be reviewed and  
15 publicly disclosed.

16 It was interesting during our break today, I had  
17 a chance to walk around the building here. A beautiful  
18 building. Down at the end of the hall, far end, is the  
19 CalPERS vision statement. And I just kind of wrote it  
20 done here. It says to be a trusted leader respected by  
21 your members and stakeholders for our integrity,  
22 innovation, and service.

23 I think there's an opportunity here for that  
24 innovation to be exhibited. CalPERS has stood for several  
25 years and it has provided quality leadership for our

1 pension plan. And we're asking today that that innovation  
2 would be present and -- going forward, and to be a leader  
3 in that area. So we would -- do support these researching  
4 of these options and making that information public.

5 Thank you.

6 CHAIRPERSON COSTIGAN: Thank you, sir.

7 Ms. Reid.

8 MS. REID: Thank you. Chair, and members of the  
9 Finance and Admin Committee. I'm Karen Reid, the Finance  
10 Director for the City of Concord. We're the largest city  
11 in Contra Costa County, and we too have yet to fully  
12 recover from the Great Recession.

13 We are facing budget challenges in the future, a  
14 projected budget deficit in ten years from now. It's  
15 going to begin three years from now and grow. In  
16 addition, we have significant unfunded liabilities, and we  
17 also predict those to increase over time. The recent PERS  
18 rate increases have further added to our challenges, and  
19 could very likely lead to service cuts in my city.

20 It's important that we have all options on the  
21 table for us to consider to address these, and to avoid us  
22 having to cut services and save jobs.

23 Continuing the practice of passing the costs  
24 along to the employers is not a solution for us. Like my  
25 colleagues, we're going to see our CalPERS contributions

1 double over the next ten years, and that's already on top  
2 of a budget deficit that we're projecting.

3           So we would ask for additional solutions. Please  
4 provide information to give us options to take back to our  
5 stakeholders. I support moving forward succeed to give us  
6 that information.

7           Thank you.

8           CHAIRPERSON COSTIGAN: Thank you.

9           Ms. Wright.

10           MS. WRIGHT: Board members, Councilperson, My  
11 name is Ruth Wright, Finance Director for the City of  
12 Oroville. I'm here to share how the recent rates  
13 increases are affecting our little city.

14           In the last two years, we've reduced our  
15 workforce by one-third. This is how we balanced our  
16 budget. This is how we're currently operating. And it's  
17 not operating well, let me tell you.

18           We just negotiated a 10 percent reduct -- salary  
19 reduction in our police officers bargaining unit, which is  
20 very, very hard, and very sad. Our future projections  
21 show that our rates are going to double in seven years.  
22 And we don't know how we're going to face that. In three  
23 to four years we're going -- our cash flow is going to be  
24 gone. We don't even know how we're going to operate past  
25 four years. And we are -- we've been saying the

1 bankruptcy word, which is not very popular.

2           So I'm just here as part of the group for the  
3 cause to urge the Board to look into fund sustainability.  
4 And we just hope that we can come up with an option that  
5 provides some relief.

6           Thank you.

7           CHAIRPERSON COSTIGAN: Thank you.

8           Ms. Willmann.

9           MS. WILLMANN: Good afternoon. My name is Ann  
10 Willmann. And I actually am a voice of a special  
11 district. We are notorious for not telling our story, and  
12 telling the impact that we make on communities on a  
13 regular basis. So I'm the lone wolf, of course, with  
14 Dillon sitting next to me.

15           I wanted to let you know that the effect of the  
16 PERS increase is, and will continue to be, significant to  
17 our organization. We provide recreation services for the  
18 Chico community, and many families rely on our services,  
19 not only for their quality of life, but just their pure  
20 existence with their our -- after-school program that  
21 services over 1,300 children in our community.

22           In order to respond to these PERS increases, we  
23 have been very proactive. We've adjusted salaries,  
24 reduced our salary scale, passed on expenses to employees.  
25 In addition, much needed facility repairs have been

1 postponed, fees for programming has increased, and program  
2 growth has become challenging.

3           It's not business as usual, as we have all been  
4 used to. But we must look for new innovative ways to  
5 address these rising pension overs. If a solution is not  
6 found that is shared by all, we run the risk of small a  
7 district like ours being unable to provide the services  
8 our community has grown to rely on.

9           I encourage you to take the time to explore all  
10 options. We are all invested in the success of CalPERS,  
11 both professionally and personally.

12           Thank you very much.

13           CHAIRPERSON COSTIGAN: Thank you.

14           Mr. Gibbons.

15           MR. GIBBONS: Chair, members of the Committee,  
16 Dillon Gibbons with the California Special Districts  
17 Association. I don't want to -- I don't need to repeat  
18 all of the things that the cities have already said. We  
19 are in the same boat as the cities. We represent water  
20 districts, fire districts, utility districts, health care  
21 districts, park and rec districts, essentially anyone that  
22 ends in the -- anything that ends in the word district,  
23 other than a school district.

24           As our districts are looking for options and what  
25 they're going to do when they have to pick up the larger

1 share of the dollar that is paid for in benefits, all  
2 these options are on the table of how they're going to  
3 raise their revenues or make those cuts. Providing this  
4 information to CalPERS' and the legislature to have that  
5 informed discussion on additional options to either make  
6 up for losses in investments or to reduce the amount of  
7 increases on employees and employers, I think that  
8 information would be valuable in having that honest  
9 discussion. And I think that this Committee and this  
10 Board making a decision to ask for that information is  
11 fiscally responsible.

12           This Board and Committee does not need to wait  
13 for the legislature to direct you to get this information.  
14 There is no requirement that your staff can't gather data  
15 without your request. You regularly ask your staff to  
16 gather information on what's happening with the fund.

17           And I think that this is just one more topic and  
18 data that you have at your fingertips that would just  
19 require staff to put in some additional hours to get.

20           So with that, I would encourage this Committee,  
21 and the Board as a whole, to support the efforts to get  
22 this information.

23           CHAIRPERSON COSTIGAN: Great. Thank you.

24           Thank you, Mr. Gibbons. Thank you for being  
25 here.

1           Now, we've got the next group coming up, and  
2 start with Jai, if you'll come on down.

3           Al Darby, Neal Johnson, Claude Alber, and -- I  
4 know, I'm sorry, it's Tim Brennans[sic]?

5           VICE CHAIRPERSON TAYLOR: Behrens.

6           CHAIRPERSON COSTIGAN: Behrens.

7           I can't read. I'm so sorry.

8           All right. So Jai, you're first. Al sat in your  
9 seat, but that's okay. We'll start with you.

10          MR. SOOKPRASERT: All right. Thank you, Mr.  
11 Chairman and members. Jai Sookprasert with the California  
12 School Employees Association. We represent more than  
13 230,000 classified school employees in our public schools  
14 and colleges.

15          I am here to strongly urge you to reject these  
16 requests for four basic reasons. And I can't help but to  
17 alter my testimony here, because after sitting here and  
18 listening to the folks that preceded us here, you would  
19 think that this Board has been asleep over the last 12  
20 months, not changing the discount rate, not addressing  
21 these kinds of issue. Yes, it's painful for employees to  
22 deal with those rising costs, but it is doubly more  
23 painful for the employees.

24          What part of negotiate, talk to your employees is  
25 it not clear? Come talk to us. Really? Data? This is

1 just data? This is -- is it data or conjecture? This is  
2 data in two very specific ways, to take away COLAs for  
3 employees, to put them back into a tier one. You can  
4 estimate now that that's going to lower those costs, but  
5 have you proposed these at the table to the employees.

6 I don't want to digress too much from my prepared  
7 testimony, but you really have to step back and think  
8 about the actions that this Board has taken so far. The  
9 State has taken these actions. The Governor is not  
10 asleep. We're addressing these issues. These all stem  
11 from a downturn of the market in 2008. We're all trying  
12 to deal with it, and we're trying to deal with it in a  
13 manner that is respectful to employees, and that must be  
14 part of the equation.

15 But the four basic reasons that I did come before  
16 you to talk about is that until the court changes the  
17 California rule, these are two conjectures that will  
18 violate the California rules. Why are we now suggesting  
19 these and folks say, oh, they're different options we  
20 should explore. You're not here asking for multiple  
21 options. You're here to do research on two very specific  
22 options that may or may not work at all.

23 So until the court changes its direction, you  
24 should not be doing research on things that are just  
25 plainly illegal.

1           Two, these are hypothetical situations that will  
2 open the door for multiple requests now. At what point  
3 does it stop? Sure. It may cost a little bit here or  
4 there, but these requests have a specific type of agenda  
5 that will get at undermining the stability of this system,  
6 and we don't think that's fair.

7           Three, you know, at some point, if you talk about  
8 working with the legislature, pass a bill. If this is so  
9 important, and this is a priority of the State, get a bill  
10 through the legislative process. Work with the  
11 legislature. What about the majority of the legislative  
12 committees on PERS and the legislature itself that has not  
13 made this request. Are you going to allow all 120  
14 legislators come here.

15           I work in the Capitol, so absolutely you want to  
16 respect all requests from the legislature, but you also  
17 have to be careful what's the agenda behind these  
18 requests, and is it truly the will of the legislature.

19           Again, pass a bill if you want something of this  
20 nature to come through and be explored.

21           CHAIRPERSON COSTIGAN: Thank you.

22           Mr. Darby.

23           MR. DARBY: Good morning -- or good afternoon.

24 Al Darby, Vice President Retired Public Employees  
25 Association.

1 RPEA opposes the request by Senator Moorlach that  
2 CalPERS calculate the cost savings to the PERF in his  
3 anti-pension proposals. CalPERS is just part of the  
4 contract agency budget problems, not the only problem.

5 The actuary has estimated 80 percent of the  
6 expensive staff time would be required -- 80 hours of  
7 expensive staff time. Follow-up staff time answering an  
8 infinitesimal number of costly inquiries would be very  
9 burdensome as well.

10 This proposal asks members to pay for opposition  
11 research on itself, an absurd proposition. RPEA believes  
12 that more astute CalPERS investing, better use of  
13 technology by contracting agencies and innovative contract  
14 agency actions, such as JPAs joining fire departments,  
15 police departments with Sheriffs and so forth, many things  
16 that cities do to save money should be explored by these  
17 cities.

18 Astute contracting. In some cases, contracting  
19 is the thing to do to save some money. Employees who are  
20 in more affluent agencies don't seem to have these  
21 problems. Many, many other agencies are not here  
22 complaining. It sounds like it's cities mainly. Taxing  
23 power may be an option. There are many other ways that  
24 cities can save some money, as well as saving some money  
25 in their pension costs.

1 Thank you.

2 CHAIRPERSON COSTIGAN: Thank you.

3 Mr. Johnson.

4 MR. JOHNSON: Neal Johnson, Service Employees  
5 International Local 1000. Speaking here on behalf of my  
6 90,000 plus members in the system, small compared to Jai's  
7 number, but still a significant block of employees.

8 We're very concerned with this request -- these  
9 requests. One, it is that request of one of 120  
10 legislators. It is not a request of a majority. It's not  
11 a request of the Committee, which Mr. Moorlach is a member  
12 of. So there's obviously a certain aim at it.

13 It also -- we heard earlier, we need the data.  
14 But now this is a copy of a number of years ago State  
15 Evaluation Report. Those are public documents.  
16 Certainly, the data is there. What you're being asked to  
17 have our actuaries spend their time is trying to  
18 essentially look at one -- a couple of options. We heard  
19 from speakers before we need all the options.

20 Yet, their really focusing on two options, both  
21 of which will have severe or could have severe impact on  
22 retirees in the future.

