

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, NOVEMBER 14, 2017  
1:00 P.M.

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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Mr. John Chiang, represented by Mr. Matthew Saha and Steve Juarez

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. Charles Asubonten, Chief Financial Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

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

Mr. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Tanya Black, Committee Secretary

Ms. Carene Carolan, Chief, Member Account Management  
Division

Mr. Randy Dziubek, Deputy Chief Actuary

Ms. Jan Falzarano, Chief, Retirement Research and Planning  
Division

Mr. Forrest Grimes, Chief Risk Officer

Ms. Lisa Hammond, Senior Staff Attorney

Mr. Gary McCollum, Senior Life Actuary

Ms. Kristin Montgomery, Controller

Mr. Andy Nguyen, Assistant Chief, Pension Contract  
Management Services Division

Ms. Kelly Sturm, Senior Pension Actuary

Mr. Anthony Suine, Chief, Benefit Services Division

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Mr. Richard Averett, Local Government Services Authority

Mr. Al Darby, Retired Public Employees Association

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

Ms. Dorothy Johnson, California State Association of Counties

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

Mr. Derick Lennox, School Employers Association of California, Small School Districts Association

Mr. George Linn, Retired Public Employees Association

Mr. Dan Matusiewicz, City of Newport Beach

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

1  
2 CHAIRPERSON COSTIGAN: We'll go ahead and get  
3 started. We'll just call the roll. I know that Mr. Jones  
4 and Mr. Slaton are in the back.

5 COMMITTEE SECRETARY BLACK: Richard Costigan?

6 CHAIRPERSON COSTIGAN: Here.

7 COMMITTEE SECRETARY BLACK: Theresa Taylor?

8 VICE CHAIRPERSON TAYLOR: Here.

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

11 ACTING BOARD MEMBER SAHA: Here.

12 COMMITTEE SECRETARY BLACK: J.J. Jelincic?

13 COMMITTEE MEMBER JELINCIC: Here.

14 COMMITTEE SECRETARY BLACK: Henry Jones?

15 CHAIRPERSON COSTIGAN: He's here but next.

16 COMMITTEE SECRETARY BLACK: Bill Slaton?

17 CHAIRPERSON COSTIGAN: He's also here. If you  
18 will please join us out here, please, gentleman.

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

21 ACTING COMMITTEE MEMBER PAQUIN: Here.

22 CHAIRPERSON COSTIGAN: Okay. Thank you. We have  
23 a quorum.

24 No, I'm not going to do that.

25 All right. Good afternoon. Thank you for being

1 here. Just a couple housekeeping items. We have a full  
2 agenda today. If you would like to speak today, please  
3 make sure you sign up in the back, because if I don't have  
4 the paper I might skip over, if you're wanting to make a  
5 public comment. So just make sure.

6 All right. First item, our new CFO. And I did  
7 like your comments yesterday about being new, but you've  
8 been here a while so welcome, Charles.

9 CHIEF FINANCIAL OFFICER ASUBONTEN: Thank you.  
10 Good afternoon --

11 CHAIRPERSON COSTIGAN: Make sure your microphone  
12 is on first, please.

13 CHIEF FINANCIAL OFFICER ASUBONTEN: Good  
14 afternoon, Mr. Chair and Committee Members. I'm Charles  
15 Asubonten, CalPERS team member.

16 Before we get started today, I wanted to provide  
17 you some updates from the last Board meeting. Trinity  
18 board decided not to make anymore payments with regards to  
19 termination costs. They intend to pay the employ -- the  
20 retirees affected directly. We have written a formal  
21 letter to them to document this position.

22 Niland is working with the County of Imperial.  
23 The board members met this week. We hope to resolve this  
24 and come to you to give you an update at the next Board  
25 meeting.

1           The first action item today will cover the draft  
2 fiscal year 2016-17 basic financial statements. We'll  
3 have Kristin Montgomery here to present with me. And  
4 afterwards, this will be Incorporated into the audited  
5 financial statements to be presented this afternoon to the  
6 Risk and Audit Committee.

7           Next Agenda Item 5b, Mr. Chairman, is a first  
8 reading of fiscal year 17-18 mid-year budget, which is the  
9 eighth formal budget process with a proposed decrease of a  
10 total budget of 1.6 billion with 2,875 positions.

11           The next action item before you today is a  
12 proposed regulation for employer actuarial liability  
13 increase. Our Chief Actuary, Scott Terando, and team will  
14 speak to this.

15           Agenda Item 7a, the legislative -- the State  
16 legislative proposal would seek approval of the Board to  
17 sponsor policy and technical changes to the Public  
18 Employees' Retirement Law.

19           Team members will also be presenting this  
20 afternoon the review of the actuarial assumptions which  
21 will include the preliminary experience study, and the  
22 recommendations for changes to the actuarial assumptions.

23           In conjunction with yesterday's ALM workshop,  
24 Item number 8b will have to -- will be first reading of  
25 the Amortization Policy proposing changes effective with

1 June 30, 2017 valuations.

2 In addition, the semi-annual health plan  
3 financial report as of June 30 of 2017 will be here. They  
4 will summarize the financial results for the HMO and PPO  
5 plans as well.

6 Last, but not least, we will present the  
7 enterprise risk and risk profiles to the Committee this  
8 afternoon.

9 The next Finance and Administration Committee  
10 meeting is scheduled for December 19, 2017 and would  
11 include the approval of the actuarial assumptions,  
12 quarterly review of reporting on participating employers,  
13 as well as the second readings of the 2017-18 mid-year  
14 budget revisions and Amortization Policy.

15 Mr. Chairman, that concludes my report, and at  
16 this time, I'm pleased to take questions.

17 CHAIRPERSON COSTIGAN: So any questions regarding  
18 the CFO report?

19 All right. Seeing none.

20 Ms. -- before we move to the consent items, is  
21 there anybody that would like to remove -- there you go.  
22 Would you push your microphone. Let me see.

23 Mr. Jelincic.

24 COMMITTEE MEMBER JELINCIC: Yeah, I actually have  
25 some problems with the minutes that we're going to

1 approve. And on page two of the minutes, it's under 5a,  
2 Trinity County Waterworks. It says come back in -- to  
3 come back in November with the confirmed benefit reduction  
4 amounts, and 5b for Niland it says the same thing. And I  
5 haven't seen the confirmed amounts.

6 CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.  
7 So why don't we work in reverse order. First, I guess  
8 we'll go with Trinity has said that they're not going to  
9 pay. That they're not going to make their obligations  
10 whole, is that correct?

11 CHIEF FINANCIAL OFFICER ASUBONTEN: That's  
12 correct. At this point, they have not been able to  
13 determine the course of action and that will be  
14 forthcoming at the next meeting.

15 CHAIRPERSON COSTIGAN: So thank you. We'll have  
16 Marlene join us.

17 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:  
18 Good afternoon. Marlene Timberlake D'Adamo,  
19 CalPERS team member. So at the September FAC meeting when  
20 we talked about Trinity and Niland, what we said was the  
21 bene -- the reduction amounts that we had presented at  
22 that time would stand, if, when we came back, we were not  
23 able to come -- if they were not able to provide  
24 additional payments to CalPERS.

25 So in terms of Trinity, if I recall correctly,

1 the benefit reduction was about 68.55 percent. And so  
2 that amount would stand, given the fact that they have  
3 told us that they will not be coming forth with additional  
4 payments to CalPERS.

5 COMMITTEE MEMBER JELINCIC: Okay.

6 CHAIRPERSON COSTIGAN: And then, Mr. Jelincic, as  
7 it relates to Niland, those numbers were also provided in  
8 September. They have asked for an additional 30 days,  
9 which would bring us to the December meeting, for them to  
10 come up with either their payment solution or acknowledge  
11 they're not going to pay. And at that point, the  
12 reductions that were provided in September will take  
13 effect along with the clawback --

14 CHIEF FINANCIAL OFFICER ASUBONTEN: That's  
15 correct.

16 CHAIRPERSON COSTIGAN: -- which will account for  
17 the additional 30 days. Does that answer your question?

18 COMMITTEE MEMBER JELINCIC: Okay. And so we --  
19 in the case of Niland, we will know exactly what those  
20 numbers are at the next meeting?

21 CHAIRPERSON COSTIGAN: Yes.

22 CHIEF FINANCIAL OFFICER ASUBONTEN: Yes.

23 CHAIRPERSON COSTIGAN: Because, I mean, we know  
24 what the numbers are. Please correct me if I'm wrong.  
25 There will be a slight increase because of the additional

1 time period, if there is a clawback.

2 CHIEF FINANCIAL OFFICER ASUBONTEN: That's  
3 correct. We know ballpark where we're at what it should  
4 be.

5 COMMITTEE MEMBER JELINCIC: And if they make  
6 partial payment, then we'll know what that is.

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:  
8 Then when we come back, we'll come back with the correct  
9 amount -- or the adjusted amount.

10 COMMITTEE MEMBER JELINCIC: Okay. Can I request  
11 that they actually specifically restate those next month?

12 CHAIRPERSON COSTIGAN: Oh, we're going to, yes.

13 COMMITTEE MEMBER JELINCIC: Okay.

14 CHAIRPERSON COSTIGAN: All right. Did you have  
15 any -- you had a couple other items on the -- go ahead and  
16 go through all your concerns on the consent item, please.

17 COMMITTEE MEMBER JELINCIC: Well, that was on the  
18 consent action item.

19 CHAIRPERSON COSTIGAN: Okay. All right.

20 VICE CHAIRPERSON TAYLOR: Move approval.

21 CHAIRPERSON COSTIGAN: So it's been moved by  
22 Taylor.

23 COMMITTEE MEMBER SLATON: Second.

24 CHAIRPERSON COSTIGAN: Seconded by Slaton

25 Any further discussion?

1 All those in favor?

2 (Ayes.)

3 CHAIRPERSON COSTIGAN: Opposed?

4 Motion carries.

5 All right, Mr. Jelincic. You have concerns on  
6 the informational consent items.

7 COMMITTEE MEMBER JELINCIC: On the informational  
8 consent items, the budget expenditure report, I'd like to  
9 pull it.

10 CHAIRPERSON COSTIGAN: Okay. We can go ahead and  
11 discuss it.

12 Your issue, sir?

13 COMMITTEE MEMBER JELINCIC: On this summary page,  
14 the first page of the -- first page of Item 4d, we've got  
15 the investment external management fees. They are coming  
16 down. But then we've got a footnote that says private  
17 equity savings have resulted in the 16-17 budget being  
18 approved prior to the identification of separation of  
19 fees. Can you explain what that means?

20 CHAIRPERSON COSTIGAN: Okay. This -- I just want  
21 to make sure we're all on the same page. You're  
22 referencing page 68 of 75, footnote 3?

23 COMMITTEE MEMBER JELINCIC: No, I'm actually on  
24 4d --

25 CHAIRPERSON COSTIGAN: Okay.

1 COMMITTEE MEMBER JELINCIC: -- the consent items,  
2 14 of the iPad, the very first page, and just --

3 CHIEF FINANCIAL OFFICER ASUBONTEN: We have  
4 Wylie.

5 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

6 Thank you for the question, Mr. Jelincic. Wylie  
7 Tollette CalPERS Investment Office.

8 When this original 16-17 budget was prepared, the  
9 numbers that were available, that was prior to the full  
10 implementation of the PEARS system. And as I believe the  
11 Finance and Administration Committee is aware, prior to  
12 the implementation of the PEARS system, the source  
13 documents we used for private equity expenses were  
14 actually the K-1 documents, the tax documents, that we  
15 receive from all of those partnerships.

16 Those K-1 documents blend fees, and partnership  
17 expenses, other costs, and a variety of other things on a  
18 tax basis, into one consolidated number.

19 That number was used in prior years in --  
20 specifically in 16-17 for the budget. Before the end of  
21 that fiscal year, we had implemented PEARS and had a much  
22 more capable way of disaggregating fees and other  
23 partnership expenses. And as a result, the actual  
24 expenditures for this reflect the actual fees paid.

25 COMMITTEE MEMBER JELINCIC: The K-1's that I've

1 seen actually break -- you know break out those different  
2 items. And if we've paid them, they're still an expense,  
3 so I'm not understanding why it's going down.

4 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

5 Well, this is a fee, not an expense, analogous  
6 to, for example, security guards in our office buildings,  
7 or window washing in our office buildings. So we don't  
8 regard those as fees. We call those expenses.

9 COMMITTEE MEMBER JELINCIC: If we are  
10 transferring from our pocket to the GP's pocket, it's a  
11 cost. It's a fee.

12 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

13 Actually technically, the only transfer that  
14 occurs is a capital commitment to a partnership. The fees  
15 are charged within that partnership and are deducted from  
16 the returns.

17 COMMITTEE MEMBER JELINCIC: I thank you for your  
18 integrity.

19 On page four of five, can you explain -- the  
20 private equity, can you explain the footnote, Footnote 1.

21 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

22 Yes. Similarly here on the actual expenditures  
23 for the year for management fees, they are the gross  
24 management fees net of waivers and net of offsets. And  
25 actually, next month we'll be disclosing our AB 2833

1 report, which actually details out both the gross fee, as  
2 well as any offsets and waivers that net against that  
3 gross fee. If you're interested in understanding the  
4 rolled up sort of detail that rolls up to that number, but  
5 that is the net fee.