23 David Crane, who was Governor Schwarzenegger's  
24 advisor, always made a point. Pensions are deferred  
25 compensation.

1           Okay. Well, let's lower the pension benefit.  
2 Where do you make up for that? Probably in salary up  
3 front. So where is the gain to the system?

4           We're asked -- you're being asked to estimate the  
5 unfunded liability, which now the current unfunded -- our  
6 current funding status of the system is heavily dependent  
7 upon what happened a decade ago when the financial  
8 services industry did in the world.

9           So, you know, we can't necessarily make up for  
10 that, but it is an impact that -- so what I'm asking you  
11 is to reject this request. It is self-serving. It is not  
12 in the beneficial -- the benefit of the 1.5 million  
13 members of the system, and I hope you will reject it. As  
14 I say, the data is there. They can do the analysis.  
15 Don't have your staff do the analysis for them in a  
16 certain fashion. You're going to hear much -- well, not  
17 too much later, how we're needing to look at changing  
18 actuarial assumptions. That will automatically change  
19 what numbers come out of this analysis.

20           We're at -- your actuarial analysis are  
21 probabilistic data. What -- unfortunately, somebody is  
22 looking for a very point specific number. Please don't do  
23 it.

24           Thank you.

25           CHAIRPERSON COSTIGAN: Thank you, Mr. Johnson.

1 Mr. Alber next on my list.

2 MR. ALBER: Claude Alber. I'm representing  
3 Cal -- or excuse me, Peace Officers Research Association  
4 of California, commonly referred to as PORAC. We are  
5 obviously speaking against you guys granting the request  
6 for the data.

7 I'd like to point out that several years ago  
8 labor, as well as management, worked together on a  
9 comprehensive bill, commonly known as PEPRA, in which both  
10 sides had input and discussed all the options that were  
11 out there.

12 This was done very successfully and we're  
13 starting to see some of the results of that. And I  
14 believe there's almost -- starting to be a significant  
15 number of PEPRA employees joining the system, which again  
16 will have a positive influence on cost.

17 Again, I want to emphasize that labor was at the  
18 table. In this particular situation that was spoke to on  
19 prior -- your prior speakers, let's look at all the  
20 options. Well, this looks at two, both of which are very  
21 detrimental to active members, and it's really significant  
22 to me since I am a annuitant. You ask annuitants to give  
23 up their COLAs to pay for the retirement systems for  
24 sometimes past 20 to 30 years after they retired. So they  
25 want to take away a benefit from those people also, which

1 again not to speak that these are all things they should  
2 look at, but we shouldn't just take two, see what it looks  
3 like, and then use the data not necessarily in the  
4 legislature, but some other forum to have CalPERS stamp  
5 their name on it, have a little credibility. This  
6 information comes from CalPERS. It definitely must be  
7 correct.

8           They can get some of this information, probably  
9 all of it, through other sources than having a free  
10 CalPERS evaluation that again they will use to attack this  
11 system at a future date.

12           So this is an individual, not the legislature,  
13 asking for this at this time. From the data I have,  
14 that's what I see. So again, our members, all 70,000,  
15 urge you not to respond to this request, and thank you.

16           CHAIRPERSON COSTIGAN: Okay. Sir.

17           MR. BEHRENS: Tim Behrens, President of the  
18 California State Retirees.

19           It seems like the agenda here is for this senator  
20 to open the door to eliminating defined benefits in the  
21 future. He has expounded on this all over California. At  
22 the Republican Convention got a lot of cheers.

23           This past lobby day, I represent over 36,000  
24 members, and we went up and talked to every legislator in  
25 California, and not one of them, including his office,

1 said they wanted to attack the current retirees.

2           They wanted to start changing the negotiations  
3 and strategies with the active employees, which has  
4 happened. So why now have you picked the most vulnerable  
5 retirees in California, many of which are in their 75 to  
6 85-year old making \$1,500 a month, and you want to take  
7 away a two percent COLA that occurs every two or three  
8 years. Why would you do that? What's in it?

9           There's not enough money in it. If you're going  
10 to send any data at all from CalPERS to this senator, send  
11 him your flier that talks about how many millions of  
12 dollars in taxes is generated from the retirees in  
13 California.

14           I was amazed to hear the West Sac gentleman  
15 evidently doesn't know that. Sacramento is getting almost  
16 \$30 million a year in taxes from retirees that live here.

17           Come on. Why do you want to take that money away  
18 from the retirees in order to get what, information?  
19 What's the information for? It's to do away with the  
20 defined benefits program. That's all it can be.

21           So I urge you not to respond to this request. I  
22 urge you to send -- they want facts. Send them the facts  
23 about how much money is paid in taxes by retirees, how  
24 many jobs are generated by the retiree pension fund. Give  
25 them those facts.

1 Thank you.

2 CHAIRPERSON COSTIGAN: All right. Thank you.

3 Now, is that everybody that wants to speak on  
4 this item before we start going to questions and comments?

5 I just want to make sure, Pam, nobody else?

6 Okay. Great.

7 Okay. Questions, comments from Committee members  
8 first?

9 None oh this side. Dana, do you anything?

10 CHAIRPERSON COSTIGAN: I'm sorry. Oh, there --  
11 suddenly everybody lit up. Did you just turn this on,  
12 Pam?

13 (Laughter.)

14 CHAIRPERSON COSTIGAN: Wow. Okay.

15 VICE CHAIRPERSON TAYLOR: We were all sleep.

16 CHAIRPERSON COSTIGAN: There you go.

17 Mr. Jelincic, start with you.

18 COMMITTEE MEMBER JELINCIC: Well, I was going to  
19 wait and not lead it off, but apparently nobody was  
20 turning on their button, so I turned on mine.

21 Gathering information is not free. We get told  
22 we have to hold down our costs, and then they come and  
23 say, well, do this extra function. I'm a data freak, so,  
24 you know, I'm inclined to always want the data.

25 Big problem is what we are being asked to do is

1 prepare a bullet point for an initiative that will pick  
2 out the most extreme number and will ignore all the  
3 conditions that went into the assumption.

4           You know, if we want data, maybe we ought to look  
5 at the data and the cost of the various tax cuts over the  
6 years, or how about the various subsidies that we've made  
7 over the years. How about looking at the data on what  
8 Prop 13 costs? And I haven't seen this group rise to that  
9 occasion.

10           In fact, many of the people that said we've got  
11 to have this data are people who really objected when they  
12 got rid of redevelopment agencies, because then we can't  
13 do the subsidies that we want to do.

14           We've gone through the discount rate discussion,  
15 and we've -- and it's been a long painful process, but I  
16 didn't see any of the people saying, hey, you know, we  
17 really need to take more risk and avoid the discount rate  
18 cut. In fact, many of the people who spoke here said take  
19 less risk, take less risk, you know, but don't raise the  
20 discount rate. It's one in the same issue.

21           Cutting benefits will always save money, but  
22 that's not necessarily what we want to be doing. One of  
23 the other -- and I will point out nobody complained when  
24 we were cutting the rate.

25           (Thereupon a phone made noise.)

1           CHAIRPERSON COSTIGAN: Yeah, J.J., Siri does not  
2 understand.

3           (Laughter.)

4           COMMITTEE MEMBER JELINCIC: You don't understand?

5           (Laughter.)

6           COMMITTEE MEMBER JELINCIC: I can explain it to  
7 you.

8           COMMITTEE MEMBER JONES: That wasn't for you,  
9 J.J.

10          (Laughter.)

11          COMMITTEE MEMBER JELINCIC: Oh, okay.

12          (Laughter.)

13          COMMITTEE MEMBER JELINCIC: You know and one of  
14 the other observations I will make is the proposal is to  
15 suspend the cost of living temporarily until the overall  
16 fund status of the pension is stable.

17                I've been here for almost 30 years, and you know  
18 what it has never been stable. It goes up and it goes  
19 down. And you know what, it's going to continue to go up  
20 and go down. A stable status just is not going to be  
21 there.

22                But one of the other issues that goes into the  
23 letter is what kind of assumption you make. If you say  
24 we're going to cut the COLA, until we become stable, are  
25 you assuming we're going to leave the rates the same? And

1 if we leave the rates the same, which helps us get to a  
2 better funded status, then all the people who are  
3 complaining the rates are too high are not getting their  
4 objective met.

5 If we say, well, we're going to give the employer  
6 some relief, and quite frankly, the employees that's with  
7 PEPRA, you know, the employees are paying more and more of  
8 it. If we're going to cut the rate, then we -- that just  
9 pushes off even further still this issue of stability.

10 But -- so I love data, but I'm not sure that I  
11 want to help write the bullet point for the initiative.

12 Thank you.

13 CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.  
14 Mr. Feckner.

15 PRESIDENT FECKNER: Thank you, Mr. Chair.

16 When I first got the letter, I'm not going to  
17 repeat my comments, but -- when I first got the letter in  
18 the mail I was very taken aback by it. And I'm -- along  
19 with a lot of the comments here, especially the latter  
20 part, you know, this is -- we're being asked to fund  
21 somebody else's pet project. I mean, if this is your  
22 project, and you really believe in it, then you find  
23 another way to fund it. Don't call upon CalPERS to fund  
24 it.

25 Again, if it came out of the entire legislature,

1 that's another issue. It's coming from one individual.  
2 That individual can find another way to fund this.

3 CHAIRPERSON COSTIGAN: Thank you, Mr. Feckner.  
4 We're going to do Committee first before I call  
5 on folks on the right-hand side. So we're going to go  
6 next to the Vice Chair, Ms. Taylor.

7 VICE CHAIRPERSON TAYLOR: Thank you very much.  
8 And I want to sort of thank everybody for their comments.  
9 I understand your concerns. As public agencies and  
10 cities, I understand that everyone is running into funding  
11 issues. I will say that I think that this is best suited  
12 for, as some of you said, sitting with your employees and  
13 dealing with your employees directly. I'm not sure  
14 spending more money from CalPERS itself in terms of the  
15 time it will take to get this done is the right answer.  
16 You're just -- you're spending money that's not  
17 necessarily needed to be spent.

18 I second the comments in that I think this is --  
19 there's a specific reason for this. These are two very  
20 specific requests. One is to find out what classic  
21 employee -- what it would cost for classic employees going  
22 forward to move into PEPRRA. As a classic employee, I  
23 don't find that a very attractive thing myself.

24 And the other is to get rid of COLA for our  
25 current retirees. And I think that we're funding

1 something -- or you're asking us to fund something that  
2 may also not go along currently with the California  
3 Constitution of the California rule. So I don't think  
4 we'll have -- we'll ask our legal counsel to address that  
5 in a minute when everybody is done talking. But I don't  
6 think it's wise or necessary for us to do this research.  
7 Thank you.

8 CHAIRPERSON COSTIGAN: Ms. Paquin.

9 ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr.  
10 Chair. You know, I wanted to second what Ms. Taylor said.  
11 And we do appreciate your comments. Understand the  
12 pressures that you're all facing. But at this time, and  
13 interested in hearing our Chief Counsel's comments  
14 regarding legality, it doesn't seem to be the right course  
15 of action to take when this type of a change couldn't  
16 legally be implemented.

17 Thank you.

18 CHAIRPERSON COSTIGAN: We're going to have Mr.  
19 Jacobs come up in a moment, because I think we may have a  
20 couple legal questions. So why don't you come on up Mr.  
21 Jacobs, but let's go to Mr. Jones.

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

23 I can appreciate all of the comments that were  
24 made in terms of fiscal responsibility of your cities, and  
25 special districts, and to have a balanced budget to

1 maintain services to your local constituents.

2           However, we have a fiduciary responsibility to  
3 our members. Our primary responsibility is to have a  
4 sustainable fund to pay retirement benefits for years to  
5 come. And I think we've exercised some of those  
6 responsibilities by the actions we've taken to date.  
7 While we've looked at our discount rate, we've modified  
8 it, we have adopted various mitigation strategies to  
9 maintain the fund on a long-term basis.

10           And so I think that having done that, then it  
11 raises the question of what's the effect of those members  
12 we're supposed to be protecting for their retirement  
13 benefits. And you talk about taking a COLA away from  
14 retirees, many retirees, as was stated, especially the  
15 schools, are only getting \$1,500 a month. And many -- the  
16 average of State employees is \$3,300 a month.

17           And so many of these people are 80, 90 years old,  
18 and their purchasing power is almost down to 75 percent or  
19 80 percent, depending on whether you're with the city or  
20 whether you're with the State. And so I don't believe it  
21 would be prudent to further exacerbate this -- those  
22 members whose purchasing power has already been reduced,  
23 because they can't get a COLA to protect their purchasing  
24 power until they fall below those rates. So many of them  
25 are already down to 81 percent of what they retired on, or

1 76 percent of what they retired on. So you're asking us  
2 now to further exacerbate those employees in terms of  
3 their ability to just maintain their lives.

4 And then I think it was already said that I'm not  
5 so sure that based on the California rule that we would be  
6 in violation of the law, moving towards that response to  
7 that question.

8 And also it's been also said that we would  
9 respond to the legislature, not a legislator in this  
10 regard.

11 CHAIRPERSON COSTIGAN: All right. Thank you.  
12 Mr. Slaton.

13 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.  
14 This conversation today reminds me that when I was being  
15 interviewed for being appointed to the particular seat I  
16 hold on this Board representing local government  
17 employers, I was asked the question are you sure you want  
18 to do this?

19 (Laughter.)

20 COMMITTEE MEMBER SLATON: And I remember that  
21 very clearly now today.

22 And, you know, I know that this is an extremely  
23 difficult problem that we have placed local agencies in  
24 with trying to make this fund sustainable. There's no  
25 question about. And it is clearly a balancing act,

1 because forcing cities into bankruptcy or forcing special  
2 districts into taking positions that don't allow them to  
3 deliver the services that the citizens expect is a very,  
4 very difficult problem.

5 I think in this case -- and I divide the issue  
6 into the two letters. And it was interesting that it was  
7 two separate letters that this was done in, not a single  
8 letter. And I agree with Mr. Jones that the issue of  
9 trying to take COLAs away from existing retirees, I  
10 just -- I find that abhorrent. You know, I believe in the  
11 concept of a card laid is a card played. That deal has  
12 been struck. And I think you live with that deal going  
13 forward.

14 On the other issue, it's open to question. It's  
15 open to debate, and we're going to have some court cases  
16 that are going to wrestle with this particular issue.

17 But at the end of the day, I'm persuaded by Mr.  
18 Jones's comment about that this is a single legislator's  
19 request. And I think we open Pandora's box if we suddenly  
20 start responding to potentially 120 requests for data and  
21 analysis.

22 So I think that maybe the decision would be  
23 different, certainly in my opinion, if the legislature  
24 asked us for information. They asked us for information  
25 when they were considering SB 400. We provided it.

1 There's maybe some debate over the quality and the breadth  
2 of that information that was provided. But the fact is we  
3 did it.

4 And I think if the Legislature or the  
5 administration comes to us and says we need information on  
6 these particular options, then I think maybe our response  
7 would be different. But I think we need to see that first  
8 for it's from a single legislator.

9 Thank you.

10 CHAIRPERSON COSTIGAN: Thank you, Mr. Slaton.

11 We're going to go to the non-Committee members  
12 and then we'll hear from Mr. Jacobs.

13 So, first, Ms. Hollinger.

14 BOARD MEMBER HOLLINGER: Thank you. I feel  
15 compelled to say now why I asked for additional  
16 information. It wasn't relating to the COLA, but it was  
17 relating to longevity and inflation risk. So coming from  
18 the insurance industry, it would be difficult for me not  
19 to be who I am. So I just want to explain why I asked  
20 these questions, because the answer is really simple.

21 I'm worried about the future of all our  
22 hard-working constituents who expect a pension. I want to  
23 make sure that the money is available when they retire and  
24 they -- and that we can pay it out for as long as they may  
25 live. So I asked myself what if more of you lived longer?

1 What if our assumptions on mortality are off by one  
2 percent, or we experience an unexpected spike in  
3 inflation, how does that move the needle on our unfunded  
4 liability?

5           Are we making decisions that contemplate our  
6 current unfunded liability at a variance in those  
7 underlying assumptions? There's no mystery here. We have  
8 a shortfall. At 68 percent funded, we simply do not have  
9 sufficient funds to pay all of our retire -- our retirees  
10 for as long as we expect they may receive these benefits.  
11 We're off by 32 percent.

12           What if the assumptions change? What if we have  
13 that unexpected flight -- spike in inflation or mortality  
14 is off by one year, what does that cost us in terms of our  
15 unfunded liability?

16           And that should be a grave concern. Actually,  
17 for each year that we live longer, one year than we  
18 actuarially contemplate, increases are unfunded liability  
19 by two percent.

20           Historically, you have lived longer. Four years  
21 ago, we had double digit returns. Those returns got  
22 erased by adjustments in our mortality assumptions.  
23 People are living longer. We have to pay benefits for  
24 more years. This is the purpose of our sensitivity  
25 analysis. It helps us gauge how volatile our liabilities

1 are to our assumptions.

2 I ask myself are we making the best investment  
3 decisions? While everyone is focused on the discount rate  
4 and returns, these are other risks that should influence  
5 any decision made. It's like driving a car, you may get  
6 12 miles to a gallon when you're driving the highway. But  
7 if you're driving in the city, maybe you even get six or  
8 eight miles to a gallon.

9 How do you budget for gas? It's not the 12, it's  
10 not the six, it's somewhere in between. But you also  
11 adjust those assumptions because you realize you may be  
12 wrong, maybe you're going to do more city driving, less  
13 highway. And also there could be a change in the price of  
14 gas. We don't have a contingency built in. Our unfunded  
15 liability has no plus or minus.

16 So given the magnitude of liabilities to payroll,  
17 that two percent increase by just living one year longer  
18 than you expected could put a significant strain on our  
19 employers.

20 We used to have a margin around the discount rate  
21 of a quarter of a basis point. Everything we do is an  
22 estimate. We should not be so precise that we allow no  
23 margin for error in these underlying variables. That puts  
24 the fund at risk. I'm asking for the sensitivity analysis  
25 to make sure that the risks that we are taking are the

1 risks that we are under -- or underwriting, planning for,  
2 and acting upon.

3           The number one priority should be the -- that we  
4 focus on the financials of this system. And we have to  
5 survive the short term to get to the long term. We need a  
6 strong financial statement.

7           CHAIRPERSON COSTIGAN: Thank you, Ms. Hollinger.  
8           Mr. Lind.

9           BOARD MEMBER LIND: Thank you. So we -- you  
10 know, we heard some Pretty compelling testimony from the  
11 representatives from the various municipalities around the  
12 difficulties that they face. And several of them gave  
13 examples of the good work that they're doing with their  
14 bargaining units trying to address these concerns. And  
15 that's the kind of work that should continue. That's  
16 where these things should continue to be discussed.

17           I heard them, you know, talk about we need to  
18 minimize costs. We need more changes, more solutions,  
19 more options, more innovation, but none of them really  
20 said the words that we're really talking about and what  
21 these two proposed data-gathering ideas are around.  
22 That's reducing promised Benefits. And that's not our  
23 role here at CalPERS. And it's not our role to help  
24 facilitate that here at CalPERS.

25           As a couple people said, you know, data gathering

1 is not a free exercise. And the thought that we would  
2 spend our members' retirement benefit money to fund a  
3 data-gathering exercise that could potentially undermine  
4 the retirement benefits or reduce them is just not a road  
5 that I think we should be going down.

6 CHAIRPERSON COSTIGAN: Thank you.

7 Mr. Bilbrey.

8 BOARD MEMBER BILBREY: Thank you, Mr. Chair.

9 So obviously, I don't want to continue with all  
10 the same comments that my colleagues have said. But first  
11 and foremost, I do want to thank everyone for coming to  
12 speak, coming to have a dialogue with us and to have this  
13 conversation. Taking of your time means a lot to all of  
14 us as Board members, and to actually be here in the  
15 auditorium to talk with us.

16 And I think we've all heard your compelling  
17 statements, and sincerely feel for what you are going  
18 through. But you've -- when we talk about only two  
19 options, and in each of your speeches all -- I believe  
20 almost everyone of you said we want all options on the  
21 table. If you truly want all options on the table, why  
22 are we asking for only two?

23 You also talked about having conversations with  
24 your employees, and that they listened, and that they  
25 worked with you. You need to continue that. These --

1 many of these benefits are done at the local level and not  
2 by us and PERS. And you need to continue those talks, and  
3 making sure you're pushing forward on those.

4           Also, as PERS, I think we have to recognize that  
5 PERS has actually, over the last several months, really  
6 been reaching to our employers trying to work with them,  
7 encouraging them to tell us our -- their stories. And our  
8 staff is dedicating time to work with you on each of your  
9 valuations, because each of you have a different story,  
10 and each of you have a different set of valuations.  
11 They're all not the same.

12           And how do all the rest of the PERS Committee  
13 feel? All the rest of the legislators that sit on the  
14 PERS Committee? Do they agree with this as well? Do they  
15 feel the same way?

16           It has to be a group effort. And although all of  
17 you came to talk, and support one legislator, what about  
18 all the rest that represent the members as well. I don't  
19 think they feel the same way.

20           We talked about the retirees. I mean, last year  
21 45 percent of your retirees didn't receive a COLA. That's  
22 a large number. How is that really a big amount that  
23 you're looking at? And the CPI we use here in California  
24 barely -- it is more for -- across the nation that they  
25 use that CPI, and not for what the cost of living really

1 is here in California. So our retirees are just barely  
2 making it with the COLA that they get.

3 Some of them are paying health care, so the COLA  
4 is barely even making a dent to help those rising costs as  
5 well.

6 And what happens when this information we're  
7 giving you, which is considered many times assumptions,  
8 has some sort of, well, you might, or those out in the  
9 community, might feel has an error of some sort. Now, the  
10 blame comes to CalPERS that we're not giving the right  
11 information.

12 There's a lot of risk that's been mentioned here,  
13 and I don't agree. And also, we've got to think not only  
14 about the retiree income in the State, but our investment  
15 income in the State, over 23 to 25 billion dollars, which  
16 to about 260,000 jobs. So there is money coming from  
17 CalPERS back into the State as well. So there's a lot to  
18 look at.

19 And I thank everyone for coming today, but I do  
20 not support going through with the request.

21 CHAIRPERSON COSTIGAN: Thank you.

22 Mr. Gillihan.

23 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.  
24 Before I make some comments that probably won't make me  
25 very popular in the back room, I do want to start by

1 saying that I don't believe these are reforms that I would  
2 necessarily ever support. I certainly don't think that  
3 taking a COLA away from our retirees is a solution that we  
4 should spend much time looking at.

5 But I also am a bit bothered by the way this  
6 request is being twisted by my colleagues. And so I want  
7 to offer a different perspective.