6 COMMITTEE MEMBER JELINCIC: If it's the net fee,  
7 then I think the footnote is badly written, because it  
8 says it's the gross fee inclusive of, and you're telling  
9 me it's net exclusive of.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:  
11 (Nods head.)

12 COMMITTEE MEMBER JELINCIC: So okay. At least I  
13 understand what I'm looking at.

14 Thank you.

15 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:  
16 You bet.

17 CHAIRPERSON COSTIGAN: Mr. Jelincic, thank you  
18 for raising. I mean always take the constructive feedback  
19 on how these documents can be displayed better. So as you  
20 wind down your tenure on the Board, any suggestions would  
21 be greatly appreciated.

22 COMMITTEE MEMBER JELINCIC: There's going to be a  
23 whole bunch of people happy come January.

24 (Laughter.)

25 CHAIRPERSON COSTIGAN: Okay. Thank you, sir.

1 All right. We're going to move on to our first  
2 action item, which is going to be Item 5a. Ms.  
3 Montgomery, you might join us at the table.

4 There you are.

5 (Thereupon an overhead presentation was  
6 presented as follows.)

7 CHIEF FINANCIAL OFFICER ASUBONTEN: As mentioned,  
8 Agenda Item 5a is the annual review of the basic financial  
9 statements. In addition to the basic financial  
10 statements, we also included a draft comprehensive annual  
11 financial report for informational purposes. The draft  
12 CAFR includes investments actuary and statistical  
13 information as well.

14 Mr. Chairman, as you can appreciate, to  
15 facilitate this discussion, we pulled out some slides from  
16 the PowerPoint presentation from attachment 2 for our  
17 discussion today.

18 --o0o--

19 CHIEF FINANCIAL OFFICER ASUBONTEN: The first one  
20 you see is the changes in the net position for the  
21 year-ended June 30 of 2017. I want to point out the  
22 highlight there is the total increase of 27.8 billion. So  
23 we start the year at 298.7, and we have investment  
24 increases, contributions, and the like from members. We  
25 pay out about 21.4 billion, including our 1.3 of

1 administration, and investment expenses. And we end up  
2 with a net 27.8 net increase for a total of 326.5 billion  
3 for period ended June 30 of 2017.

4 --o0o--

5 CHIEF FINANCIAL OFFICER ASUBONTEN: The next  
6 slide -- to stay 6 slides -- 16 from the deck. This shows  
7 you the contributions and member payments. As you can  
8 see, the amount of investment earnings is to cover the  
9 difference -- decrease this year as part of the discount  
10 rate decision taken by this Board.

11 And if you look at it, you notice that 2016 the  
12 gap was about 5.2 billion. In 2017, it closes to 4.7  
13 billion, for about an increase of 500 million difference.

14 --o0o--

15 CHIEF FINANCIAL OFFICER ASUBONTEN: The next item  
16 is a ratio of the active-to-retired members. A long time  
17 ago in 2008, this was about 2.1 employees to a retired  
18 member. And you see -- you saw that number coming down as  
19 more people retired. It comes down to about 1.4 in 2014,  
20 2013 and 2014 as well. And then we see an increase in 1.6  
21 in 2015 and 2016. And now it's down to 1.5 in 2017. It  
22 makes you wonder if that is an inflection point, whether  
23 the changes in the retirement law, PEPRA and the like, or  
24 the economy is of having an effect.

25 And overall, that's something to -- for us to pay

1 attention to, as it shows how many active employees are  
2 supporting our retired employees.

3 With that, I will hand over to Kristin who will  
4 talk about financial modifications.

5 --o0o--

6 CONTROLLER MONTGOMERY: Thank you, Charles.  
7 Kristin Montgomery, CalPERS team member

8 We had just a couple of changes to our financial  
9 statements this year. The first item was our early  
10 implementation of GASB 84. This affected one of our  
11 funds, the replacement benefit fund. It is now considered  
12 a custodial fund. And it's reflected in the statement of  
13 changes and fiduciary net position for the first time.

14 --o0o--

15 CONTROLLER MONTGOMERY: The second thing that was  
16 changed was in regards to our private equity net  
17 management fees. We now reflect the private equity net  
18 management fees in the management and performance line  
19 item in the statement of changes and fiduciary net  
20 position.

21 The detail for all of our investment expenses is  
22 in the other supplementary information that details all of  
23 the management fees for all of the different investment  
24 asset classes along with all of the detailed investment  
25 expenses.

1           We also have reflected the profit sharing paid in  
2 the unaudited section. And in your package for the first  
3 year, we did put the CAFR for all of you to see. It's the  
4 draft CAFR, so for informational purposes.

5           This is an action item for the Committee. This  
6 concludes our presentation, and we're happy to take any  
7 questions.

8           CHAIRPERSON COSTIGAN: All right. You're going  
9 to have a few.

10          Mr. Jelincic.

11          COMMITTEE MEMBER JONES: Move approval.

12          CHAIRPERSON COSTIGAN: Move approval.

13          First of all, Kristin, excellent report. I know  
14 very lengthy, and so you're going to get some very  
15 specific questions from Mr. Jelincic.

16          (Laughter.)

17          COMMITTEE MEMBER JELINCIC: What makes you --

18          CHAIRPERSON COSTIGAN: I'll take the questions  
19 first, because I have your questions

20          COMMITTEE MEMBER JELINCIC: Oh. I didn't turn  
21 them back.

22          But let me start with the last slide you used,  
23 slide 12. The private equity profit sharing fees are  
24 reflected within the net appreciation. GASB, I, think  
25 it's 56 -- 68, paragraph 26 says, "Investment related

1 costs should be reported as an investment expense, if they  
2 are separable from the investment income, and B the  
3 administrative expenses".

4 Now, I acknowledge that it says it should be. It  
5 doesn't it must be, but if we're believing in  
6 transparency, we probably ought to do best practice.  
7 Since we clearly can identify those profit sharing fees  
8 and they are separable, and somehow the GP manages to move  
9 them from his -- from our pocket to his pocket, why are we  
10 not reporting it as investment expenses?

11 CHIEF FINANCIAL OFFICER ASUBONTEN: Let me take a  
12 crack at this first. I think, as you pointed out, that's  
13 GASB. And it's really something that we decide to do  
14 internally and to enhance transparency. And that's  
15 something, as I settle into the position, we'll look into  
16 providing more transparency.

17 So with regards to the GASB -- whether we meet  
18 this standard or not, I think what we provided certainly  
19 is even beyond the threshold. And we just have to look at  
20 this as a leadership team, in terms of how we address  
21 these issues going forward.

22 COMMITTEE MEMBER JELINCIC: And I acknowledge  
23 that it's better Disclosure that we've had in the past.  
24 But it's not just GASB, I mean CEM, which we hire as a  
25 consultant, because we value their opinion and -- talked

1 specifically about the disclosure and the fact that it  
2 really ought to be there.

3           And so we've paid them a lot of money to tell us  
4 we ought to do something, and then have chosen not to do  
5 it.

6           CHIEF FINANCIAL OFFICER ASUBONTEN: Point well  
7 taken.

8           COMMITTEE MEMBER JELINCIC: And maybe -- rather  
9 than go through the iPad, there were a couple of things I  
10 noted. And these are things that I had pointed out to  
11 you, so you undoubtedly have an answer.

12           On the Attachment 1, page 70, which is the  
13 investment expenses, we have K&L Gates for a billion four,  
14 and then on 50 -- on 73 of 75, we have K&L Gates as a  
15 minus six hundred and -- 573,000 for legal services. Can  
16 you help me reconcile those two?

17           CONTROLLER MONTGOMERY: Sure. No problem. What  
18 we do in the other supplementary information is we tie the  
19 investment expenses on the statement of change and  
20 fiduciary net position, so you'll see that we divide  
21 administrative expenses and investment expenses. So when  
22 you look at the K&L Gates and the investment expenses,  
23 it's really an investment-related expense.

24           For the K&L Gates that's a negative 573 is due  
25 to -- first of all, the reason why it's negative is due to

1 our accruals. So we do the best thing we can do to do an  
2 accrual from the prior year. Then when the expenses come  
3 in for the current year, it may not -- our accrual may  
4 have been off, which is the case with this one, so that's  
5 why it's negative, but it's part of the administrative  
6 expenses.

7 COMMITTEE MEMBER JELINCIC: So last year we  
8 expensed five -- \$600,000 too much on this?

9 CONTROLLER MONTGOMERY: That's correct.

10 COMMITTEE MEMBER JELINCIC: Okay. The management  
11 dis -- management discussion is not part of the audited  
12 statement, but it is part of the financial statement. And  
13 I just want to point to on page 11 that the Board had  
14 voted a funding discount rate of -- to move it from seven  
15 and a half to seven, which doesn't match our -- what  
16 our -- what we really expect the portfolio to produce.  
17 And that's creating a gap that is actually adding to the  
18 amortized unfunded liability, in fact, negatively  
19 amortizes it, because we didn't earn it. And so it really  
20 points to the difficulty between having a funding discount  
21 rate that doesn't reflect the portfolio.

22 That comment I'll let go, because it's been a  
23 long day, and it's going to be longer, and we'll let that  
24 one go. In the custodial fund, we have the replacement  
25 benefit fund. And I'm kind of curious why do we do that,

1 or should that be better left for the legislative issue?

2           CONTROLLER MONTGOMERY: I think that's better. I  
3 just report the financial statements.

4           COMMITTEE MEMBER JELINCIC: Okay. Just in terms  
5 of presentation, on page 21 of 75, we list -- it's  
6 actually goes across two pages. But we -- I think for  
7 presentation purposes, a -- even if it's just a  
8 notational, a PERF-only column would be helpful. So  
9 you've got PERF A, PERF B, PERF C and then the other funds  
10 and then a total. I just think that for presentation,  
11 PERF-only column would help people understand it.

12           CONTROLLER MONTGOMERY: We do that in the MDNA.  
13 We can't do it in the financial statements, because this  
14 is the audited piece, and that's some of the challenges.  
15 We contemplated that four years ago when we split the  
16 three. So that's why we show all of PERF in MDNA because  
17 they're the unaudited. So we sum it up there.

18           COMMITTEE MEMBER JELINCIC: Okay. But -- so the  
19 auditors will let you put in a memo column?

20           CONTROLLER MONTGOMERY: Well, I could put a memo.  
21 I could put a note down below. The challenge you have is  
22 when you put a total like for PERF A or PERF total, and  
23 then you look at the next page. You'll see a totals  
24 column for 2017, it won't foot acrossed. It's a financial  
25 reporting presentation issue.

1 COMMITTEE MEMBER JELINCIC: Yeah, I mean. I  
2 recognized it wouldn't foot across because a notational is  
3 just that, it's not there.

4 Okay. On 25 -- or 23 of 75, there's employer  
5 contributions direct - OPEB, employer contributions  
6 outside trust - OPEB. That's a new thing that we've --  
7 we're disclosing. Can you explain the two?

8 CONTROLLER MONTGOMERY: It's not a new thing.  
9 We've had this in our financial statements for as long as  
10 I've been doing this job.

11 COMMITTEE MEMBER JELINCIC: Okay. So it's not  
12 new. What's the difference?

13 CONTROLLER MONTGOMERY: Well, outside the trust  
14 is where the employers are actually giving contributions  
15 outside of the CERBT trust. So that's what it's referring  
16 to. They report that information into us, and we're  
17 splitting that information out from the employer  
18 contributions direct.

19 COMMITTEE MEMBER JELINCIC: Does it pass through  
20 us, or do they pay it directly or --

21 CONTROLLER MONTGOMERY: I might -- I'll have to  
22 get back to you on that. Unless, Andy, you want to --  
23 Andy, do you have the answer?

24 PENSION CONTRACT MANAGEMENT SERVICES DIVISION  
25 ASSISTANT CHIEF NGUYEN: Good afternoon. Andy Nguyen,

1 CalPERS team members. So for the OPEB plans, the  
2 employers will get credit for any of their -- the total  
3 payments that they pay toward their annual contributions.  
4 And so a lot of these agencies they actually pay their  
5 total retired payments outside the trust. They pay from  
6 the general fund, so they get credit for that. So that's  
7 why they have to report that amount on the financial  
8 report.

9 COMMITTEE MEMBER JELINCIC: Okay. So if we -- so  
10 we report it is an addition, and then I guess in the  
11 deductions, we -- it's essentially a pass-through. Those  
12 numbers should match.

13 PENSION CONTRACT MANAGEMENT SERVICES DIVISION  
14 ASSISTANT CHIEF NGUYEN: Yes, that's correct.

15 COMMITTEE MEMBER JELINCIC: Okay. Thank you.  
16 I'll let that one go.

17 The -- this is in the -- again, in the financial  
18 statements. Thirty-three, it's in the footnotes. If I  
19 remember right, it's Footnote B. But there again we say,  
20 it seems to me contradictory. We -- in the first  
21 paragraph under investment expenses, we say investment  
22 management and performance fees include all fees paid to  
23 the external managers for public and private markets.

24 The first sentence of the next paragraph says  
25 investment expenses do not include commissions, fees paid

1 to transact public securities and private equity profit  
2 sharing realized by the PERF. It just seems that there's  
3 a contradiction between those two.