8 First of all, I don't understand why this request  
9 has come before this Board. Our staff get requests all  
10 the time from stakeholders and they respond to those  
11 requests all the time without bringing those issues before  
12 Board. So the fact that it's here suggests that we're  
13 somehow politicizing this more than the request itself.

14 As I said, I don't necessarily think these are  
15 reforms I would ever agree with, but I also, as a Board  
16 member, don't feel like I should not look at information.  
17 I feel like we have a fiduciary duty to the members, and  
18 part of that's being an informed Board member. And sort  
19 of taking the stick-our-head-in-the-sand approach and not  
20 at the look data I don't think is a good policy approach  
21 for us.

22 Contrary to what's being said here, nobody is  
23 asking us to impair anybody's benefits. That, to the  
24 extent it could even be done, can only be done by the  
25 Legislature or by a vote of the people. And so in no way

1 is this Board being asked to impair anybody's benefits.

2 I heard somebody say that these employers should  
3 negotiate these things at the table. What are they going  
4 to negotiate if they don't have an analytical basis to  
5 present solutions to negotiate. So on one hand we're  
6 telling them go work it with your employees, but on the  
7 other hand out of the other side of our mouth, we're going  
8 to say, but we're not going to give you any data to have  
9 meaningful discussions with. So I don't think we're  
10 putting our employers in a position to be successful. And  
11 by the way, I'm speaking as the employer of our largest  
12 employee group in this system.

13 And then finally, with respect to being just a  
14 single legislator asking for data, as if any legislator  
15 doesn't deserve to be responded to by CalPERS. I heard a  
16 dozen employers sit before us today and ask for that same  
17 data. So, as I think we all too often forget the needs of  
18 our employers, who, by the way, pay the majority of the  
19 freight to provide this benefit, and we're just going to  
20 disregard their interests in the data, I find that  
21 somewhat insulting. And the fact that we're just going to  
22 sit up here and pick and chose what data requests we're  
23 going to respond to, I don't think reflects well on this  
24 Board.

25 Thank you, Mr. Chair.

1           CHAIRPERSON COSTIGAN: Thank you, Mr. Gillihan.  
2 So we have a few outstanding items and then I have some  
3 comments.

4           Mr. Jacobs, I believe we've had the question as  
5 to the constitutionality of either suspending the COLAs or  
6 transferring current employees from classic to PEPRA.

7           GENERAL COUNSEL JACOBS: Yes, and under current  
8 law, neither of those changes would be constitutional.

9           CHAIRPERSON COSTIGAN: Okay. And if I read the  
10 request correctly, it's similar to what Mr. Gillihan said,  
11 it is information that's -- that are being sought.

12           GENERAL COUNSEL JACOBS: That's the way I read  
13 the request.

14           CHAIRPERSON COSTIGAN: I mean when I read the  
15 letters it's not talking about -- it's not asking CalPERS  
16 to opine one way or the other on the constitutionality of  
17 it. It's asking for the flow of information, so --

18           GENERAL COUNSEL JACOBS: That's the way I read  
19 the letter.

20           CHAIRPERSON COSTIGAN: -- I mean -- so Mr.  
21 Gillihan, just in response to your question, how did this  
22 end up on the agenda? I asked it be put on the agenda.  
23 It was not meant to publicize it. First of all, as a  
24 request from any member of the legislature, I think we  
25 would put in front of the Board, just as a member of the

1 legislature. And we don't get a lot of those requests. I  
2 mean, you look at in the context of a piece of  
3 legislation, typically it comes the other way, where we  
4 have a bill request put in front of us. In this case, it  
5 was both Ms. Hollinger and myself reading -- receiving  
6 letters from Mr. Moorlach who, given his past at Treasurer  
7 of Orange County, take the request with the seriousness of  
8 the information that was asked, along with the fact that  
9 we had the employer community, and the league, and others,  
10 and special districts comments.

11 So we're in this quandary, on one hand it's to  
12 get the information that's out there. There is no  
13 judgment value I think being made as to the  
14 constitutionality of the underlying issue. The question  
15 is whether or not the data gets out there.

16 It is my understanding, and I think we need to  
17 clarify, because I believe Mr. Darby raised it, and for  
18 those that may not know it - so Scott Terando I think you  
19 may come up - there was a reference that it will take 80  
20 hours to complete this. And I just want to make sure that  
21 everybody understands how that was arrived at, because I  
22 do believe -- and I'm sorry, Mr. Darby, if it wasn't you.  
23 I just know someone did raise it, and I didn't write down  
24 the note, but it was 80 hours?

25 CHIEF ACTUARY TERANDO: Yeah, we looked at the

1 request, and we figure that for staff time to review the  
2 request, do the calculations, and review the calculations,  
3 it would be about two weeks of full-time work, so about 80  
4 hours worth of time.

5 CHAIRPERSON COSTIGAN: For that -- I'm sorry, as  
6 Ms. Taylor is asking, is that for one actuary?

7 CHIEF ACTUARY TERANDO: For one -- yeah, one  
8 equivalent actuary. It would be done by multiple  
9 actuaries and assistants, but we figure about 80 hours of  
10 total work effort to get the results.

11 CHAIRPERSON COSTIGAN: Okay. And then I just  
12 want to clarify one thing. I just -- and maybe you can  
13 clarify it for me. I believe it was Mr. Wright from West  
14 Sacramento, the actuary he was referring to is your  
15 actuary, right?

16 CHIEF ACTUARY TERANDO: Correct. I think he  
17 was --

18 CHAIRPERSON COSTIGAN: Okay. Ms. Taylor and I  
19 were saying that he was actually giving a shout out to  
20 your staff. I just wanted to make sure not his actuary --

21 CHIEF ACTUARY TERANDO: Yes.

22 CHAIRPERSON COSTIGAN: -- on it. Just wanted to  
23 make sure. Thank you, sir.

24 We have another comment. Mr. Jelincic.

25 COMMITTEE MEMBER JELINCIC: Yeah. I want to

1 react to Mr. Gillihan's comment on why it is here. I  
2 would point out that the letter was not written to staff,  
3 the letter was written to Board members, which is part of  
4 the reason it's here.

5 And negotiating without data can be really  
6 difficult, and -- but I will say, I've sat on the other  
7 side of your agency and it's not all that uncommon, on  
8 both sides.

9 Thank you.

10 CHAIRPERSON COSTIGAN: So this is an  
11 informational item. I don't believe we're going to make  
12 it an action item, because I can hear where people's  
13 positions will go.

14 So I think the only direction I'm going to give  
15 is for Ms. Frost to talk to Senator Moorlach and give him  
16 options on where he can go out and find the data, unless  
17 there's an objection to that.

18 Hearing and seeing none, Marlene, that's the  
19 direction of the Committee.

20 All right. The other point I do want to make for  
21 everyone that was here, I do appreciate you being here.  
22 As Mr. Bilbrey said, the dialogue is great. I'm -- having  
23 you all here, the flow of information is really important.  
24 So I appreciate you all taking the time to be here. I  
25 know it was long in the day. But understand as you talk

1 to us and give us information on both sides of an issue,  
2 all we do is able to learn to really appreciate you all  
3 being here today.

4 With that, we're going to go to the next item,  
5 which is going to be really exciting, Scott, on actuarial  
6 information.

7 All right, Scott, you're up.

8 CHIEF ACTUARY TERANDO: All right. Good  
9 afternoon, Mr. Chair, members of the Committee. Scott  
10 Terando, Actuarial Office.

11 Item 7a is an informational item, where we will  
12 be presenting the actuarial annual valuation for the  
13 Terminated Agency Pool. Joining me today is Julian  
14 Robinson, a Senior Pension Actuary, who will be presenting  
15 the results.

16 SENIOR PENSION ACTUARY ROBINSON: Good afternoon.  
17 Members of the Committee, Julian Robinson, Actuarial  
18 Office, CalPERS team. I'm pleased to be able to present  
19 the results of the Terminated Agency Risk Pool actuarial  
20 valuation as of June 6th -- June 30, 2016.

21 As of that date, the Terminated Agency Pool is  
22 well funded with a funded status of 213.1 percent. The  
23 funded ratio has reduced since the previous valuation. At  
24 the previous valuation, the funded status was 248.3  
25 percent. The decrease from the 248 to the 213 is mostly

1 due to, number one, a change in the discount rate; and  
2 two, the addition of four new agencies into the TAP.

3 The discount rate used for the current valuation  
4 is 2.44 percent. It's based on U.S. STRIPS rate as of  
5 that date. The discount rate used at the previous  
6 valuation was 3.26 percent.

7 With regards to the upcoming valuation, we're in  
8 the process of preparing that. We expect the funded  
9 status to continue to reduce, and that's because of the  
10 addition of three new agencies into the TAP. And that  
11 will add approximately \$26 million of assets and  
12 liabilities, so that will continue to shift the funded  
13 status down and the re-estimate, at this point, will be  
14 about 195 percent.

15 I'm open to any questions you might have.

16 CHAIRPERSON COSTIGAN: Mr. Jelincic.

17 COMMITTEE MEMBER JELINCIC: Yeah. I just want to  
18 point out that we had a 35 percent reduction in the funded  
19 status because we moved four small agencies in.

20 SENIOR PENSION ACTUARY ROBINSON: It's a  
21 combination of the additional agencies that added  
22 approximately \$24 million into the fund, so that -- you  
23 know, the underlying liabilities is about \$120 million  
24 now. So 24 million out of 120 million is a significant  
25 increase in the underlying liabilities, and also the shift

1 in the discount rate also had an impact of -- on increase  
2 of -- on the decrease of the funded status.

3 COMMITTEE MEMBER JELINCIC: And we're going to  
4 move another -- at least another three agencies in, which  
5 will make it worse. And people should remember that when  
6 the request comes, well move us -- move us into the TAP,  
7 but make us whole.

8 Thank you.

9 CHAIRPERSON COSTIGAN: Any other questions?

10 Thank you, Julian for this. As your Chief  
11 Actuary and I, this was -- actually, the conference we  
12 were at yesterday, a lot came up on the TAP. So we want  
13 to make sure that, Mr. Nation, if you're watching, and  
14 listening that the -- read the report that will be out  
15 shortly.

16 (Laughter.)

17 CHAIRPERSON COSTIGAN: Item 7b.

18 CHIEF ACTUARY TERANDO: Good afternoon. Item 7b  
19 is an information item on longevity and risk. Ms.  
20 Hollinger kind of talked about some of the concerns just  
21 earlier, made some comments about longevity, and  
22 inflation, and how those risks support and affect the  
23 sustainability of our plan. We are also right in the  
24 middle of our ALM process. And given the questions that  
25 the Dana had about these items, and the impact on the ALM

1 process, we thought it would be informative to bring this  
2 item to the Board and present information both on  
3 mortality and inflation.

4 So joining me today is another Senior Actuary  
5 from our office, Kurt Schneider, who will go ahead and  
6 present that information.

7 SENIOR PENSION ACTUARY SCHNEIDER: Thank you,  
8 Scott. I'll try to go as fast as Julian.

9 The two assumptions, we'll just take them one at  
10 a time starting with inflation. So there's a perception  
11 that public sector pension plans are heavily exposed to  
12 inflation risk, because unlike private sector plans, they  
13 have automatic post-retirement COLAs, cost of living  
14 adjustments, that depend on inflation.

15 We know that, but the inflation assumption  
16 affects other economic assumptions as well. Inflation  
17 assumption affects the salary increase assumptions, the  
18 payroll growth assumption, and also the discount rate,  
19 which is made up of inflation and a real rate of return.