4 And I've already asked the question why don't we  
5 report that? But there just seems to be a contradiction.  
6 Am I misreading something?

7 CONTROLLER MONTGOMERY: Again, the commissions  
8 and the private equity profit sharing we consider they're  
9 in the unaudited section. So they're in the net  
10 appreciation is what we're reflecting there and describing  
11 in this footnote to say what's in our management  
12 performance fee line item, what is in our investment --  
13 other expenses other investments, and then what's --  
14 what's not.

15 COMMITTEE MEMBER JELINCIC: Okay. The -- I won't  
16 repeat the same issue, but the same issue as there.

17 In 66 of 75, required supplemental, the  
18 actuarially -- B is at the top and we'll use it. The  
19 actuarially determined contribution, is that based on the  
20 715 that we say is the expected return of the portfolio or  
21 is that based on the 750 funding rate?

22 CONTROLLER MONTGOMERY: It is based on the  
23 funding. It's contractually required contributions is  
24 what GASB 67 requires in that disclosure.

25 COMMITTEE MEMBER JELINCIC: SO then it's -- so

1 it's actually the contractually required --

2           CONTROLLER MONTGOMERY: It's contractually  
3 required, yes.

4           COMMITTEE MEMBER JELINCIC: And you may want to  
5 think about the title, actuarially determined, if it's --

6           CONTROLLER MONTGOMERY: Well, we can certainly  
7 footnote it to say it's contractually required. It's  
8 really the disclosures per GASB.

9           COMMITTEE MEMBER JELINCIC: Okay. And as I had  
10 warned you, on 65, a Apollo Asian Opportunity Fund, a  
11 negative three billion -- \$3.6 billion.

12           CONTROLLER MONTGOMERY: Yes. This is similar to  
13 the accrual discussion. We had an adjustment from a prior  
14 year that went into this year. So it was incorrect last  
15 year, and therefore, it's incorrect this year. So the  
16 same type of thing with the accrual, there was an  
17 adjustment that the manager sent to us.

18           COMMITTEE MEMBER JELINCIC: Okay. And on six --  
19 the -- that actually raises the issue on the costs that we  
20 were reported at --

21           CONTROLLER MONTGOMERY: And again, it's the best  
22 that the managers are giving to us, especially on private  
23 equity.

24           COMMITTEE MEMBER JELINCIC: The -- and then on  
25 68, just the footnotes, particularly Footnote 3, I will

1 just call to it. The -- and, you know, as Wylie  
2 explained, last time we used the K-1's, which ended six  
3 months before the fiscal report, so we've got a six-month  
4 gap in fees there some place that probably ought to be  
5 noted, unless they rolled up in here.

6           CONTROLLER MONTGOMERY: Not anymore. These fees  
7 are actually coming from our PEARS system now. They are  
8 not coming from our K-1's.

9           COMMITTEE MEMBER JELINCIC: Okay.

10           CONTROLLER MONTGOMERY: So we get this from the  
11 ILPA templates and the information from our external  
12 managers. Again, as you've heard probably in Investment  
13 Committee, not all of them report. So we're doing the  
14 best we can to pull all the information and all the fees  
15 and reflect that.

16           COMMITTEE MEMBER JELINCIC: Okay. So -- but  
17 these fees represent the fees that we paid in the fiscal  
18 year?

19           CONTROLLER MONTGOMERY: No. They are coming from  
20 our financial statements. It's not paid. It's what has  
21 accrued in the financial statements.

22           COMMITTEE MEMBER JELINCIC: Okay. During the  
23 fiscal year?

24           CONTROLLER MONTGOMERY: During the fiscal year,  
25 yes.

1 COMMITTEE MEMBER JELINCIC: Okay, which started  
2 in June of '16?

3 CONTROLLER MONTGOMERY: July 1st.

4 COMMITTEE MEMBER JELINCIC: Or July 1st. Except  
5 that when we did the report last time, we used the K-1's,  
6 which ended December, and so there's a six-month gap for  
7 those fees.

8 CONTROLLER MONTGOMERY: We actually last year  
9 used the PEARS system also last year. But again, because  
10 they were not in the audited section, we put them in the  
11 unaudited due to the concern of that three-month window  
12 that we didn't have. But we're able to put it in the  
13 audited this year, because we had a full year.

14 COMMITTEE MEMBER JELINCIC: I'd really like to  
15 see the offsets put in the audited as well.

16 That's --

17 CHAIRPERSON COSTIGAN: Is that it, Mr. Jelincic?

18 COMMITTEE MEMBER JELINCIC: I -- yeah, there's  
19 just some extraordinary numbers, but at least I understand  
20 what they are. Let me -- yes, I'm through with my  
21 questions.

22 CHAIRPERSON COSTIGAN: All right. Thank you, Mr.  
23 Jelincic.

24 Ms. Montgomery, thank you again. I appreciate --  
25 and Mr. Jelincic raises some good questions as to

1 continuing to get more of the data out there. But at  
2 least I note, and I am comfortable with the information  
3 that's been provided is what we have is current and is in  
4 our possession. And I know that Mr. Jones, and Investment  
5 staff will continue to try to get the private equity folks  
6 to get more timely information to us. So we appreciate  
7 that.

8 It has been moved by Mr. Jones.

9 COMMITTEE MEMBER JELINCIC: And Charles will too.

10 CHAIRPERSON COSTIGAN: And Charles will as well,  
11 our new CFO.

12 It's been moved by Jones.

13 Seconded by?

14 VICE CHAIRPERSON TAYLOR: (Hand raised.)

15 CHAIRPERSON COSTIGAN: Taylor.

16 Any further discussion?

17 Seeing none.

18 All those in favor?

19 (Ayes.)

20 CHAIRPERSON COSTIGAN: Opposed?

21 Motion carries.

22 All right. Thank you, Ms. Montgomery.

23 CHIEF FINANCIAL OFFICER ASUBONTEN: Thank you.

24 CHAIRPERSON COSTIGAN: Charles, next item.

25 5b.

1 (Thereupon an overhead presentation was  
2 Presented as follows.)

3 CHIEF FINANCIAL OFFICER ASUBONTEN: Mr. Chairman,  
4 moving on 2017 mid-year budget.

5 As you will see from the next slide --

6 --o0o--

7 CHIEF FINANCIAL OFFICER ASUBONTEN: -- overall  
8 we're showing an improvement of 600,000 for the year.  
9 We -- there's a six million reduction in operating costs.  
10 And this is as a result of about 7.5 million reduction due  
11 to vacancies adjusted by statewide salary increase of --  
12 and benefits for about 1.5 million, offset by six million  
13 savings in projects for a total of 6.6 million, as you  
14 will see in the middle column called mid-year adjustment.

15 These are all offset by third-party  
16 administrative fees, health care program for about 5.4  
17 million, and long-term care for 600,000, and a total of  
18 six million. So like I said before, if we offset, the six  
19 million good news against the addition 6.6, we're  
20 proposing still almost 1.7 billion for the mid-year budget  
21 with about a 0.03 percent reduction.

22 CHAIRPERSON COSTIGAN: Okay. We have a couple of  
23 questions. We're going to start with Mr. Gillihan first.

24 BOARD MEMBER GILLIHAN: Thank you, Mr. Chair.

25 With regard to the action that's before the

1 Committee today, on the mid-year budget, I know there's  
2 been some concerns raised by the Department of Finance  
3 relative to some of the components of this. And so I'm  
4 not asking the Committee to delay action, but I am asking  
5 the Chair to direct staff to work with the Department of  
6 Finance between this and the second reading to make sure  
7 that everybody is on the same page.

8 CHAIRPERSON COSTIGAN: Correct.

9 CHIEF FINANCIAL OFFICER ASUBONTEN: Mr. Chair,  
10 through you, point well noted. I'm aware of this issue.

11 CHAIRPERSON COSTIGAN: Okay. And so as Mr. --  
12 Mr. Jelincic, do you have a question on this item?

13 COMMITTEE MEMBER JELINCIC: Well, yeah, I have a  
14 question on this item, but I also have a question on  
15 Richard's point. Can you give us at least an idea of what  
16 the issue is?

17 CHAIRPERSON COSTIGAN: Can you push your button?

18 Hang on a second.

19 Mr. Gillihan.

20 BOARD MEMBER GILLIHAN: I think it has to do with  
21 the nature of the proposed amendments to the HCF and the  
22 CRF.

23 COMMITTEE MEMBER JELINCIC: Oh. Okay.

24 CHAIRPERSON COSTIGAN: Thank you.

25 Mr. Jelincic, anything else, sir?

1           COMMITTEE MEMBER JELINCIC: Yes. On Attachment  
2 1, four of eight, an increase of 1.5 million for technical  
3 statewide salary increases. What -- what does that mean?  
4 And what's throwing me is the word "technical". I mean,  
5 if it was just -- if it just said the salary increases, I  
6 would understand it, but...

7           CHIEF FINANCIAL OFFICER ASUBONTEN: I think it's  
8 exactly the salary increases.

9           COMMITTEE MEMBER JELINCIC: Okay. So technical  
10 is --

11           CHIEF FINANCIAL OFFICER ASUBONTEN: I think it  
12 was probably in the case of mandated, I believe it's a  
13 three or four percent statewide increase.

14           COMMITTEE MEMBER JELINCIC: Okay. The -- and I  
15 note -- on page six, I noticed the cost of the runoff  
16 election is being pointed to, and being absorbed. We had  
17 a \$1.9 million increase to the Controller for check  
18 writing, I assume that we have negotiated that hard and --

19           CHAIRPERSON COSTIGAN: Yes, that issue has been  
20 resolved, unless -- hang on a second.

21           CHIEF FINANCIAL OFFICER ASUBONTEN: Yeah, again  
22 that's an issue that we have to look into, sir.

23           CHAIRPERSON COSTIGAN: Hang on, Charles. Let's  
24 hear from the Controller's office. Ms. Paquin.

25           ACTING COMMITTEE MEMBER PAQUIN: Thank you. It's

1 our understanding, our folks went back and took a look at  
2 this, and that it actually was reduced last year. The  
3 cost was about 6.9 million, and that was primarily due to  
4 the increase of automation. So we're wondering why it was  
5 characterized as an increase in this budget?

6 CHIEF FINANCIAL OFFICER ASUBONTEN: Yeah, again,  
7 this issue was brought up, Mr. Chair, yesterday. And  
8 certainly, that's one of the things we're going to -- we  
9 are looking into. So hopefully, the next Board meeting  
10 we'll be able to give you an update for the final -- for  
11 the second reading.

12 CHAIRPERSON COSTIGAN: Okay. Ms. Paquin, is that  
13 acceptable?

14 ACTING COMMITTEE MEMBER PAQUIN: That's fine.  
15 Thank you.

16 CHAIRPERSON COSTIGAN: Mr. Jelincic.

17 COMMITTEE MEMBER JELINCIC: That's fine.

18 CHAIRPERSON COSTIGAN: Ms. Taylor.

19 VICE CHAIRPERSON TAYLOR: Yes. Thank you, Mr.  
20 Chair. I just wanted to -- it looked to me like the  
21 decreases are coming from positions that you're not  
22 refilling, is that a correct understanding, or a lot of  
23 the decreases are?

24 CHIEF FINANCIAL OFFICER ASUBONTEN: Yes, Mr.  
25 Chair through you, that's a fair statement. Yeah, that's

1 a good number of 7.5 million is due to that.

2 VICE CHAIRPERSON TAYLOR: So, yeah, that's a lot.

3 So I just want to make sure, as we go through the  
4 readings of this, that we're not putting our reduction of  
5 our budget ahead of quality service to our members, and  
6 that our members who are also our employees are not being  
7 overworked.

8 So I just want to make sure that that's kept in  
9 mind as we go through this process of whittling down our  
10 budget.

11 CHIEF FINANCIAL OFFICER ASUBONTEN: Absolutely.  
12 Mr. Chair, through you, that's something that we'll look  
13 into. That was my first inkling when I saw the savings  
14 from vacancies. Usually, that's not where you get your  
15 savings from. So we will look into it and make sure that  
16 quality is not sacrificed.

17 VICE CHAIRPERSON TAYLOR: Thank you.

18 CHAIRPERSON COSTIGAN: All right. So just -- so  
19 two quick items on Committee direction. You're going to  
20 work with the Department of Finance on the concerns raised  
21 by Mr. Gillihan, as related to the expenditures for both  
22 HCF and CRF.

23 CHIEF FINANCIAL OFFICER ASUBONTEN: Yes.

24 CHAIRPERSON COSTIGAN: Bring that back as part --  
25 for the December meeting. And you're going to work with

1 the Controller's office to make sure that we have the  
2 number properly identified as to what the costs were. And  
3 if you have any issues, you will let Ms. Paquin know, and  
4 Mr. Gillihan, so we can facilitate that sooner rather than  
5 later.

6 I know we didn't get much into the vacancy issues  
7 today. That was a little bit of what we discussed Monday.  
8 It seems so long ago with Investment Office and some other  
9 issues. And I know that's something that Tina and her  
10 staff and Wylie and Ted are working on. I've always  
11 raised concerns about using vacancies, the salary savings.  
12 It's just little pet peeves. Although Finance and CalHR  
13 changed its process a couple years ago on that.

14 But it is something that as you as the new CFO  
15 that this Committee has taken an interest in is, is we  
16 don't like to see the long-term budget savings as a result  
17 of vacancies. And if we start noticing more. I think at  
18 one point we were running about six percent vacancy across  
19 the entire organization with some departments having  
20 double digit vacancies.

21 It is something that as we bring forth next  
22 year's budget, we're going to have more discussion on. So  
23 just a -- and I told you I wouldn't ask you about the  
24 blanket, but I will ask you next you about the blanket.

25 I understand we're whittling that down.

1 Mr. Jelincic.

2 COMMITTEE MEMBER JELINCIC: I am confused on what  
3 we're actually being asked to vote on. The agenda item is  
4 labeled as a first reading. The recommendation is to  
5 approve it, and to transmit it to the legislature, so...

6 CHAIRPERSON COSTIGAN: It's just -- it's the  
7 mid-year budget. We're not --

8 COMMITTEE MEMBER JELINCIC: Okay.

9 CHAIRPERSON COSTIGAN: We're just adopting the  
10 mid-year. And just going to give the update. The  
11 transmittal is is the administration -- because this is  
12 one of the reasons that we're having them work through the  
13 Department of Finance objections, is as they're building  
14 their budget for 18-19, that's due in January, they've got  
15 to have this information from us.

16 COMMITTEE MEMBER JELINCIC: Okay.

17 CHAIRPERSON COSTIGAN: So this is just -- and  
18 that's why we're not going into the normal level of detail  
19 we would on both blankets and vacancies. And we've raised  
20 some other concerns. I mean, good point, Charles, I'm not  
21 sure we got that right, just for us to get to Finance.

22 CHIEF FINANCIAL OFFICER ASUBONTEN: Yes, sir.

23 COMMITTEE MEMBER JELINCIC: So is this a first  
24 reading or is it an adoption of the budget?

25 CHAIRPERSON COSTIGAN: It's an action item to

1 adopt the mid-year. It's not a first reading -- well --

2 CHIEF FINANCIAL OFFICER ASUBONTEN: It's a first  
3 reading.

4 CHAIRPERSON COSTIGAN: It's a first reading today  
5 with them coming back in December for us to take the final  
6 action.

7 COMMITTEE MEMBER JELINCIC: Okay. And so if it's  
8 a first reading, then we're not really adopting it, but  
9 are we going to transmit it to the legislature, even  
10 though it's a first reading? I mean, I'm just trying to  
11 understand what we're doing.

12 CHAIRPERSON COSTIGAN: That's actually a good  
13 point.

14 Well, if you are actually just read the  
15 transmittal letter, it is just adopt it as a first  
16 reading, not as a second item.

17 COMMITTEE MEMBER JELINCIC: Okay.

18 CHAIRPERSON COSTIGAN: Now, I will actually defer  
19 this is something I don't know as well as potentially Mr.  
20 Gillihan. Okay. Never mind. And I don't think we have  
21 anybody from Finance. Marcie?

22 Okay. Never mind.

23 Actually, I don't have anybody from Finance here.

24 CHIEF EXECUTIVE OFFICER FROST: So we'll correct  
25 the agenda item. It is a first reading. It will not go

1 to the legislature until after approved --

2 CHAIRPERSON COSTIGAN: In December.

3 CHIEF EXECUTIVE OFFICER FROST: -- on second  
4 reading.

5 COMMITTEE MEMBER JELINCIC: In December Okay.

6 CHAIRPERSON COSTIGAN: Because there's no one to  
7 transmit to you right now. They're not in.

8 Thank you, Charles.

9 CHIEF FINANCIAL OFFICER ASUBONTEN: Thank you.

10 CHAIRPERSON COSTIGAN: J.J., anything else?

11 COMMITTEE MEMBER JONES: No, thank you.

12 CHAIRPERSON COSTIGAN: Mr. Jones.

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

15 Just on this vacancy issue, I think about three  
16 years ago I suggested that we add a line that -- to  
17 recognize the vacancies in the budget, because if you  
18 don't recognize that vacancy factor, what you're doing is  
19 having a budget that doesn't reflect the appropriate  
20 expenditures, because every year you build a budget on the  
21 assumption that all positions will be filled. And then at  
22 the year, we know for a fact that never happens in any  
23 institution. And, so therefore your expenditures are  
24 going to be far less than your budgeted amount.

25 So the factor was to identify what they

1 anticipate the vacancy is going to be. But it's not a  
2 planned vacancy. It's just that they happened to occur.  
3 And therefore when you look at your actual expenditures  
4 it -- when you look at your actual expenditures, then it's  
5 different from the budgeted amount, and reflects more the  
6 cost of your operation.

7 CHAIRPERSON COSTIGAN: Mr. Jones, you raise  
8 excellent points in that discussion. There have been a  
9 couple cases in the past where we've approved additional  
10 PYs, and the PYs were not filled a year later. And then  
11 for them to be brought back to the Committee.

12 And I get the ebb and flow of it. But when we  
13 increase the overall size, and yet still have the vacancy,  
14 so you're absolutely right. It had just been in the past,  
15 the State had adopted, and actually Mr. Gillihan may be  
16 able to talk to this.

17 BOARD MEMBER GILLIHAN: With the risk of speaking  
18 for staff, I think what they're doing here is they're just  
19 acknowledging the vacancies they've had year to date, and  
20 the associated salary savings with them, and showing them  
21 at the mid-year budget point. I don't think the intent is  
22 to eliminate those positions, or forever achieve savings,  
23 so -- but I'll defer to Ms. Frost.

24 CHAIRPERSON COSTIGAN: Ms. Frost.

25 CHIEF EXECUTIVE OFFICER FROST: Thank you, Mr.

1 Chair. So to respond to Mr. Jones's question, we do have  
2 a vacancy rate assumption that's built into the budget.  
3 I'm not sure exactly what that number is. It's between on  
4 three and five percent. And so we manage vacancies  
5 according to that assumption.

6 The reason that we have a higher level of  
7 vacancies being reported in the mid-year budget is that we  
8 are implementing the enterprise pooling concept, that I've  
9 talked with some of you about, or have talked with the  
10 Board about. And so we've taken a bit of a pause. What  
11 we're saying is we're not autofilling every position.  
12 We're looking at positions to determine whether they're  
13 needed in their current capacity, or whether they're  
14 needed somewhere else in the organization.

15 It's a way that we can recalibrate our positions,  
16 if necessary. So we have taken a pause on filling every  
17 vacancy as it comes up, as we're implementing a process  
18 where other people or other executives can make a bid for  
19 that open position.

20 So the effect of that is we have a larger number  
21 of vacancies as we're working through the enterprise  
22 pooling and the bid process.

23 CHAIRPERSON COSTIGAN: Mr. Jelincic.

24 Mr. Jones, does that answer your questions?

25 COMMITTEE MEMBER JONES: Yeah. No, that's fine.

1 I just -- I just -- you know there's two components to it  
2 and so I certainly understand the process and -- to look  
3 at vacancies and determine where they can be best used in  
4 the organization. But I think at the end of the day, once  
5 you go through that process, you're still going to have  
6 some vacancies throughout the organization with 2,800  
7 people. And I don't think we should just not recognize  
8 that in the budget process.

9 CHAIRPERSON COSTIGAN: Okay.

10 CHIEF EXECUTIVE OFFICER FROST: Mr. Chair, if I  
11 could make one more comment?

12 CHAIRPERSON COSTIGAN: Ms. Frost.

13 CHIEF EXECUTIVE OFFICER FROST: The other purpose  
14 of the position pooling is to do further removal of the  
15 blanket positions, which we've had a considerable decrease  
16 over the last year, and we can --

17 CHAIRPERSON COSTIGAN: Yes, I believe we're down  
18 to below 40 --

19 CHIEF EXECUTIVE OFFICER FROST: Yes, we are.

20 CHAIRPERSON COSTIGAN: -- in the blanket?

21 CHIEF EXECUTIVE OFFICER FROST: Yes.

22 CHAIRPERSON COSTIGAN: And I think when we  
23 started this exercise, we had over 300?

24 CHIEF EXECUTIVE OFFICER FROST: Yes. So we'll  
25 bring Committee direction -- perhaps bring that -- those

1 numbers back, so we can show you the work that's been  
2 happening.

3 CHAIRPERSON COSTIGAN: And that's been again  
4 great work for bringing that down. It goes back to the  
5 accountability and transparency for accounting for those  
6 positions.

7 All right. Charles, you had two Committee  
8 direction items on this item. Make sure you have them.

9 Any further discussion?

10 Mr. Juarez.

11 ACTING COMMITTEE MEMBER JUAREZ: Yeah, just --

12 CHAIRPERSON COSTIGAN: Hang on a second, sir.

13 ACTING COMMITTEE MEMBER JUAREZ: -- I'm going to  
14 force Marcie to get back up. But very briefly -- give you  
15 your exercise here -- just -- you said something that I  
16 want to make sure I understand. You said that you -- the  
17 budget reflects a certain expectation about vacancies. I  
18 assume we're not budgeting for those vacancies?

19 CHIEF EXECUTIVE OFFICER FROST: Correct. It's  
20 assume -- it's assuming a three to five percent vacancy.

21 ACTING COMMITTEE MEMBER JUAREZ: Okay. So that's  
22 -- and that's sort of X'd out the --

23 CHIEF EXECUTIVE OFFICER FROST: It's taken off.  
24 Right.

25 ACTING COMMITTEE MEMBER JUAREZ: -- the bottom

1 line?

2 CHIEF EXECUTIVE OFFICER FROST: Right. Right.

3 ACTING COMMITTEE MEMBER JUAREZ: Okay. Thank  
4 you.

5 CHIEF EXECUTIVE OFFICER FROST: Um-hmm.

6 CHAIRPERSON COSTIGAN: All right. This is a  
7 first reading action item. Seeing no further questions.

8 VICE CHAIRPERSON TAYLOR: So moved.

9 COMMITTEE MEMBER JELINCIC: Second.

10 CHAIRPERSON COSTIGAN: It's been moved by Taylor,  
11 seconded by Jelincic.

12 Any further discussion?

13 Hearing none.

14 All in favor?

15 (Ayes.)

16 CHAIRPERSON COSTIGAN: Opposed?

17 Motion carries. Thank you.

18 CHIEF FINANCIAL OFFICER ASUBONTEN: Thank you.

19 CHAIRPERSON COSTIGAN: All right. Next item is

20 5c -- No.

21 VICE CHAIRPERSON TAYLOR: No, 6a.

22 CHAIRPERSON COSTIGAN: 6a. Sorry. Actuarial  
23 Reporting. Just make -- crossing my notes off here.

24 Welcome, Scott.

25 CHIEF ACTUARY TERANDO: Good afternoon, Mr.

1 Chair, members of the Committee. Scott Terando Chief  
2 Actuary. This item is to go over the proposed regulations  
3 for the employer actuarial liability significant increase.

4 Back when PEPRA was passed in 2012, there was a  
5 section of the code that talked about requiring a rate  
6 increase for particular employers when one employee would  
7 move from one public agency to another. And there was a  
8 large increase in salary, which due to the reciprocity  
9 would create a excessive liability for the original  
10 employer.

11 So these regs here today go over what we propose  
12 in terms of how we anticipate establishing that liability,  
13 and how we are planning on going about implementing it.

14 Joining me today is Deputy Chief Actuary Randy  
15 Dziubek who will go over the regs today.

16 DEPUTY CHIEF ACTUARY DZIUBEK: Thank you, Scott.  
17 Good afternoon.

18 So as Scott said, this code section was  
19 implemented when PEPRA came into effect. As our internal  
20 team has been looking into administrative rules for  
21 implementing these rules, we've encountered a number of  
22 changes along the way -- challenges, I should say. Sorry.  
23 And we want to discuss those with you today, talk to you  
24 about what our decisions were, and why. And as we'll  
25 discuss we've come to the conclusion that the best

1 approach is to pursue formal regulations that will help us  
2 facilitate the implementation of these rules.

3 --o0o--

4 DEPUTY CHIEF ACTUARY DZIUBEK: Okay. So as Scott  
5 said from a high level, these rules apply when a member  
6 works at multiple CalPERS agencies. And along the way,  
7 moves from one employer to another, receives a large pay  
8 increase, which then results in a large liability increase  
9 for a previous employer.

10 That's the way the rules work. We don't believe  
11 that this code section is intending to undue that, in any  
12 way. Rather, it's intended to catch more extreme  
13 situations where the pay increases are large, the  
14 increases in liability are large.

15 And when those conditions are met, the rules have  
16 the actuary assess that increase in liability, and through  
17 some methodology assess that to the agency that caused the  
18 increase and provide relief to the impacted agency.

19 One important thing to keep in mind is regardless  
20 of how this is implemented, it only affects costs among  
21 the agencies. It does not affect actual benefit amounts  
22 of any of the members that would be involved.

23 CHAIRPERSON COSTIGAN: So let's kind of slow it  
24 down a little bit.

25 DEPUTY CHIEF ACTUARY DZIUBEK: Sure.

1           CHAIRPERSON COSTIGAN: Because I know this came  
2 up yesterday. So not everybody may understand what we're  
3 talking about with the Government Code here.