20 If the inflation assumption needs to increase or  
21 inflation is higher than expected, all these  
22 assumptions -- it affects all these assumptions. Some of  
23 them, like the individual salary increases, and  
24 post-retirement COLAs, if they were higher, it would  
25 increase costs. But some of them, like the investment

1 return assumption, if it were higher, it would decrease  
2 costs.

3           So overall, a higher inflation assumption  
4 actually decreases plan costs because the effect of the  
5 discount actually outweighs the effect of the other  
6 assumptions.

7           And I show in the item the approximate cost of  
8 lowering the discount rate -- lowering -- sorry, lowering  
9 the inflation assumption. Now, if inflation assumption  
10 needed to be lowered, you know, just the opposite would  
11 happen, and the costs would increase. And those costs are  
12 shown for you. It's about lowering the inflation  
13 assumption by a quarter point is about a half percent  
14 increase in normal cost for miscellaneous plans, about  
15 0.8, 0.9 percent for safety plans. So that's the way it  
16 works for inflation, because all the assumptions would  
17 have to change.

18           The mortality assumption is a little more  
19 complicated on the face, because we don't have a single  
20 number to say this is the assumption. There's assumptions  
21 at every age, assumptions for males, assumption for  
22 females. And aside from what the assumption is for the  
23 current mortality probability, there's also projected  
24 future improvements in mortality, which we also take into  
25 account. Even though, as you point out, you know,

1 mortality keeps improving. We do try to forecast those  
2 improvements and build those into the cost to date.

3           The mortality assumption itself is based on  
4 CalPERS experience. The CalPERS actuaries study it and  
5 update it every four years. Future improvements is  
6 something that's a little harder. We can't just look at  
7 the data and figure out what future improvements are going  
8 to be. We actually use a combination of things. We used  
9 tables that are published by the Society of Actuaries,  
10 which take into account a great deal of data that we don't  
11 have, including, you know, medical trends and different  
12 things people are dying from, and how those are improving  
13 piece by piece.

14           And then we also do look at our previous  
15 improvements in mortality to try and scale the published  
16 tables to come up with our own improvement on mortality.

17           I did try to give you an idea in the item on what  
18 the sensitivity is to these changes, and you can take that  
19 for what it is. Obviously, if there's -- if mortality  
20 improves more than expected, life expectancy is improved,  
21 there is an increase in liability, and you can see what  
22 that is. But I will tell you that we're currently working  
23 on the experience study, and we'll have final results for  
24 you with all kinds of data in November.

25           And I can try to answer any questions you may

1 have.

2 CHAIRPERSON COSTIGAN: Mr. Jones.

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

5 Yeah, a question on the mortality assumption.  
6 You indicate that the current assumption is that a 60 year  
7 old retiree will live 1.7 years longer. And is that  
8 number --

9 SENIOR PENSION ACTUARY SCHNEIDER: Okay.

10 COMMITTEE MEMBER JONES: -- longer than?

11 SENIOR PENSION ACTUARY SCHNEIDER: Sorry. So I  
12 was trying to --

13 (Laughter.)

14 VICE CHAIRPERSON TAYLOR: You're older than that.

15 SENIOR PENSION ACTUARY SCHNEIDER: I was -- yeah,  
16 I don't have those -- the actually numbers handy.

17 COMMITTEE MEMBER JONES: Okay.

18 SENIOR PENSION ACTUARY SCHNEIDER: But -- okay.  
19 So what I'm saying there is I adjusted the mortality to  
20 show you how it would affect the liabilities -- the normal  
21 cost and the liability. And what I'm saying is under the  
22 current assumptions, a 60 year old retiree is expected to  
23 live a certain number of years, which we know, and I can  
24 look up for you, but I don't have it in front of me.

25 And by making this adjustment to the table, by

1 doing this two year age setback and treating this age 60  
2 person like they're 58, his life expectancy is not two  
3 years longer like you might expect, it's actually about  
4 1.7 years longer.

5 COMMITTEE MEMBER JONES: Why is a two-year  
6 setback used?

7 SENIOR PENSION ACTUARY SCHNEIDER: Well, I had to  
8 use something to -- I was trying to get a reasonable  
9 adjustment of what a change in mortality assumption might,  
10 so I just picked some -- I mean, the request was for what  
11 if people live one or two years longer than expected, so  
12 that's how I came up with a two-year age setback, because  
13 I new with a two-year age setback, people would live one  
14 or two years longer than expected.

15 COMMITTEE MEMBER JONES: And I'd just like to get  
16 that for information what that number is, you know, people  
17 living to 87, 88, or, you know, based on your assumptions.

18 CHAIRPERSON COSTIGAN: Scott.

19 SENIOR PENSION ACTUARY SCHNEIDER: Yeah, we can  
20 get that. It certainly depends on what age they are now.

21 COMMITTEE MEMBER JONES: Yeah. Okay.

22 CHAIRPERSON COSTIGAN: Ms. Taylor.

23 VICE CHAIRPERSON TAYLOR: So thank you. Thank  
24 you for the report.

25 So what you're saying is this is just a sample

1 and you're doing it based on Ms. Hollinger's request for  
2 the sensitivity of if it were a one-year increase or  
3 decrease, or -- I don't know if this is the appropriate  
4 place, and I will ask my Chair if we want to go ahead and  
5 grant Ms. Hollinger's request or if she should take it  
6 elsewhere?

7 CHAIRPERSON COSTIGAN: Well, it would be one of  
8 this Committee or her Committee, so --

9 VICE CHAIRPERSON TAYLOR: So we could do it here.

10 CHAIRPERSON COSTIGAN: -- I have -- if that's a  
11 motion, you'd make it.

12 BOARD MEMBER HOLLINGER: For some reason --

13 CHAIRPERSON COSTIGAN: I'm sorry, Ms. Hollinger,  
14 push your button. Hang on a second. Hang on.

15 Ms. Hollinger.

16 BOARD MEMBER HOLLINGER: Yeah, for some -- I  
17 forget who instructed me but somebody told me that it  
18 should go here.

19 CHAIRPERSON COSTIGAN: I just like all the --  
20 everything coming through this Committee.

21 (Laughter.)

22 VICE CHAIRPERSON TAYLOR: He just wants all the  
23 power.

24 CHAIRPERSON COSTIGAN: Ms. Frost, or --

25 BOARD MEMBER HOLLINGER: I don't know.

1           CHAIRPERSON COSTIGAN: Do you recall?

2           If you want to come up or, Scott, do you want to  
3 address that? I believe the proper jurisdiction for Ms.  
4 Hollinger's question is in this Committee, because the  
5 Chief Actuary comes through this Committee.

6           CHIEF EXECUTIVE OFFICER FROST: Yes.

7           CHAIRPERSON COSTIGAN: Okay. Thank you.

8           CHIEF ACTUARY TERANDO: That's correct. Most of  
9 the actuarial requests come through this Committee, so we  
10 presented it here.

11          CHAIRPERSON COSTIGAN: That's why it came through  
12 here, Ms. Hollinger.

13          VICE CHAIRPERSON TAYLOR: So before I make the  
14 motion, I just want to ask is this something that's also  
15 going to take a whole lot of time in the middle of the  
16 ALM? I don't want to have to do that.

17          CHIEF ACTUARY TERANDO: No. I mean, most of the  
18 analysis has already been done. We do it -- we've  
19 provided a number of the information -- part of our  
20 process, anyway, is looking at how much of the impact the  
21 longevity has on our system. That's part of the process.

22          VICE CHAIRPERSON TAYLOR: And it is part of the  
23 ALM, right?

24          CHIEF ACTUARY TERANDO: Yeah, because we're going  
25 to look at not only part of the ALM, but in terms of the

1 experience study that we're going to be bringing in  
2 November, we look at how -- the changes in mortality.

3 VICE CHAIRPERSON TAYLOR: Right.

4 CHIEF ACTUARY TAYLOR: And so this is to Ms.  
5 Hollinger's request, it's more of a -- not specific how  
6 this -- how much is CalPERS mortality changing. But her  
7 question is more in lines of if people live longer, how  
8 much risk does this pose to the system.

9 VICE CHAIRPERSON TAYLOR: Right.

10 CHIEF ACTUARY TAYLOR: So it's more of a question  
11 in terms of risk to the system, as opposed to a specific  
12 actuarial question, but it's kind of covered in both  
13 areas.

14 VICE CHAIRPERSON TAYLOR: So -- and in that  
15 question -- so, for example, current mortality rates have  
16 declined a little bit, as we know. I don't know if our  
17 population has, but nationally it has.

18 CHIEF ACTUARY TERANDO: I would say what we're  
19 seeing is we're seeing the rate of increase come -- kind  
20 of level out.

21 VICE CHAIRPERSON TAYLOR: In our population?

22 CHIEF ACTUARY TERANDO: Yeah.

23 VICE CHAIRPERSON TAYLOR: Okay. I said  
24 nationally.

25 CHIEF ACTUARY TERANDO: So what you'RE looking

1 at, or what we're -- THE request is, is the sensitivity to  
2 the risk, if that were to be the case. And that's all  
3 you're looking at for that to provide, correct?

4 CHIEF ACTUARY TERANDO: Right. And we cover --  
5 and actually, that information -- we kind of mention that  
6 information in there. We talked about how --

7 VICE CHAIRPERSON TAYLOR: Right.

8 CHIEF ACTUARY TERANDO: -- the -- it would --  
9 like, it was -- the increase in liabilities would be about  
10 four percent for miscellaneous plans.

11 VICE CHAIRPERSON TAYLOR: So you kind of did it  
12 here?

13 CHIEF ACTUARY TERANDO: Yeah.

14 VICE CHAIRPERSON TAYLOR: Okay.

15 CHIEF ACTUARY TERANDO: The information was  
16 available. We've talked about -- a lot of this  
17 information we've had from previous requests. And we kind  
18 of were looking at the information as well, as part of  
19 our -- the ALM process, and --

20 VICE CHAIRPERSON TAYLOR: So it's right here.

21 CHIEF ACTUARY TERANDO: -- the experience study.  
22 So bringing this information forward wasn't much  
23 additional work on our office.

24 VICE CHAIRPERSON TAYLOR: Okay. Okay. Thank you  
25 very much.

1           CHAIRPERSON COSTIGAN: Mr. Jelincic.

2           COMMITTEE MEMBER JELINCIC: Yeah. The last time  
3 we went through the experience study, we learned that  
4 people were living longer, and so we made that adjustment.  
5 But we also made an adjustment based on the fact that we  
6 assumed that people were going to continue to improve.  
7 And so the last time, we kind of took a double whammy.

8           One of the things that I also remember is two  
9 weeks after we did that, the Society of Actuaries says,  
10 oops, we screwed up our table that you shouldn't be  
11 assuming that fast an increase.

12           Alan, your predecessor, to his credit says, yeah,  
13 we're going to just with the higher rate. So we actually  
14 kind of built a margin in, which I think was the right  
15 thing to do. But, you know, people should not forget that  
16 we took the double whammy and built a projection in -- and  
17 projected increases into the assumptions.

18           CHIEF ACTUARY TERANDO: That's true. We did --  
19 last experience study, there was a -- I think a 20-year  
20 projection on the mortality rate. When we come back in  
21 November, we'll be looking at where we are in terms of  
22 that projection scale, our experience, and our  
23 recommendations going forward.

24           COMMITTEE MEMBER JELINCIC: And we will learn  
25 people live longer.

1 CHIEF ACTUARY TERANDO: Yeah, people are living  
2 longer, just not as long as we --

3 VICE CHAIRPERSON TAYLOR: Thought.

4 CHIEF ACTUARY TERANDO: -- projected them to.

5 CHAIRPERSON COSTIGAN: All right. Any other  
6 questions?

7 All right. So I think we're going to give  
8 Committee direction on what --

9 VICE CHAIRPERSON TAYLOR: I think she got  
10 everything.

11 CHAIRPERSON COSTIGAN: Okay. She got everything  
12 she needed.

13 BOARD MEMBER HOLLINGER: Yeah.

14 CHAIRPERSON COSTIGAN: Okay. Good. I just  
15 wanted to make sure.

16 All right. Anything else on 7b?

17 If not, 7c. And I think, Mr. Gibbons, is this  
18 the item you want to speak on as well?

19 MR. GIBBONS: Yes, 7a.

20 CHAIRPERSON COSTIGAN: All right. If it's 7a,  
21 that's what I thought. Why don't you -- before we go to  
22 7c why don't you come on down. I was going to call on  
23 you, but you hadn't signed up. I thought that's what you  
24 wanted to talk on.

25 So please give Mr. Gibbons three minutes.

1           Go ahead, sir.

2           MR. GIBBONS: Chair, members of the Committee,  
3 thank you. I wanted to discuss a little bit about --  
4 provide some comments regarding the TAP. And  
5 congratulations to Ted and Wylie on the great job that  
6 they've done on the investment returns. But that is a  
7 fund that is 213 percent -- or I guess 195 percent funded  
8 status.

9           And thank you, Scott and your team for all the  
10 work that you're providing on this. But I would encourage  
11 the Board to continue to look at that number and what that  
12 discount rate is. An increase in that discount rate would  
13 result in lesser reductions in these terminated agencies  
14 benefits.

15           Right now, with a 95 percent benefit reduction on  
16 the terminated agencies that you talked about earlier,  
17 with a higher discount rate, that number would be lower.  
18 Now, I understand that these are actuarial assumptions  
19 that need to be taken very conservatively, because one of  
20 the things that happens with that Terminated Agency Pool  
21 is that when an agency enters that pool, CalPERS takes on  
22 a hundred percent of that liability, and so you have to  
23 have a very conservative discount rate.

24           However, I would encourage this Committee, and  
25 the Board as a whole, to look at some alternative options.

1 Perhaps, there's the ability to allow an agency entering  
2 that pool to take on some of that long-term liability in  
3 exchange for a higher discount rate, and a potentially  
4 lower buy-out rate.

5 I'm not saying that that is the right option. It  
6 would take a lot of work on Scott's team, and -- to  
7 determine whether or not that would be feasible. But  
8 again, as we talked about some options earlier on  
9 information, I think that this would be another option  
10 that we could take a look at in relation to the TAP.

11 So thank you.

12 CHAIRPERSON COSTIGAN: Great. Thank you, Mr.  
13 Gibbons.

14 Okay. Scott, we're going to go back to 7c.

15 SENIOR PENSION ACTUARY ROBINSON: I have a couple  
16 of comments on the public speaker that just --

17 CHAIRPERSON COSTIGAN: Back to 7a.

18 SENIOR PENSION ACTUARY ROBINSON: Yeah, a flesh  
19 out a few of the issues.

20 Number one, each time we perform a termination  
21 valuation, we look at the specific data and the timing of  
22 that valuation. So the valuation discount rate used for  
23 the TAP is for one purpose. When we do a valuation for  
24 each individual agency terminating, we look at the data,  
25 we calculate the duration of the liability, and we use a

1 different discount rate depending on what's available,  
2 what the STRIPS, and the TIPS, and the treasury rates are.

3           Secondly, with respect to the additional funds in  
4 the TAP, as we can see as each time a new agency or group  
5 of agencies moves into the TAP, it reduces the overall  
6 funded status of the -- of the TAP. So we should always  
7 bear that in mind that it's not going to be there forever.  
8 And that's some of the basic thoughts for this situation.

9           CHAIRPERSON COSTIGAN: And great explanation. I  
10 as Mr. Gibbons raised, and yesterday as Scott and I heard,  
11 it's a question that's out there. And I just think  
12 getting more information as to exactly what you explained,  
13 the lives, and being the length, and the overall  
14 liabilities.

15           So Scott, did you want to add something?

16           CHIEF ACTUARY TERANDO: I just wanted to add that  
17 we do have some proposed legislation on the Terminated  
18 Agency Pool. Currently, right now, there are a number of  
19 plans that when we do the termination, we are required to  
20 wait an entire full year before we can finalize the  
21 termination.

22           And we're looking at reducing that -- that length  
23 to 90 days to kind of speed up the process, and give some  
24 plans a little bit more option. It's kind of like we've  
25 run into a situation where a plan wants to terminate, they

1 have the money, and we have to -- actually have to wait a  
2 full year before they can terminate. And that doesn't  
3 help us or it doesn't help the individual plans.

4 CHAIRPERSON COSTIGAN: So I'm sure Mr. Gibbons  
5 and his folks, and Mr. Hutchings and his folks will be  
6 looking at the -- looking at that bill and getting back to  
7 Scott with any recommendations.

8 Thank you.

9 All right. 7c, please.

10 (Thereupon an overhead presentation was  
11 Presented as follows.)

12 CHIEF ACTUARY TERANDO: Sure, Item 7c is an  
13 information item. This is an item that will explain the  
14 amortization parameters, the CalPERS objectives to fund  
15 the system. We're going to talk about the three main  
16 levers that affect amortization policy, the escalation  
17 rate, the amortization period and the direct rate  
18 smoothing ramps.

19 We'll talk about our current amortization policy,  
20 some guidance from industries out there, and we're going  
21 to talk about -- look at various impacts if you made  
22 changes to these policies.

23 After this information item is out here, we're  
24 going to have some discussion with stakeholders. And  
25 we'll be planning on come back in November with our



1 mortgage. Let's consider a million dollar mortgage,  
2 payable either over a 15-year period or 30-year period.  
3 Generally, the interest rates that people agree -- agree  
4 to are either fixed Or variable and they pay level  
5 payments.

6 --o0o--

7 SENIOR PENSION ACTUARY ROBINSON: On slide 5 you  
8 can see on the right-hand side of the slide if a 15-year  
9 mortgage is selected, the payments are about -- you know,  
10 between a \$100,000 and \$110,000 a year. And over the  
11 period of 15 years, the total payments sum to \$1.6  
12 million.

13 If you compare that to a 30-year mortgage, much  
14 longer period, the total payments are \$2.3 million. So  
15 the point we can see immediately is the length of the  
16 period of amortization has a significant impact on the  
17 overall total payments during that period -- during the  
18 amortization.

19 --o0o--

20 SENIOR PENSION ACTUARY ROBINSON: But the  
21 question we have to ask ourselves is why does our  
22 retirement system need an amortization policy at all?

23 Ideally our system would be a hundred percent  
24 funded, and the normal cost contribution, together with  
25 the growth of the assets in the plan, would be sufficient

1 to pay for all the benefits, so there would be no need for  
2 an amortization policy.

3           However, in reality, we know the system is not a  
4 hundred percent funded. Investment, you know, gains and  
5 losses happen. Actuarial and actual demographic  
6 experience varies from year to year. We change actuarial  
7 assumptions from time to time. And actually, the benefits  
8 in the plan are modified or changed. So each time this  
9 happens, we veer from the hundred percent funded status.  
10 And the idea of having an amortization policy is to, you  
11 know, steer us back to reaching the hundred percent funded  
12 ratio that we want the system to be at.

13                           --o0o--

14           SENIOR PENSION ACTUARY ROBINSON: When we design  
15 a amortization policy, we have a number of goals in mind.  
16 We want to promote rate stability. In other words, when  
17 we're making these additional payments towards paying down  
18 the unfunded, we want to do it in such a way that the  
19 employers who are paying these additional amounts find a  
20 stable percentage of pay in the future.

21           We also want to be cognizant of intergenerational  
22 equity. Those people who are earning the benefits should  
23 be paying for the benefits. So the period of time  
24 over which we amortize should be somewhere closely related  
25 to the generations of people who are working. And then,

1 of course, you know, the -- we want benefit security. And  
2 that's essential in devising and amortization policy.

3 --o0o--

4 SENIOR PENSION ACTUARY ROBINSON: We've just got  
5 a picture on this of --

6 CHAIRPERSON COSTIGAN: Julian, can I ask you a  
7 question?

8 SENIOR PENSION ACTUARY ROBINSON: Sure.

9 CHAIRPERSON COSTIGAN: This is an informational  
10 item, but you will need an action item? I mean, if we --  
11 because I'm just looking at trying to look at the November  
12 calendar. Would this be a first reading in November?

13 CHIEF ACTUARY TERANDO: Yes. Yes. The plan is  
14 to be a first reading in November.

15 CHAIRPERSON COSTIGAN: So not that I don't like  
16 hearing from you. But since it's an informational item,  
17 what I was going to do is ask if there were any questions  
18 from the Committee members?

19 SENIOR PENSION ACTUARY ROBINSON: Yeah,  
20 absolutely.

21 CHAIRPERSON COSTIGAN: Otherwise, what I would  
22 do, because we're going to make it as an action item, if  
23 that's okay with you, unless you want to present, but we'd  
24 just move it to an action item in November as a first  
25 reading, if anybody has any objections?

1 Love hearing from you. So we'll see you in  
2 November.

3 VICE CHAIRPERSON TAYLOR: I love your accent,  
4 Julian.

5 SENIOR PENSION ACTUARY ROBINSON: Oh, okay.  
6 Thank you, Theresa.

7 CHAIRPERSON COSTIGAN: I'm sorry. We have a  
8 couple. Never mind. I'm sorry.

9 Mr. Jelincic

10 COMMITTEE MEMBER JELINCIC: Yeah, I have no  
11 problem with moving it to November. But one of the things  
12 people need to think about is, you know, the shorter  
13 amortization is more conservative, probably makes more  
14 sense. However, it increases the volatility, shortening  
15 the amortization, and we have spent a whole bunch of  
16 effort on stabilizing contribution rates. We have walked  
17 away from, quite frankly, significant potential earnings  
18 to -- for stabilization.

19 Right now, you know, this year we've got a --  
20 we're going to be amortizing in gains, and so this will  
21 lower the rates. But on the other hand, when we hit  
22 losses, I expect to see the actuaries, in fact, saying,  
23 you know, we ought to go to 30-year amortization to  
24 stabilize the rates.

25 So people really need to think about what

1 the amortization period ought to be, and not particularly  
2 focus on, well, it helps us now. And when it hurts us,  
3 we're going to go back and change it, because I've been  
4 around long enough to see this flip-flop several times.

5 SENIOR PENSION ACTUARY ROBINSON: I agree with  
6 you. It seems, you know, there's been in the past few  
7 years, you know, significant discussion throughout the  
8 pension industry about what appropriate amortization  
9 should be for public sector plans.

10 And I think what's driving this is, you know, the  
11 challenges faced, you know, throughout the country, you  
12 know, the funding status. And in the past, I think a  
13 priority -- or the top priority was rate stabilization.  
14 Now, the priority seems to be, you know, fund stability or  
15 sustainability, and, you know, dealing with, you know, a  
16 negative amortization which was part of this presentation,  
17 and how the longer periods of amortization especially,  
18 when we have the escalation ramp built in. That builds in  
19 significant un -- you know, negative amortization, which,  
20 you know, challenges the benefit security and the  
21 long-term sustainability of the fund.