4           You're talking about someone that may have  
5 potentially started their career in the State, gone to  
6 work for a local agency, and received a significant pay  
7 increase, spent their time there, and then either came  
8 back to the State or retired. And part of this question  
9 is how are we dividing up that liability accrual, because  
10 at least from what I remember hearing yesterday is we had  
11 one example from a city that the employee -- and I can't  
12 remember which we went -- but they were stuck with the  
13 liability increase, even though they hadn't give the pay  
14 increase or the significant salary increase to the  
15 employee.

16           It was from the State.

17           VICE CHAIRPERSON TAYLOR: Yeah, so it was the  
18 City of Bell.

19           CHAIRPERSON COSTIGAN: The City of Bell. And  
20 so -- so, let's maybe before we get into this, just give  
21 more of an example of what we're talking about.

22           DEPUTY CHIEF ACTUARY DZIUBEK: Sure.

23           CHAIRPERSON COSTIGAN: Just very basic. So we're  
24 talking about some who began their service, because this  
25 is not about benefits. Let's make that clear. We're not

1 talking about reducing anybody's benefit here.

2 DEPUTY CHIEF ACTUARY DZIUBEK: That's correct.  
3 Right. So under the current laws, the way our system  
4 operates, when folks work for multiple agencies, is there  
5 final total benefit will be based on their total service,  
6 and their highest pay, no matter which agency that pay  
7 occurred at.

8 And then each agency where that member has  
9 service bears responsibility for a portion of that  
10 person's total benefit, based on the service that was  
11 earned with that agency.

12 So if a member moves from one agency to another  
13 and receives a large pay increase, that pay increase  
14 applies back to the liability that's being held by the  
15 first agency with regard to the service earned there.

16 So an agency can experience a significant  
17 increase in their liability as a result of a pay increase  
18 somewhere else that they're not expecting.

19 And that's just the normal operation of how  
20 things work in CalPERS. And for the most part, that will  
21 continue. We believe the intent of these rules is to  
22 identify more extreme situations, and in those cases  
23 provide relief to the previous employer.

24 CHAIRPERSON COSTIGAN: Ms. Taylor.

25 VICE CHAIRPERSON TAYLOR: So I just want to make

1 sure I'm understanding and we clarity for our members  
2 here. What you're talking about is currently it's  
3 proportioned by years of service with each agency, is that  
4 correct?

5 DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

6 VICE CHAIRPERSON TAYLOR: So, for example, in  
7 that -- in the example we had yesterday, the person spent  
8 more time, it seemed like, at their public agency, and  
9 then came to the State of California with a significant  
10 raise, spent another 10 years I believe there, and the  
11 significant portion of that significant raise was then  
12 apportioned to whatever city it was, the City of Bell, I  
13 think we said.

14 CHAIRPERSON COSTIGAN: Bishop.

15 VICE CHAIRPERSON TAYLOR Bishop.

16 Benicia?

17 CHAIRPERSON COSTIGAN: Benicia.

18 VICE CHAIRPERSON TAYLOR: Benicia, I'm sorry.

19 CHAIRPERSON COSTIGAN: Too many B's.

20 VICE CHAIRPERSON TAYLOR: Right. So is that the  
21 case -- so that's -- it was done by percentage of time in  
22 the agency, is that correct?

23 CHAIRPERSON COSTIGAN: So what we're doing is if  
24 you made \$50,000 for five years with a local government  
25 and then came to work for the State and were making 80,000

1 for five years, so you had a 10-year period, you highest  
2 12 is \$80,000. The five years that you worked for that  
3 local agency would be apportioned of the \$80,000?

4 SENIOR PENSION ACTUARY DZIUBEK: Yes.

5 CHAIRPERSON COSTIGAN: Okay. And --

6 VICE CHAIRPERSON TAYLOR: Got it.

7 CHAIRPERSON COSTIGAN: Go ahead. Sorry.

8 DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, but I do  
9 want to clarify, because in the examples you've given,  
10 you're including the State as one of the entities  
11 involved. Now, our team's interpretation of these rules  
12 is that it affects only public agencies. They use that  
13 term, which is also defined. We believe it excludes the  
14 State and the schools populations.

15 But, yes, so we're talking about multiple public  
16 agencies within CalPERS. The current approach is that  
17 each agency pays a benefit based on the service earned  
18 with them, but based on the highest pay earned wherever it  
19 was earned during the persons' career.

20 And what this -- what these rules are asking us  
21 to do is identify extreme situations of liability  
22 increase, and somehow redistribute the cost between the  
23 employers.

24 CHAIRPERSON COSTIGAN: So when you talk -- well,  
25 after we have some more questions, and then i'll come

1 back.

2 Mr. Jones.

3 COMMITTEE MEMBER JONES: Yeah, thank you, Mr.  
4 Chair. Yeah, this is -- it was also discussed this  
5 morning in health. It came up. Ms. Taylor referenced it.  
6 I indicated I had seen it here for the Finance Committee.  
7 And I think you have a really simple example of how that  
8 switch occurs in your material on page nine of nine on  
9 your Attachment 2, that shows what happen -- the effect of  
10 this new policy, where you're switching the costs between  
11 two agencies, is that correct?

12 DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, we thought  
13 it was important to show you at least one example. And  
14 this is a real case situation that we identified. It's  
15 hard to understand what this means to agencies without  
16 seeing some numbers. I appreciate you saying it's a  
17 simple example.

18 We'll see if everyone else agrees as we go  
19 through it. If the Board would like me to jump to that  
20 now, I can, or --

21 CHAIRPERSON COSTIGAN: Let me just see if there  
22 are other questions real quick.

23 COMMITTEE MEMBER JONES: No, that's okay.

24 CHAIRPERSON COSTIGAN: Mr. Slaton.

25 COMMITTEE MEMBER SLATON: Well, maybe I want you

1 to go through the example first, because I'm still trying  
2 to wrap my head around -- I guess the theory of this is  
3 that every employer has situations that occur. They may  
4 be on the winning end or the losing end. So when you  
5 average it out, other than the extreme cases, that's the  
6 theory.

7 In practice, it may or may not work out that way,  
8 and particularly to small rural cities versus big cities.  
9 And I think there's where it can be skewed, particularly  
10 in safety, can be skewed quite a bit.

11 DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

12 COMMITTEE MEMBER SLATON: But I'd like to see you  
13 go through the example first, then I may have more  
14 questions.

15 CHAIRPERSON COSTIGAN: Mr. Jelincic, anything  
16 before the --

17 COMMITTEE MEMBER JELINCIC: Yeah, I -- you  
18 actually kind of threw a curve that was only public  
19 agencies. But the -- having spent time doing bargaining,  
20 I will tell you that it's more likely that somebody is  
21 going to leave the State and get a big increases by going  
22 to a public agency, than the other way around.

23 You know, we don't pay department heads or Agency  
24 Secretaries what city managers make, so -- and then I have  
25 questions about the proposed criteria, but I will wait and

1 get --

2 CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.

3 COMMITTEE MEMBER JELINCIC: -- till that fits  
4 more logically in the discussion.

5 CHAIRPERSON COSTIGAN: Okay. So let's go through  
6 the examples.

7 DEPUTY CHIEF ACTUARY DZIUBEK: Let's go to the  
8 examples, sure.

9 --o0o--

10 DEPUTY CHIEF ACTUARY DZIUBEK: The clicker seems  
11 to be working much better than yesterday, fortunately.

12 So starting on slide 7, we -- and again, this is  
13 an actual member that we identified. This person worked  
14 at two different employers. We'll call them Employer A  
15 and Employer B. Their highest pay at Employer A was  
16 \$49,284. At Employer B it was \$152,755. Their final  
17 compensation was determined to be \$152,559, which will be  
18 used to determine their total benefit based on their  
19 combined service between the two employers, which is  
20 14.407 at Employer A, and 11.076 at Employer B.

21 The benefit multiplier is 2.7 in both cases. And  
22 under the normal rules that CalPERS is subject to,  
23 Employer A would have been liable for a benefit of \$59,344  
24 per year, and Employer B, \$45,623. And that's -- for both  
25 cases, it's simply the final compensation of \$152,559



1           DEPUTY CHIEF ACTUARY DZIUBEK:  And there is  
2 rationale for all of these thresholds, which perhaps we  
3 can speak to together, because they are related, but let  
4 me get through the example first.

5           So given that the compensation tests have been  
6 satisfied, we now move to the liability test, which is the  
7 final test.  And in order to compute how much the person's  
8 accrued liability increased for Employer A, we identify  
9 the compensation in excess of what Employer A would have  
10 normally expected, based on our normal pay increase  
11 assumptions used for valuation purposes.

12           COMMITTEE MEMBER JELINCIC:  Is it three percent.

13           DEPUTY CHIEF ACTUARY DZIUBEK:  I'm sorry?

14           COMMITTEE MEMBER JELINCIC:  When you say normal  
15 assumptions, you're talking about normal three percent?

16           DEPUTY CHIEF ACTUARY DZIUBEK:  Well, three  
17 percent is our overall payroll growth assumption, but an  
18 individual would be expected to generally earn more per  
19 year because there's merit and seniority increases built  
20 into that.

21           So for this test we're using a five percent kind  
22 of blended total increase of what Employer A would have  
23 expected that person would have earned per year going to  
24 Employer B.

25           So if we look at what the expected pay would have

1 been versus the actual pay from Employer B, the difference  
2 was \$67,957. And then we just look at what the  
3 corresponding benefit would be based on that extra  
4 compensation, let's call it. And that was \$26,433. And  
5 that's just again the multiplier, times the service from  
6 Employer A, times the excess compensation.

7           And that has a corresponding actuarial liability  
8 of about \$362,000. And our third test that has to be  
9 satisfied is that the increase in liability has to be at  
10 least \$25,000 per year of service at the first employer.  
11 So we divide \$362,000 by the 14 years in Employer A. Then  
12 we get an average of \$25,136, which is in excess of our  
13 \$25,000.

14           So in this case all three tests are met, which is  
15 required for us to make our adjustment, and we're going to  
16 move \$26,433 of this member's benefit from Employer A to  
17 Employer B. It will show up as a liability loss for  
18 Employer B in their next actuarial report, and again for  
19 Employer A. They won't be required to pay for that in one  
20 year. As you know, under the amortization policy gains  
21 and losses are amortized over a 30-year period. So  
22 Employer B would receive this additional loss, and would  
23 begin paying on a 30-year basis towards that.

24                           --o0o--

25           DEPUTY CHIEF ACTUARY DZIUBEK: And again, just to

1 point out the first line here on slide 9 is how this  
2 benefit would normally be split. The second line shows  
3 what happens when we move benefits from A to B just  
4 illustrating again that the total benefit to the member is  
5 unchanged. The member really has no need to know that  
6 this has even occurred. Yeah, so that's the example.

7           Again, I'm glad Mr. Jones thought it was simple.  
8 I nope the rest of you did. I can go through any aspect  
9 of it. And certainly, I can speak to the rationale for  
10 how some of these thresholds were established.

11           CHAIRPERSON COSTIGAN: Mr. Jones.

12           COMMITTEE MEMBER JONES: Yeah, I was looking at  
13 chart 9 of 9 was simple, not the first two.

14           (Laughter.)

15           DEPUTY CHIEF ACTUARY DZIUBEK: Okay.

16           (Laughter.)

17           CHAIRPERSON COSTIGAN: All right. Madam Vice  
18 Chair.

19           VICE CHAIRPERSON TAYLOR: So I just -- as you  
20 said that, I would like to have you kind of go through how  
21 we get to the thresholds.

22           DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. Well, this  
23 was a very large group, I'll say, internally of folks that  
24 were involved in attempting to set these thresholds. And  
25 Scott and I are in the Actuarial Office, but we worked

1 with members from, I think, every department within  
2 CalPERS on this, and attempted to arrive at these  
3 decisions through consensus and discussion.

4           The actual wording of the law is -- if you've  
5 looked at it, it's very sparse. It does not give really  
6 any detail of what situation would be considered  
7 significant.

8           As far as the liability increase, our -- from a  
9 high level, our feeling was that for a large CalPERS  
10 agency, let's say City of Pasadena just to toss one out,  
11 any one member in this kind of a situation, no matter how  
12 much service or how much of a pay increase they received.  
13 If that happened to the City of Pasadena, they would  
14 never -- they would never notice that increase.

15           VICE CHAIRPERSON TAYLOR: Right.

16           DEPUTY CHIEF ACTUARY DZIUBEK: It would be tenths  
17 or hundredths of a percentage change in their accrued  
18 liability. So we felt the word "significant" in the law  
19 really should be applied to even a smaller employer that  
20 if it's significant to them, it's significant.

21           So, for example, we looked at a number of smaller  
22 agencies, maybe with around 50 members in total between  
23 actives and retirees. For a lot of those plans, they may  
24 have an accrued liability of around \$10 million. That  
25 would be a typical liability for a plan that size.

1           Now, if they had a transferred member who had 20  
2 years, and that 25,000 per year threshold was exceeded,  
3 that means their liability went up by \$500,000 - 25,000  
4 times 20 years. And \$500,000 is five percent of that  
5 plan's \$10 million. And so that's -- that's about how we  
6 came up with that number. You could certainly argue it  
7 should be 20,000. It should be 30,000.

8           VICE CHAIRPERSON TAYLOR: So you're sort of  
9 leaving the term open based on analysis more than  
10 anything. So it's probably mostly for smaller agencies.  
11 But ultimately, it's based on analysis. And is it going  
12 to be something that the agencies will bring to your  
13 attention or do you foresee yourselves having something  
14 that will trigger the event, so that you guys can change  
15 it?