22 So, you know, I put up the slide in here which  
23 kind of again shows the three goals, and make the  
24 statement that not all these goals are always working, you  
25 know, together with each other. So there's -- you know,

1 depending on the condition of the system, you want to, you  
2 know, some type -- tailor an amortization policy to be  
3 customized for that.

4 CHAIRPERSON COSTIGAN: Well, so I can understand  
5 this for November, what you're, to a degree is, looking  
6 for is guidance either a 20-year or a 30-year  
7 amortization. So are we going to be looking in November  
8 at two recommendations?

9 CHIEF ACTUARY TERANDO: Well, what we are looking  
10 at is -- one of the things that we need to consider is the  
11 amortization policy affects the ALM. So when we talk  
12 about meeting those strategic measures in terms of  
13 volatility, the probability of a plan dropping below 50  
14 percent funded and all that, that's highly dependent upon  
15 the amortization period -- and our amortization period,  
16 and our amortization policy.

17 So if we kind of don't adopt some -- any changes  
18 in the amortization policy, or we look at changes in the  
19 amortization policy separate from the ALM process, you're  
20 going to have kind of a disconnect.

21 CHAIRPERSON COSTIGAN: Yeah, but today is an  
22 informational item. There's no action item.

23 CHIEF ACTUARY TERANDO: This is an information  
24 item

25 CHAIRPERSON COSTIGAN: Correct.

1 CHIEF ACTUARY TERANDO: But when we come back  
2 in --

3 CHAIRPERSON COSTIGAN: November.

4 CHIEF ACTUARY TERANDO: -- November with  
5 recommendations, we're going to try and reflect some of  
6 those recommendations in the ALM analysis --

7 CHAIRPERSON COSTIGAN: Correct. Correct.

8 CHIEF ACTUARY TERANDO: -- so you can see what  
9 the impact would be on those measures.

10 CHAIRPERSON COSTIGAN: Correct.

11 SENIOR PENSION ACTUARY ROBINSON: Yeah.

12 CHIEF ACTUARY TERANDO: Yes.

13 CHAIRPERSON COSTIGAN: Ms. Paquin.

14 ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr.  
15 Chair. One question. I appreciate the fact that you said  
16 that you're going to be reaching out to stakeholders over  
17 the next couple of months before November. Do you have  
18 any sessions planned to discuss this at the education  
19 forum?

20 CHIEF ACTUARY TERANDO: There's not anything  
21 specifically scheduled at the Ed Forum, but we're going to  
22 be -- we have a lot of consultation sessions going on with  
23 employers, where we'll be talking to them about that. And  
24 then we're going to be reaching out I think to various  
25 employer groups to talk about them -- to talk the them as

1 well and get their input on it.

2           We have gotten various comments from some  
3 agencies that have made some requests to take a look at  
4 our amortization period. They feel the interest cost, by  
5 having such a long amortization period, and the ramp up  
6 and downs are actually hurting them, and they often come  
7 to us requesting changes to shorten their amortization  
8 period. And they would like to just see it be applied  
9 more consistently across the system.

10           ACTING COMMITTEE MEMBER PAQUIN: So this changes  
11 somewhat driven by stakeholders then -- it's under  
12 consideration?

13           CHIEF ACTUARY TERANDO: Yeah, some of the -- I  
14 mean, some of the suggestions from the stakeholders have  
15 talked about shorten the amortization period to 15 to 20  
16 years going to level dollar. And what this information  
17 item was going to go through was kind of show you by  
18 changing those various levers what the impact is to the  
19 various payments that employers make, the interest that  
20 they make over the life of the amortization, and the  
21 stability to the fund. So we were going to kind of run  
22 through how those various levels -- levers affect the  
23 system.

24           ACTING COMMITTEE MEMBER PAQUIN: Thank you.

25           VICE CHAIRPERSON TAYLOR: So -- and we may -- I

1 don't know -- it looks -- I had a couple of questions.  
2 First of all, the agencies and/or employers that are  
3 requesting the information, what -- to what benefit were  
4 they asking it for, to shorten their time frame?

5 CHIEF ACTUARY TERANDO: Well, they looking at the  
6 cost savings. I think in that first graph where Julian  
7 mentioned shortening it from, you know -- you shorten it  
8 30 years to a 20 year, there's a over \$1.3 million savings  
9 just for a million dollar loss. So if you have --  
10 multiply that by 10, you know, you're saving -- you're  
11 making a savings in --

12 VICE CHAIRPERSON TAYLOR: So does that impact  
13 their rate -- contributions, I'm sorry?

14 CHIEF ACTUARY TERANDO: It can. So --

15 VICE CHAIRPERSON TAYLOR: So that's what they're  
16 doing it for?

17 CHIEF ACTUARY TERANDO: They're looking at --  
18 well, they're looking at trying to save long-term savings.  
19 You know, we -- take a look at what the State did, they  
20 paid the \$6 billion now. Why? Because the interest  
21 savings --

22 VICE CHAIRPERSON TAYLOR: Right.

23 CHIEF ACTUARY TERANDO: -- was an additional \$6  
24 billion.

25 VICE CHAIRPERSON TAYLOR: And they can't

1 afford -- these cities and counties can't afford to do  
2 that. So they're looking for -- so you're not looking at  
3 an amortization policy change over all for the whole fund,  
4 you're looking at it --

5 CHIEF ACTUARY TERANDO: Well, now, we're actually  
6 looking at it for the whole fund overall, because if --  
7 you know, if you take one example, if you look at the way  
8 we amortize gains and losses, there's a -- it's amortized  
9 currently over 30 years, and it's a five ramp up --

10 VICE CHAIRPERSON TAYLOR: So it's take longer --

11 CHIEF ACTUARY TERANDO: -- and a five year --

12 VICE CHAIRPERSON TAYLOR: -- to write off the  
13 losses and takes -- yeah.

14 CHIEF ACTUARY TERANDO: For the first 18 years,  
15 you -- you make 18 years of payments and, after 18 years,  
16 you've paid off nothing of that loss. So you've made 18  
17 years of payments, and your unfunded has gone nowhere.  
18 You've made zero progress with it. And then you -- we --  
19 then you proceed to payoff the remaining -- your original  
20 amount in 12 years.

21 So does that make sense from a funding point of  
22 view to realistically make 18 years of payments with no  
23 progress and then turn around and pay it all off in 12  
24 years?

25 VICE CHAIRPERSON TAYLOR: So that sounds like a

1 great deal, Scott. I love the idea, but what I want to  
2 know is what are the -- what's the downside of shortening  
3 that --

4 CHIEF ACTUARY TERANDO: Well, as J.J. mentioned,  
5 the downside would be -- the payments would be larger for  
6 losses. They would be larger for gains. It adds more  
7 volatility, that's the biggest downside, because -- so you  
8 basically had a conflict by having -- paying off losses  
9 quicker, you're going to increase your funded status,  
10 you're going to increase your stability to your fund,  
11 you're going to get to 100 percent quicker.

12 It's going to be -- your rates are going to be  
13 more variable. That's the downside. And there's  
14 no -- that's the balance -- that's a balance between  
15 smoothing, and --

16 VICE CHAIRPERSON TAYLOR: Right. That's what the  
17 long term is for.

18 CHIEF ACTUARY TERANDO: Right.

19 VICE CHAIRPERSON TAYLOR: Gotcha. So here's my  
20 thought, the State of California had the money to put in  
21 to do our own smoothing, right? It's the local agencies,  
22 et cetera, that want to deal with this.

23 Have we done any outreach to the -- I mean, we --  
24 you've had some requests, but --

25 CHIEF ACTUARY TERANDO: Right. And we were

1 planning on outreaching. And one approach -- any change  
2 to the policy, we were going to probably apply  
3 prospective, which means we wouldn't touch anything in  
4 effect. Everything that's established -- there would be  
5 no rate increases due to a policy change. It would only  
6 affect future gains and losses. And to the extent that  
7 they offset one another, it should --

8 VICE CHAIRPERSON TAYLOR: So essentially you're  
9 handling to sets of books though. You're handling an old  
10 set of books that does the long-term amortization, and  
11 then everything going forward is the 20-year amortization.

12 CHIEF ACTUARY TERANDO: It would be -- it would  
13 be a shorter amortization going forward. We wouldn't have  
14 to re-amortize the existing basis. That's a nice way to  
15 transition from the old policy to the new policy without  
16 immediately impacting a lot of employers. Because given  
17 our current funded status, any type of shortening of  
18 amortization periods is going to increase rates. We're  
19 underfunded, so you're -- by short -- by shortening  
20 anything, you'll save them -- they'll save money long  
21 term, in terms of interest costs, but they'll have to pay  
22 more upfront, if we do the changes prospectively.

23 We don't anticipate -- there would be no  
24 immediate increases to costs. And then as the gains and  
25 losses come in, they should offset and we shouldn't see

1 any big swing either way.

2           The downside again is if you have a large loss,  
3 there will be a larger increase. Vice versa, if there's a  
4 larger gain, and you -- if you have a gain and you're  
5 amortizing over a shorter period, you recognize those  
6 gains quicker, and it brings rates down.

7           VICE CHAIRPERSON TAYLOR: Which is -- right. But  
8 I -- here's -- I really think stakeholder engagement is  
9 really important at this point, because if we're doing  
10 this at the same time we're doing the ALM, and I don't  
11 expect any changes in the AL -- you know, the rate of  
12 return. But to put that out there and then two years down  
13 the road, we could have a huge change for perspective  
14 employers to the negative. And I don't want them to be  
15 surprised. So I think stakeholder engagement is huge. I  
16 see Brad nodding for me.

17           So that's where I'm at for that. Otherwise, I  
18 think -- I think I get it now, and I appreciate everything  
19 you gave me there.

20           Thank you.

21           CHAIRPERSON COSTIGAN: Jeree.

22           ACTING COMMITTEE MEMBER GLASSER-HEDRICK: I just  
23 wanted to echo the comment regarding stakeholder  
24 engagement. I equate this really similar to an individual  
25 making a decision about a 30-year mortgage versus a

1 15-year mortgage. I mean, it makes -- you kind of sit  
2 down, you do the calculations. Fifteen year mortgages  
3 make sense, and -- you know, on paper, but then when you  
4 actually go to purchase a house, you know, there are  
5 reasons why people choose a longer amortization period.  
6 And given the testimony today from the local  
7 jurisdictions, you know, I don't know if the sentiment is  
8 consistent among all municipalities or special districts  
9 in the State.

10 But it sounds like, you know, the rubber is  
11 hitting the road, and there's some real financial  
12 challenges ahead. And, you know, changing the  
13 amortization period will have significant impact on the  
14 yearly budgeting of all the jurisdictions that depend on  
15 CalPERS. So I just want to echo Ms. Taylor's comments.

16 CHAIRPERSON COSTIGAN: Great. So I think, Scott  
17 and Julian, what you heard is work with Mr. Pacheco,  
18 ensure that we've engaged the stakeholders. And I would  
19 assume as part of the first reading, the report in  
20 November we'll see what the impacts are to our -- to the  
21 local governments and the other affected entities, is that  
22 correct?

23 CHIEF ACTUARY TERANDO: Yes.

24 CHAIRPERSON COSTIGAN: Okay. Anything else on  
25 this item?

1 CHIEF ACTUARY TERANDO: That's it.

2 CHAIRPERSON COSTIGAN: Great. Any other  
3 questions?

4 Okay. That brings us to Committee Direction.

5 Oh, you have to take -- button. I don't see you  
6 on the screen.

7 Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: Yeah. I would just  
9 encourage everybody to go back and reread this agenda  
10 item --

11 CHAIRPERSON COSTIGAN: Yes.

12 COMMITTEE MEMBER JELINCIC: -- so that they have  
13 that as additional background when we get the agenda item  
14 next time.