16           DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. So the  
17 compensation tests will allow us to easily screen folks as  
18 they retire. So we will be doing that testing internally.

19           VICE CHAIRPERSON TAYLOR: Okay.

20           DEPUTY CHIEF ACTUARY DZIUBEK: If members get  
21 through the compensation tests, which are easy for us to  
22 check on a mass basis, we'll move into the liability test,  
23 which is harder to calculate, but we will do all of those  
24 calculations.

25           VICE CHAIRPERSON TAYLOR: Ahead of time?

1           DEPUTY CHIEF ACTUARY DZIUBEK: Right. Well, one  
2 of the -- one of the decisions we made through this  
3 process was we would only do this when a member ultimately  
4 retires, not at the point of the large pay increase, which  
5 initially we thought that would be how we would implement  
6 this. But in thinking it through, there's so many things  
7 that can happen after that member gets the large pay  
8 increase before they retire, that could significantly  
9 change liabilities of all the plans involved.

10           The pay could level out for 20 years, the person  
11 could die, there's a number of things that could happen,  
12 such that we didn't think it was as appropriate to start  
13 moving costs between employers until we knew for sure what  
14 the impact would be at retirement.

15           VICE CHAIRPERSON TAYLOR: So let me ask you one  
16 other question. You said that this doesn't occur with the  
17 State. So if -- the person that was here gave us the  
18 example of moving from the county -- the city to the State  
19 of California, and that's where it came from. So you're  
20 saying that that necessarily would not occur? I just need  
21 a kind of an explanation for that, because it felt very  
22 real from the person who was talking about it.

23           DEPUTY CHIEF ACTUARY DZIUBEK: Well, I'm sure the  
24 circumstance could occur where an increase could occur  
25 under those circumstances, but we believe the way the law

1 is written, it specifically references impacted and  
2 causative agencies that are public agencies. And public  
3 agency is defined in the PERL and we believe it does not  
4 include State or school groups of employees.

5 VICE CHAIRPERSON TAYLOR: So who would end up  
6 with the end -- the higher -- if this person did go from  
7 public agency to the State of California, and they ended  
8 up with higher income at the State of California, who  
9 would end up with -- if it was the situation like in our  
10 sample here, who would end up the higher portion of  
11 retirement? That's where I'm confused.

12 DEPUTY CHIEF ACTUARY DZIUBEK: Well, I think  
13 except for extreme situations among two public agencies,  
14 everything would function as it already does.

15 VICE CHAIRPERSON TAYLOR: So it could have, in  
16 fact, occurred then, that the public agency --

17 DEPUTY CHIEF ACTUARY DZIUBEK: It probably is  
18 occurring. And, you know, agencies are experiencing  
19 increases in liability that they might not like. We  
20 believe, yeah, that this code section only makes  
21 adjustments between public agencies and for extreme cases.  
22 Otherwise, those agencies would --

23 VICE CHAIRPERSON TAYLOR: So if the person did go  
24 to the State of California, we don't have a fix for that.

25 DEPUTY CHIEF ACTUARY DZIUBEK: That's correct.

1           VICE CHAIRPERSON TAYLOR: Oh. That might be a  
2 problem.

3           (Laughter.)

4           VICE CHAIRPERSON TAYLOR: I don't know if we  
5 should direct you to address that as well then.

6           CHAIRPERSON COSTIGAN: I think she -- the Vice  
7 Chair raises a great question. I mean, the example that  
8 was used yesterday is, I would assume someone started off  
9 at a local agency, moves to the Transportation Department,  
10 and then works their way up to where they could become a  
11 gubernatorial appointee or a CEA, because they've got the  
12 experience. They get a significant increase and they  
13 spend their time with the State.

14           And so they separate from the State, which has  
15 the higher salary, at least it sounds like, under this  
16 proposal, the local agency is going to bear -- is status  
17 quo, as opposed to the fact the State is the one that gave  
18 the higher salary.

19           DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

20           CHAIRPERSON COSTIGAN: Is that something we're  
21 going to look -- so is the underlying statute not clear  
22 enough. We're going to call on actually the person that  
23 would know, first. Sorry. I'm going to go this way to  
24 Mr. Gillihan, CalHR.

25           BOARD MEMBER GILLIHAN: Thank you, Mr. Chair. I,

1 too, was caught off guard by the fact that the -- we're  
2 interpreting it as literally public agencies. As someone  
3 who worked on PEPRA - it's been a few years now, so my  
4 memory is not as good as it once was, but I remember this  
5 issue clearly, because I think it got on our radar screen  
6 as a result of things were happening in the City of Bell  
7 and perhaps the City of Vernon.

8           And I remember the discussions about wanting a  
9 fix for those scenarios where somebody greatly inflated  
10 their salaries at the back end of a career, and it had a  
11 ripple effect on another employer. But I don't recall us  
12 deciding to strip the State out. So this may have just  
13 been an oversight in the crafting of the statute that  
14 wasn't intended. I'm not saying that's the case, but from  
15 my recollection, I believe that's likely the case.

16           So over the next -- I mean I would like us to  
17 think more broadly as we apply it if we have any  
18 flexibility to do so. And if we don't, then I expect  
19 you'll probably hear something from the administration in  
20 the comment period on the regs. And I would also suggest  
21 that we could put a mix forward in housekeeping bill if  
22 there was support for such a fix.

23           But I don't think it's fair either way. And  
24 consistent with what Mr. Jelincic said, I think in my  
25 experience, it's not people coming to the State to get the

1 higher salary on the back-end of their careers. It's the  
2 people leaving the State going to local governments,  
3 and -- so I think likely it's working against us more than  
4 its working for us.

5 Thank you.

6 SENIOR STAFF ATTORNEY HAMMOND: Lisa Hammond.

7 VICE CHAIRPERSON TAYLOR: There you go.

8 You're on?

9 SENIOR STAFF ATTORNEY HAMMOND: Oh, I'm on?

10 Okay. Good afternoon. Lisa Hammond, CalPERS  
11 team. I just wanted to echo what staff said. I think the  
12 language is fairly clear, it only applies to contracting  
13 agencies, and so we've drafted the regulation with that in  
14 mind. But if there was a different direction, we believe  
15 it would require a legislative amendment to clarify the  
16 State as both included on the causative said and also the  
17 receiving side.

18 CHAIRPERSON COSTIGAN: All right. Well, let's go  
19 through our further questions, but when the Director of  
20 CalHR makes his suggestion, I think we should listen.

21 Mr. Slaton.

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

23 So this -- I've got significant concerns here,  
24 particularly as it relates to small jurisdictions, who  
25 could bear the brunt of this particular problem. And I

1 know that our Finance Directors are all upstanding people,  
2 but they're also very creative. So you publish a  
3 three-step test, and it's pretty easy to see how to  
4 stay -- how to miss one of them in order to not have this  
5 problem -- or not have this occur -- this adjustment  
6 occur, is that correct?

7 I mean, one could miss one of the tests, and  
8 therefore not have the adjustment under reg that we're  
9 proposing, is that correct?

10 DEPUTY CHIEF ACTUARY DZIUBEK: Under the regs,  
11 you are correct. All three criteria must be satisfied.

12 COMMITTEE MEMBER SLATON: Okay. So I think  
13 that's a problem. I think that -- are we talking about  
14 only going forward or going back as well? Does this  
15 regular only apply from this point forward from the time  
16 the reg is approved?

17 DEPUTY CHIEF ACTUARY DZIUBEK: It's mostly going  
18 forward. We believe it was effective January 1st 2013.  
19 We've already identified folks who tripped these criteria,  
20 and would plan to make adjustments for those, if this  
21 moves forward.

22 COMMITTEE MEMBER SLATON: All right. And what  
23 input have we done from stakeholders, you know, the cities  
24 and counties, special districts on this issue?

25 DEPUTY CHIEF ACTUARY DZIUBEK: Nothing formal

1 that I'm aware of. I have personally talked to folks and  
2 I know others have had some discussions with folks. I  
3 think, you know, it's going to hit people differently.  
4 It's going to be a welcome relief to some, and it's going  
5 to be an extra charge to others.

6 COMMITTEE MEMBER SLATON: Again, I think that  
7 there's a significant difference between very small  
8 agencies who have fairly low pay, particularly in rural  
9 areas, and where those people -- and again, I'm focusing  
10 more on the safety side, where someone becomes a police  
11 chief on a large city, after doing their initial -- their  
12 20 or 25 years, and the significant impact on the budgets  
13 of those jurisdictions.

14 So I, for one, would like to hear more from our  
15 stakeholders, from our cities on this, particularly small  
16 rural communities. The other one question is can this  
17 processed be automated? In other words, can it apply  
18 across the Board, rather than have the tests? In other  
19 words, can it be just baked into our calculations that are  
20 done, so that it happens to everybody? In other words,  
21 everybody has adjusted this way.

22 DEPUTY CHIEF ACTUARY DZIUBEK: Well, if I  
23 understand what you're saying, I think you're saying each  
24 employer is only responsible for the pay that they  
25 provided to that person --

1 COMMITTEE MEMBER SLATON: Correct.

2 DEPUTY CHIEF ACTUARY DZIUBEK: -- which goes  
3 against the way that the system operates and the way the  
4 law is written. I guess personally I don't think that was  
5 the intent of this.

6 COMMITTEE MEMBER SLATON: But we're carving out  
7 an exception that says even though despite the intent of  
8 the law, we think this is okay to do.

9 DEPUTY CHIEF ACTUARY DZIUBEK: Well, the law uses  
10 words like "significant", and such --

11 COMMITTEE MEMBER SLATON: Right.

12 DEPUTY CHIEF ACTUARY DZIUBEK: -- where it  
13 appears the goal is not everybody, but certain extreme  
14 cases. And the reason we're proposing regulations instead  
15 of just administrative policy is that there is no  
16 specificity in the way it's written. We, after lots of  
17 discussion internally, came up with these rules. And I'll  
18 say to your point of stakeholder feedback, the folks I've  
19 talked to have mostly been supportive, because they  
20 believe they've been on the losing end of people leaving  
21 them, and getting high increases somewhere else, and I  
22 think they're welcoming this change.

23 COMMITTEE MEMBER SLATON: Yeah. And I understand  
24 that. I think that the level -- the threshold here, which  
25 is, as I read what you've presented, is our judgment call

1 as to what is significant.

2 DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

3 COMMITTEE MEMBER SLATON: So I think that's where  
4 I'd like to see more input as to where those lines should  
5 be drawn, so that, in fact, this does provide the  
6 relief -- the kind of relief that our small employers  
7 would like to have.

8 CHAIRPERSON COSTIGAN: Mr. Juarez.

9 COMMITTEE MEMBER SLATON: So my comment to the  
10 Chair, I don't know if -- what we can do about that? Is  
11 this --

12 CHAIRPERSON COSTIGAN: Well, we're going to --  
13 after we go through some questions, because I actually  
14 have, as I was talking with Mr. Gillihan, a legislative  
15 question, but we'll get to the end of that before we give  
16 direction.

17 COMMITTEE MEMBER SLATON: Okay. All right.

18 CHAIRPERSON COSTIGAN: Thank you.

19 Mr. Juarez.

20 ACTING COMMITTEE MEMBER JUAREZ: Yes. Thank you,  
21 Chair.

22 And my questions sort of will follow on the prior  
23 speaker's points, I think, very closely, because I guess  
24 the question about what he would, I think, or what I refer  
25 to as gaming the system, is that likely given the

1 infrequency with which this is going to happen or do you  
2 sense that there will be enough of these examples that a  
3 city would take hold and say or -- I shouldn't say city, a  
4 public agency would take hold and say wait a minute before  
5 we give this increase, we have to recognize that we would  
6 now be subject to a substantially larger share of this  
7 person's retirement.

8           And so I guess the question goes to the frequency  
9 with which we believe your thresholds are going to be  
10 exceeded.

11           DEPUTY CHIEF ACTUARY DZIUBEK: That's a great  
12 question. And given that this was effective January 1st  
13 2013, and we did go back and looked at folks who retired  
14 from that date forward, we did apply these three  
15 thresholds and found that it came out to about 10 cases  
16 per year. That would have triggered these thresholds.  
17 And actually we cut some corners, technically sneaking,  
18 and then that's probably high. It's probably less than 10  
19 per year. So it's not a significant --

20           ACTING COMMITTEE MEMBER JUAREZ: And as you  
21 indicated, it's -- for some -- for some agencies it would  
22 be fairly imperceptible in terms of their  
23 responsibilities, especially, if you're amortizing it over  
24 30 years.

25           DEPUTY CHIEF ACTUARY DZIUBEK: That's right.

1 Yes.

2           ACTING COMMITTEE MEMBER JUAREZ: Mr. Slaton also  
3 asked about the effective date. You said 2013 was what  
4 you would go back to. Is that for the effective date of  
5 when the service would be applied or, I mean, how does  
6 that work? If my service transcends 2013 -- so let's say  
7 25 years of it were prior to 2013, and five or six years  
8 were after 2013, how do you view that in terms of its  
9 effectiveness.

10           DEPUTY CHIEF ACTUARY DZIUBEK: I'll let Lisa  
11 respond if she disagrees, but I am interpreting that as it  
12 doesn't matter if the service was earned before 2013.

13           ACTING COMMITTEE MEMBER JUAREZ: So anybody who  
14 retires after 2013 --

15           DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

16           ACTING COMMITTEE MEMBER JUAREZ: -- is going to  
17 be subject to this provision?

18           DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

19           ACTING COMMITTEE MEMBER JUAREZ: Okay. And  
20 that's the answer.

21           Okay. And then lastly, with regard to the  
22 trigger, you said that you would take the responsibility  
23 at some point when this type of example is coming up. How  
24 will you know? What trigger will you use to define those  
25 folks that are subject to even the analysis?

1           DEPUTY CHIEF ACTUARY DZIUBEK: Right. So we do  
2 actuarial valuations every year. We have data for every  
3 member of the system for every agency. We will look at  
4 the folks who retired during the last year.

5           ACTING COMMITTEE MEMBER JUAREZ: Everyone?

6           DEPUTY CHIEF ACTUARY DZIUBEK: Everybody, and we  
7 will -- and we've already written fairly simple computer  
8 models that can perform the compensation threshold test,  
9 the 65,000, and the 10 percent per year. That's already  
10 automated.

11           ACTING COMMITTEE MEMBER JUAREZ: I just spits out  
12 who those folks might be.

13           DEPUTY CHIEF ACTUARY DZIUBEK: It just spits out  
14 the people that hit those two. Now, when we go to  
15 calculate the liability threshold, that requires a lot  
16 more effort, but luckily we've weeded out a lot of people.

17           ACTING COMMITTEE MEMBER JUAREZ: You're down to a  
18 small subset of folks to look at.

19           DEPUTY CHIEF ACTUARY DZIUBEK: That's right.

20           ACTING COMMITTEE MEMBER JUAREZ: Okay. That's  
21 great. Thank you.

22           CHAIRPERSON COSTIGAN: Ms. Paquin.

23           ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr.  
24 Chair.

25           Thank you for the presentation. I was also

1 curious when I saw the point that you found that it would  
2 apply to ten or maybe a few less people per year. I'm  
3 wondering for the smaller agencies, does that mean that  
4 the thresholds are set too high? And did you look at  
5 having different thresholds when you have a person going  
6 from a large agency to another large agency, versus coming  
7 from a small agency to a large agency?

8 DEPUTY CHIEF ACTUARY DZIUBEK: Well, of the folks  
9 that triggered the threshold since January 1st 2013, we  
10 did look at the size of the agencies, and we looked at a  
11 couple other thresholds. And we do have a number of  
12 agencies that are smaller, where these kinds of liability  
13 increases would be considered significant for them.

14 When we looked at different thresholds, if we  
15 brought that down, we can get up to a fairly high number  
16 of cases pretty quickly. And again, with our  
17 interpretation that this was designed to catch the extreme  
18 cases, not hundreds or thousands of cases, that's -- we  
19 took that into account when setting the 25,000

20 ACTING COMMITTEE MEMBER PAQUIN: I just think  
21 that given all the comments that we heard yesterday at the  
22 ALM workshop, it would be good to have more input from  
23 employers, particularly the smaller employers on this.

24 Thank you.

25 CHAIRPERSON COSTIGAN: Could you just very

1 quickly before I call on Mr. Jelincic, how the reg process  
2 works, just so we can talk about a comment. Just walk me  
3 through the process.

4 DEPUTY CHIEF ACTUARY DZIUBEK: It was just point  
5 out to me I should remind everyone that the law also  
6 states this only applies to non-represented members, as  
7 opposed to represented.

8 I don't know if either of my team members want to  
9 help out with the regulatory process. Perhaps Jan could  
10 speak to that a little bit. I think it will be open for  
11 comments for a period of time, and then we would come back  
12 in April or so.

13 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF  
14 FALZARANO: Yes, that is correct.

15 CHAIRPERSON COSTIGAN: Turn your microphone on,  
16 please.

17 It's on now.

18 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF  
19 FALZARANO: Yea, so we would bring this to public comment  
20 for --

21 CHAIRPERSON COSTIGAN: Identify first, please.

22 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF

23 FALZARANO: Oh, I'm sorry, Jan Falzarano, CalPERS team  
24 member. So, yes, if the Board adopts this for us to move  
25 forward, we can move forward with the notice of the

1 proposed regulation package which will have a 45-day  
2 comment period. And we believe that if there are no  
3 comments, that we can be able to bring this back to the  
4 Board in April 2018.

5 We did look at lower thresholds. You know, we  
6 looked at \$50,000 thresholds, as well as under, but the  
7 law is very specific to non-represented employees. And so  
8 when we looked at the lower threshold, we found that a lot  
9 of the employees did not qualify under this statute  
10 because it -- they were actually represented employees,  
11 and so that's why we stayed with the \$65,000 threshold.

12 CHAIRPERSON COSTIGAN: Don't go far.

13 Mr. Jelincic.

14 COMMITTEE MEMBER JELINCIC: A couple. There was  
15 a piece of legislation, oh, I guess it was probably eight  
16 years ago to try and deal with this issue. And I -- the  
17 irony was the big cities killed it, and the big cities  
18 have more assemblyman and senators in their geograph -- in  
19 their geography, so they were able to kill it, because the  
20 big cities like being able to have the small cities do the  
21 training, and then they hire them away and -- so the  
22 people who are going to get impacted will tend to be the  
23 larger cities, who have the larger liabilities, and it  
24 becomes a much smaller percent.

25 The -- and I'm, yeah, excluding representative

1 make sense, because quite frankly, they don't -- I haven't  
2 been -- I've only been around 30 years, I don't see those  
3 kind of increases.

4           The example that was given the other day of  
5 somebody who worked for city, and made 44 grand and then  
6 went to work for the State and retired and had a 250 final  
7 comp, that person either went out as an Agency Secretary  
8 or one of the very specialized skill in the State. And  
9 it's unlikely that it happens very often that somebody  
10 goes from 44 grand a year working for a State to being an  
11 Agency Secretary. It happens, but I think that was a very  
12 unrealistic example.

13           I am going to support going forward with these  
14 regs. Although, I will tell you I do have some concern  
15 about the 10 percent compound, because that's twice  
16 what -- that's twice what you normally would expect, and  
17 that strike me as maybe a little too high, but we'll see  
18 what the comments do. But, you know, nothing is knew in  
19 the legislature.

20           CHAIRPERSON COSTIGAN: Thank you.

21           Mr. Jones.

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

24           Yeah, two questions. One is the -- if this is  
25 approved, the speaker yesterday would be covered if you're

1 saying this is retroactive to 2013, is that correct? So  
2 that problem would go away.

3 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF  
4 FALZARANO: Yes, it's for anyone that retired starting  
5 January 1 of 2013.

6 COMMITTEE MEMBER JONES: Right. And I don't  
7 remember what the time it was cited.

8 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF  
9 FALZARANO: That we could go back and look at their --

10 COMMITTEE MEMBER JONES: But it's possible that  
11 that agency would be held harmless.

12 The other question I have is I'm trying -- I was  
13 sitting trying to think of how could someone game the  
14 system, because all of the data calculation is with you.  
15 And the other requirement is the compensation of salary  
16 that someone is receiving. And all the salary schedules  
17 have to be publicly published. So they would be doing so  
18 at their own peril, because they would be violating their  
19 own public notice about what compensations are. Is there  
20 something else about how they could game the system? I'm  
21 not so sure I see.

22 DEPUTY CHIEF ACTUARY DZIUBEK: The point is well  
23 taken from Mr. Slaton. I don't think we considered it a  
24 large risk that there would be gaming of the system as you  
25 say. If you -- if an agency wants to pay somebody only

1 \$64,000 higher than a previous agency, they would have to  
2 know all the prior compensation history from those other  
3 agencies. Maybe they could find that out and would go to  
4 that trouble. I don't know.

5 COMMITTEE MEMBER JONES: And even if they did  
6 that, then the individual is affected because they would  
7 be making less money. So it -- that would be the push  
8 from the outside -- other side. Okay.

9 DEPUTY CHIEF ACTUARY DZIUBEK: Yeah.

10 COMMITTEE MEMBER JONES: I was just trying to get  
11 a --

12 CHAIRPERSON COSTIGAN: Mr. Slaton.

13 COMMITTEE MEMBER SLATON: Yeah. I just -- well,  
14 to complete the gaming circle the 64,000, and then  
15 non-pensionable bonuses to make it up as a way to game the  
16 system, to make sure that you don't end up with an  
17 additional liability on the retirement side, so --

18 DEPUTY CHIEF ACTUARY DZIUBEK: Right.

19 COMMITTEE MEMBER SLATON: -- just one scenario.

20 CHAIRPERSON COSTIGAN: So I just want to follow  
21 up a little bit on what Mr. Slaton raised.

22 Do we need -- do you believe we need a  
23 legislative fix, as Mr. Gillihan was talking about? I  
24 understand these are regulations based upon what we think  
25 PEPRAs and the current statutes say. Are we -- I'm

1 trying -- is it cart-horse, horse-cart or -- there's just  
2 a little confusion moving.

3 Go ahead, Lisa.

4 SENIOR STAFF ATTORNEY HAMMOND: Are you asking  
5 whether we need legislation to include the state or  
6 legislation --

7 CHAIRPERSON COSTIGAN: Well, the legi -- I mean,  
8 a couple things, the State, the threshold, you know, why  
9 regs as opposed to House Clean -- or clean-up bill.

10 SENIOR STAFF ATTORNEY HAMMOND: Well, we  
11 struggled. I'm not going to lie. We struggled to try to  
12 figure out various ways to interpret the statute, because  
13 it was a little bit ambiguous and difficult. I don't know  
14 that we had a strong preference for the reg. The reg just  
15 seemed like the most logical process for us, so we  
16 proceeded down that route. If there was a desire to do it  
17 legislatively --

18 CHAIRPERSON COSTIGAN: So you did think about it.  
19 That's all.

20 SENIOR STAFF ATTORNEY HAMMOND: Yeah, we did.

21 CHAIRPERSON COSTIGAN: I mean, you answered the  
22 question -- just -- on it.

23 So again, from a public involvement, and I saw  
24 some heads nodding in the back -- and I'd call Dillon  
25 down, but I'll let him wait till the public comment. If

1 we move forward with it -- Anthony is dropping you notes.  
2 Go ahead and read the note.

3 (Laughter.)

4 CHAIRPERSON COSTIGAN: Okay. So what we're going  
5 to do is if the Committee moves forward and then the Board  
6 adopts it tomorrow, the regs will then go out and we'll  
7 have the 45-day comment period for which -- although at  
8 that point, if there is fine-tuning on it, because I'm not  
9 just -- I'm not as good on the reg process as I should  
10 be -- that comes back, and then we would send them back  
11 out for a second round?

12 Let's say someone comes back and says, yes,  
13 you're gaming the -- you know, the -- I actually think the  
14 10 is too high, because the State has been four, three,  
15 three -- overall. But as we get feedback this is not  
16 necessarily just a 45-day period, because --

17 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF  
18 FALZARANO: That is correct.

19 CHAIRPERSON COSTIGAN: -- we're going to get --  
20 we're going to get comments back on that.

21 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF  
22 FALZARANO: If there's comment that required us to make  
23 any changes to the regulation, we would have to repost --

24 CHAIRPERSON COSTIGAN: Okay.

25 RETIREMENT RESEARCH AND PLANNING DIVISION CHIEF

1 FALZARANO: -- any revisions to the regulation

2 CHAIRPERSON COSTIGAN: Okay. Hang on a second.

3 Mr. Juarez.

4 ACTING COMMITTEE MEMBER JUAREZ: Yeah, I want to  
5 comment on the point about the regs versus legislation. I  
6 mean, I appreciate going through the regulatory process,  
7 just because it's not subject to the same political whims  
8 that tend to affect legislation. And so to that point, I  
9 would say if you want to open up PEPRA again - and Mr.  
10 Gillihan would probably be best to speak to this - you run  
11 that risk, because people are going to come forward and  
12 say, well, wait a minute. That's not the only change we  
13 want to see with PEPRA. There are a whole lot of other  
14 things we'd like to do with PEPRA.

15 And so, you know, to your point about whether we  
16 should propose new legislation, I would be somewhat  
17 cautious about that regard, unless it's absolutely  
18 beneficial and we can't get any other interpretation of  
19 how to include the State and schools into the calculation.

20 CHAIRPERSON COSTIGAN: Thank you, Mr. Juarez.

21 Okay. Great presentation. Anything else from  
22 your side of the table?

23 DEPUTY CHIEF ACTUARY DZIUBEK: I think we're  
24 good.

25 CHAIRPERSON COSTIGAN: And no other questions.

1 So this is an action item.

2 COMMITTEE MEMBER JONES: Didn't J.J. move it?

3 CHAIRPERSON COSTIGAN: J.J., did you move it?

4 COMMITTEE MEMBER JELINCIC: I don't know, but I  
5 will.

6 CHAIRPERSON COSTIGAN: Moved by Jelincic.

7 Seconded by?

8 COMMITTEE MEMBER JONES: Second.

9 CHAIRPERSON COSTIGAN: Jones.

10 Any further discussion?

11 Hearing none.

12 All those in favor?

13 (Ayes.)