15 CHAIRPERSON COSTIGAN: That's great advice.

16 COMMITTEE MEMBER JELINCIC: So reread it. It  
17 would be a good --

18 CHAIRPERSON COSTIGAN: It will be an action item.  
19 So, Marlene.

20 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
21 D'ADAMO: Okay. I have recorded five items, and we'll see  
22 if Mr. Costigan agrees with what I've written down. The  
23 first one is regarding the consent item for the SIP,  
24 working with the administration to see if we can do  
25 something with consolidations of the SIP.

1 CHAIRPERSON COSTIGAN: And fees.

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: And fees.

4 CHAIRPERSON COSTIGAN: Which was Mr. Gillihan's  
5 point.

6 VICE CHAIRPERSON TAYLOR: Yes.

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

8 D'ADAMO: Okay. Number two, on the report on  
9 participating employers, the heading for the inactives to  
10 do something with that, so it's a little bit more clear.

11 COMMITTEE MEMBER JELINCIC: With the reporting in  
12 particular.

13 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

14 D'ADAMO: I'm sorry?

15 CHAIRPERSON COSTIGAN: With the reporting in  
16 particular.

17 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

18 D'ADAMO: Right, with the reporting. That's the heading,  
19 right?

20 Item number 3, Mrs. Frost to talk to Senator  
21 Moorlach on where to go and get the date on Item 6c.

22 CHAIRPERSON COSTIGAN: Correct.

23 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

24 D'ADAMO: Item 4, this was the question around what was --  
25 this was Mr. Jones's question around what was the number

1 that people are living 1.7 years longer than? That was a  
2 question for the actuaries.

3 And then possibly number five, which I think I  
4 just recorded around stakeholder engagement of this last  
5 item directed to the Public Affairs folks.

6 CHAIRPERSON COSTIGAN: Correct. I believe we  
7 have one more.

8 Mr. Feckner.

9 PRESIDENT FECKNER: It's after this issue.

10 CHAIRPERSON COSTIGAN: Oh, okay, on -- okay.

11 I think we're -- did -- was anything missed on  
12 Committee direction?

13 You guys were all here.

14 No. Okay. Now, Mr. Feckner.

15 PRESIDENT FECKNER: Thank you, Mr. Chair. I  
16 just had heard a lot earlier about some inaccurate  
17 information about our election process. And I would hope  
18 that Mr. Hoffner come up and say how we've addressed that,  
19 because I know there was some information handed out  
20 earlier. I'm not sure everybody got that, so...

21 CHAIRPERSON COSTIGAN: I don't believe I've seen  
22 that. I know we're going to get to public comment. So  
23 Mr. Feckner -- or Mr. Hoffner, I believe Mr. Feckner has  
24 said there was materials handed out regarding to the  
25 election.

1           DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So we  
2 handed out a fact sheet in the back of room, which I  
3 believe you all received as well. It's couple page  
4 document talking about the Board election process, the  
5 California Constitution, the Public Employees' Retirement  
6 Law that allows us -- allows this Board to conduct the  
7 election process. We went through a series of regulatory  
8 activity last year, as you recall, in order to modify the  
9 electoral process to allow for the additional voting  
10 methodologies that are in place today for this current  
11 election.

12           I brought along a copy of the rulemaking file  
13 that we conducted along with the Office of Administrative  
14 Law and then endorsed by the Secretary of State back in  
15 November of last year.

16           Mr. Frost has sent out a letter to all of the  
17 candidates that are running in the election to meet  
18 tomorrow at 2:00 o'clock. We have a meeting set up to  
19 discuss some of the questions that have been raised. But  
20 I want to highlight the fact that both the California  
21 Constitution and the PERL allows this Board conduct and  
22 set the regulatory and rulemakings for your election  
23 processes.

24           CHAIRPERSON COSTIGAN: Thank you. Mr. Feckner,  
25 does that address your question?

1           PRESIDENT FECKNER: Thank you.

2           CHAIRPERSON COSTIGAN: We have two people that  
3 would like to speak on a public comment. The first will  
4 be Mr. Flaherman, so come on down sir and then Ms. Judith  
5 Painter, if you'll come on down, too, please.

6           You'll be each given three minutes.

7           Mr. Flaherman, go ahead, sir.

8           MR. FLAHERMAN: Good afternoon. I'm Michael  
9 Flaherman. I'm a candidate for the Board, and I want to  
10 address the election and the status of the election.  
11 There are some significant problems with the election that  
12 I think to some degree may be unsolvable. Your staff has  
13 attempted to waiver on some constitutional issues here,  
14 but they don't address a core constitutional issue, which  
15 is that Article 2, Section 7 of the California  
16 Constitution says four words. It says, "voting shall be  
17 secret".

18           Instead, you guys have sent out 1.7 million  
19 ballots that require the voter to sign the ballot card.  
20 They have to put their signature on the ballot card. So,  
21 you know, how is this going to play out?

22           Traditionally, candidate have the opportunity to  
23 observe ballot counting, for example. Our -- am I going  
24 to be allowed to see people's ballots with their names on  
25 them, and then go pressure people who didn't vote the way

1 I wanted?

2           After the election, the ballots will go into the  
3 State archive. Will I or will others be able to take all  
4 of the ballots and go through and be able to see how  
5 everyone voted, and again give people a hard time about  
6 how they voted? I think this was a pretty big mistake.

7           The second problem -- and there are more than two  
8 problems, and we're going to talk about them, and there  
9 are other very significant problems, but I don't really  
10 have time to talk about all of them now.

11           The second problem is that your staff came to you  
12 to ask you to approve an election administrator called  
13 Integrity Voting Systems, IVS, and repeatedly said to you  
14 in this document says -- it also said they are certified  
15 by the California Secretary of State.

16           Well, that's kind of like saying that butcher  
17 sells USDA Grade A beef, so don't worry about the beef  
18 you're getting. Well, it turns out you're not getting  
19 USDA Grade A beef, because the election administrator has  
20 certified for one thing, which is to print ballots. And  
21 not even to print all kinds of ballots, but just to print  
22 particular ballots. And so I think it was -- in context,  
23 it was actually, I think, fair to say outright misleading  
24 for the election administrator to have been presented as  
25 having been certified by the Secretary of State.

1           So there's a heap of a mess here. And again, I  
2 think -- you know, I think that whoever loses either of  
3 the two elections going on is going to have some very  
4 interesting arguments to make. You know, there are some  
5 other related issues. There's a provision of California  
6 statute that says voters may not sign ballots cards.

7           It's illegal to make somebody sign a ballot card  
8 under that statute. Yet, those ballot cards will not be  
9 counted under your regulations.

10           So I'm out of time, so I'll stop talking there.

11           CHAIRPERSON COSTIGAN: My understanding is that  
12 tomorrow at 2:00 o'clock there will be a meeting where  
13 these issues that you're raising will be addressed. If  
14 after that meeting, you still have concerns, I would be  
15 encourage you, as I've said to other folks in the past,  
16 put it in writing to us. It makes it easier to look at  
17 your concerns.

18           So thank you for being here.

19           MR. FLAHERMAN: Well, I -- yeah, I will. Thank  
20 you.

21           CHAIRPERSON COSTIGAN: Thank you, Mr. Flaherman.

22           MR. FLAHERMAN: Thank you.

23           CHAIRPERSON COSTIGAN: All right. Ms. Painter.

24           MS. PAINTER: Hello. My name is Judith Painter.  
25 Thank you for this opportunity to speak. I'm here on

1 behalf of the Free Speech for People and the Courage  
2 Campaign. I'm here to ask CalPERS to review the status of  
3 its investment in a private equity real estate fund that  
4 violates the domestic emoluments clause of the U.S.  
5 Constitution

6           The Committee may be aware of correspondence sent  
7 by Free Speech for People and the Courage Campaign, as  
8 well as a letter from representative Ted Lieu calling on  
9 CalPERS to evaluate its investment in a private equity  
10 real estate fund known as CIM fund 3.

11           As a limited partner in the fund, notably one of  
12 the largest limited partners, holding almost 30 percent of  
13 the fund total, CalPERS is paying millions to a private  
14 equity fund manager for an underperforming investment in  
15 one of Trump's shadiest real estate deals, the Trump SoHo.

16           And CalPERS is enabling President Trump in  
17 violating the domestic emoluments clause of the U.S.  
18 Constitution. Despite the fact that two State Attorneys  
19 General and legal scholars conclude the flow of State  
20 pension funds through the fund manager to the Trump  
21 organization and ultimately President Trump is a violation  
22 of the domestic emoluments clause, CalPERS chooses to turn  
23 a blind eye to the arrangement claiming it has no  
24 responsibility or accountability to its members for risks  
25 posed by this investment.

1           Instead, Ms. Frost has effectively claimed that  
2 it has no rights as a limited partner and is simply  
3 relegated to relying upon the fund manager to act in the  
4 best interests of its members.

5           I was disappointed to learn of CalPERS recent  
6 response to Free Speech for People and Courage Campaign.  
7 Rather than taking action consistent with your fiduciary  
8 duties, you indicate you do not plan to take any action to  
9 end the transfer of pension funds from CIM fund 3 to the  
10 Trump Organization.

11           And though you claim that you take these concerns  
12 seriously, you seem to plan to do nothing more than to  
13 monitor and analyze the situation.

14           Public funds should not be invested in a scheme  
15 illegally enriching the President. CalPERS has a duty to  
16 obey the laws of the land, including the Constitution.  
17 And it has a fiduciary duty to conduct due diligence to  
18 avoid unethical and illegal investments. CalPERS has been  
19 aware of this relationship between CIM fund 3 and the  
20 Trump organization far longer than the public.

21           The time for analysis was prior to the  
22 inauguration of the President and prior to the violation  
23 of the U.S. Constitution

24           Given the clear and ethical issues presented by  
25 its investment, we ask CalPERS to act now to demand CIM

1 fund 3 liquidate Trump SoHo and end its arrangement with  
2 the Trump organization, or failing that, CalPERS should  
3 divest from CIM fund 3.

4 CHAIRPERSON COSTIGAN: Right. Thank you, Ms.  
5 Painter. I appreciate that. I also understand that some  
6 of your folks were up here yesterday, and we had a very  
7 long meeting. So I appreciate you coming back today.

8 MS. PAINTER: Thank you.

9 CHAIRPERSON COSTIGAN: Thank you.

10 I believe, Marlene, that's it. Nothing else?  
11 Anything else on the left, right?

12 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

13 D'ADAMO: That's it.

14 CHAIRPERSON COSTIGAN: And Ms. Hollinger you will  
15 meet in --at 3:30.

16 BOARD MEMBER HOLLINGER: Is 15 minutes enough for  
17 you?

18 THE COURT REPORTER: (Nods head.)

19 CHAIRPERSON COSTIGAN: All right. So Finance and  
20 Administration is adjourned. Risk will meet at 3:30.

21 Thank you all.

22 (Thereupon the California Public Employees'  
23 Retirement System, Board of Administration,  
24 Finance & Administration Committee meeting  
25 adjourned at 3:14 p.m.)

## 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, Finance & Administration  
7 Committee meeting was reported in shorthand by me, James  
8 F. Peters, a Certified Shorthand Reporter of the State of  
9 California;

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

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

16 IN WITNESS WHEREOF, I have hereunto set my hand  
17 this 25th day of September,

18  
19 

20  
21 JAMES F. PETERS, CSR  
22 Certified Shorthand Reporter  
23 License No. 10063  
24  
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