14 CHAIRPERSON COSTIGAN: Opposed?

15 Motion carries. Thank you very much.

16 Just moving forward with the reg.

17 Okay. We're going to die Item 7a.

18 Okay. Charles.

19 Brad. Mr. Pacheco, you're presenting on that.

20 Go ahead, sir.

21 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah.

22 Good afternoon, Mr. Chair and members of the  
23 Committee. Brad Pacheco, CalPERS team. As mentioned  
24 earlier this morning, in our Pension and Health Benefits  
25 Committee. We're presenting a number of policy and

1 technical legislative proposals that will help strengthen  
2 the long-term sustainability of the fund and also continue  
3 our efforts to reduce cost and complexity across the  
4 enterprise.

5           The item before you today includes three policy  
6 and two technical changes as proposed. I did want to note  
7 that one of the policy changes is in direct result of the  
8 experience that we had with terminations this last year.  
9 We want to provide greater transparency, and  
10 accountability around the termination process,  
11 specifically around member notification when an agency  
12 does want to terminate their contract with CalPERS.

13           I also wanted to acknowledge one concept that may  
14 appear to be absent in our proposals today. You know,  
15 there's been great deal of discussion around JPAs, joint  
16 power of authorities in this Committee, including some  
17 analysis that the team has done around the JPA's, which  
18 may or may not have financial obligations for the pensions  
19 that they have contracted for and -- or the member  
20 agencies that are responsible for forming the JPA.

21           So in discussions with both our employer and  
22 labor stakeholders, what we can tell you that there is  
23 strong mutual agreement that we do not want to face the  
24 situation that we faced with East San Gabriel. CalPERS is  
25 not in the business of reducing benefits. We're in the

1 business of providing benefits.

2 So we do want to find a legislative solution as  
3 it relates to JPAs, but we'd like to take a little bit  
4 more time to talk to our employer and labor leaders. And  
5 the intent is to bring something back to this Committee in  
6 December. So you'll see that then. With that, I'd like  
7 to turn it over to Mary Anne Ashley who will --

8 CHAIRPERSON COSTIGAN: Just hang on a second.  
9 Hang on, Mr. Pacheco.

10 DEPUTY EXECUTIVE OFFICER PACHECO: Yes.

11 CHAIRPERSON COSTIGAN: Ms. Taylor, is you  
12 question up to this point?

13 VICE CHAIRPERSON TAYLOR: No, we can finish with  
14 this.

15 CHAIRPERSON COSTIGAN: Okay. And Mr. Feckner?

16 PRESIDENT FECKNER: I'll wait.

17 CHAIRPERSON COSTIGAN: Thank you. Go ahead, Mr.  
18 Pacheco.

19 DEPUTY EXECUTIVE OFFICER PACHECO: So I'll turn  
20 it over to Mary Anne Ashley who will outline the proposals  
21 before you, and then we have members of our team available  
22 for questions.

23 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good  
24 afternoon, Chair Costigan and members of the Committee.  
25 Mary Anne Ashley, CalPERS team member. As Brad noted, I

1 will be presenting Agenda Item 7a. This is for the State  
2 legislative proposals for 2018. This is an action item.  
3 The analysis and background information for each proposal  
4 is included in your Board materials for your reference.

5           And I would like to begin first with the two  
6 proposed technical changes that, if approved, would be  
7 included in our annual housekeeping, or omnibus, bill.  
8 And the two proposed changes are: One, to expand the  
9 ability of CalPERS to collect any overpayment made to or  
10 on behalf of any member, former member, or beneficiary  
11 from any future CalPERS benefit or payment that be -- that  
12 may be made; and two, to limit the payment types eligible  
13 for the direct authorization program.

14           As noted, these proposed changes would be  
15 included in the annual housekeeping bill, and are an  
16 efforts to help reduce complexity, and to ensure the  
17 continued efficient administration and good governance of  
18 CalPERS. And so before moving on to the policy proposals,  
19 we'd like to have Committee approval to pursue legislation  
20 for these technical changes, and we are happy to answer  
21 any questions.

22           PRESIDENT FECKNER: Not on this one.

23           CHAIRPERSON COSTIGAN: I'm sorry. Will you hit  
24 your microphone again then, sir, because I turned you on.

25           All right. Ms. Taylor.

1           VICE CHAIRPERSON TAYLOR: I did have a question  
2 on the technical change allowing CalPERS to collect any  
3 overpayment. So is that currently not the case? So say,  
4 for example, I retire, my husband -- I collected more than  
5 I should have. My husband -- I die. My husband gets the  
6 money. So now you're saying that he -- it would come out  
7 of his payments, is that correct?

8           LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I'll  
9 ask Anthony to -- Anthony will give the specifics for  
10 that. Thank you.

11           BENEFIT SERVICES DIVISION CHIEF SUINE: Good  
12 afternoon, Mr. Chairman, members of the Committee.  
13 Anthony Suine, CalPERS team.

14           So when it's an ongoing spouse situation, or an  
15 ongoing benefit, we are able to collect those overpayments  
16 from those ongoing payments. It's typically when the  
17 member has retired, and they've chosen a non-ongoing  
18 benefit, such as an unmodified or an option 1, and then  
19 they leave an overpayment, because the timing of the death  
20 resulted in an overpayment, or we didn't get notified of  
21 the death, and there's an existing overpayment, and lump  
22 sum or other benefits to be paid. And so we're trying to  
23 clarify our authority to -- what we can apply to those  
24 overpayments.

25           VICE CHAIRPERSON TAYLOR: Okay. So what would be

1 the -- how many instances does this occur?

2 BENEFIT SERVICES DIVISION CHIEF SUINE: So it  
3 happens quite frequently. You can expect that, based on  
4 the timing of deaths at retirement, and the issuing of one  
5 more retirement check after the date of death happens  
6 probably about 50 percent of the time just based on our  
7 process of the warrant process.

8 And we have 15 to 2,000 death -- 1,500 to 2,000  
9 deaths a month, average retirement allowance of \$3,000.  
10 So you can see there's a couple million dollars overpaid  
11 every month. We hit the banks. We collect a lot of that  
12 back. Some of them are the ongoing survivors that we  
13 collect back. But still in many instances, there's a  
14 remaining payment that has been made. So maybe there's  
15 \$2,000, \$3,000, \$5,000 that has been overpaid. And you  
16 can see a situation where now the beneficiary isn't clear,  
17 and who benefited from that overpayment isn't clear. And  
18 I have a resulting lump sum death benefit, as we talked  
19 about earlier, of say a \$2,000, as if the State paid.

20 And it's not always clear whether we could pay  
21 ourselves first to recoup that overpayment that we made to  
22 that individual.

23 So, here, we're --

24 VICE CHAIRPERSON TAYLOR: So you're saying you  
25 would take -- oops -- you would take the lump sum, is that

1 what this clarifies?

2 BENEFIT SERVICES DIVISION CHIEF SUINE: Yes.

3 VICE CHAIRPERSON TAYLOR: I'm just a little  
4 confused.

5 BENEFIT SERVICES DIVISION CHIEF SUINE: Yes,  
6 exactly.

7 VICE CHAIRPERSON TAYLOR: Okay.

8 BENEFIT SERVICES DIVISION CHIEF SUINE: Exactly,  
9 as opposed to, well, the cousin who may be a statutory  
10 beneficiary didn't benefit from that overpayment that went  
11 into the member's direct deposit account, yet that money  
12 was gone. But the time we went to go collect that money,  
13 that money was no longer in the account, right? There's  
14 several other --

15 VICE CHAIRPERSON TAYLOR: Beneficiaries that  
16 could grab the money.

17 BENEFIT SERVICES DIVISION CHIEF SUINE:

18 -- debtors that are collecting that money. Maybe  
19 a mortgage hit the account. We see a lot of utility bills  
20 hit that account.

21 VICE CHAIRPERSON TAYLOR: So there's nothing you  
22 can do for something like that?

23 BENEFIT SERVICES DIVISION CHIEF SUINE: Correct.

24 VICE CHAIRPERSON TAYLOR: And so instead you're  
25 writing this specifically to attach to those death

1 benefits?

2 BENEFIT SERVICES DIVISION CHIEF SUINE: Right.

3 VICE CHAIRPERSON TAYLOR: Okay. That's what I  
4 wanted the clarify. Thank you.

5 BENEFIT SERVICES DIVISION CHIEF SUINE: Exactly.

6 CHAIRPERSON COSTIGAN: Ms. Paquin on this item?

7 ACTING COMMITTEE MEMBER PAQUIN: Yes. Thank you,  
8 Mr. Chair.

9 So just to clarify one more time, it only  
10 attaches to the death benefit, so there -- it's not a  
11 situation where you're trying to recover losses from a  
12 cousin two or three years after the member has died?

13 I'm just trying to figure out.

14 BENEFIT SERVICES DIVISION CHIEF SUINE: No, I  
15 don't think so, I mean --

16 ACTING COMMITTEE MEMBER PAQUIN: Okay. Is there  
17 a statute of limitation on collecting?

18 BENEFIT SERVICES DIVISION CHIEF SUINE: There's a  
19 10-year statute of limitations on the survivor benefits.

20 ACTING COMMITTEE MEMBER PAQUIN: Okay. And I had  
21 one other question about the other technical change. And  
22 I understand it's to probably make the administration of  
23 benefits a little bit easier by reducing or -- the number  
24 of disbursements that can be made from a member's check.  
25 But I was curious about this section that says that it

1 would be limited to charitable contributions to those  
2 which the Board have approved. Can you explain that a  
3 little bit more?

4 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah. So  
5 the charitable contributions that the approval -- we  
6 currently have charitable deductions. Really, it's the  
7 Our Promise campaign that we allow those charitable  
8 deductions from. So it's just trying to limit to those  
9 charitable deductions that are currently identified.

10 ACTING COMMITTEE MEMBER PAQUIN: Okay. All  
11 right. Thank you.

12 CHAIRPERSON COSTIGAN: Mr. Jelincic.

13 COMMITTEE MEMBER JELINCIC: I have a question  
14 about a number of them.

15 But the -- picking on the last one first. Is  
16 that a solution looking for a problem? I mean, how much  
17 is that actually out there that we're doing direct  
18 authorizations?

19 BENEFIT SERVICES DIVISION CHIEF SUINE: So we  
20 haven't -- we have several direct authorization vendors in  
21 play. We haven't had many requests for new agreements, so  
22 we're just trying to -- in the past when we have had some.  
23 For instance, we had a pet insurance request, where the  
24 vendor came forward and wanted to deduct pet insurance  
25 from a retiree's warrant if the retiree would sign up with

1 them.

2           So we're just trying to -- it's a -- it becomes a  
3 complex program to administer. The vendors we can often  
4 be blamed. The members manage those deductions from the  
5 member accounts. Yet, when they take too much or too  
6 little then it comes back to CalPERS to resolve the  
7 dispute. Yet, the vendor is the one who identified it.

8           So we're just trying to limit any future issues  
9 with those by kind of narrowing what is allowable for  
10 these direct offenders.

11           COMMITTEE MEMBER JELINCIC: But there aren't many  
12 now.

13           BENEFIT SERVICES DIVISION CHIEF SUINE: There  
14 aren't may coming through right now, yes. So we're just  
15 trying to solidify that.

16           COMMITTEE MEMBER JELINCIC: So it's solution to a  
17 problem that might come up in the future?

18           BENEFIT SERVICES DIVISION CHIEF SUINE: You could  
19 say that.

20           COMMITTEE MEMBER JELINCIC: Okay. The --  
21 requiring -- going up two bullets, requiring that all the  
22 balances be paid off within 60 days.

23           BENEFIT SERVICES DIVISION CHIEF SUINE: I think  
24 that issue is being addressed next. These are the -- the  
25 bottom two are the technical amendments.

1 COMMITTEE MEMBER JELINCIC: Okay. We're  
2 addressing just the bottom two. Okay. I will wait.

3 CHAIRPERSON JONES: Mr. Jones, is it on this  
4 item?

5 COMMITTEE MEMBER JONES: Yes, on the bottom.

6 CHAIRPERSON COSTIGAN: Okay. Hang on a second.  
7 Mr. Jones

8 COMMITTEE MEMBER JONES: The clarification on the  
9 authorization for allowances in categories. The -- how  
10 many of our retirees' checks goes into a direct deposit in  
11 a bank or savings institution, et cetera?

12 BENEFIT SERVICES DIVISION CHIEF SUINE: So their  
13 entire check would not. There would be a deduction --

14 COMMITTEE MEMBER JONES: Yeah. No, no, no, no.  
15 I understand that.

16 BENEFIT SERVICES DIVISION CHIEF SUINE: Okay.

17 COMMITTEE MEMBER JONES: I'm just trying -- I was  
18 just trying to say, well, they have the access to their  
19 bank to accomplish the same thing. And if the majority of  
20 them are going into a bank or a sayings institution, they  
21 could also do it. It's not like they're going to lose  
22 that ability. And I was just trying to say, well, if 90  
23 percent of our members have deposits going in the bank,  
24 then it's very few that even may benefit from that.

25 BENEFIT SERVICES DIVISION CHIEF SUINE: Yeah.

1 This program was established back in the sixties when we  
2 didn't have ACH and withdrawals from, you know, your bank  
3 accounts debits. So I think it was established for those  
4 purposes, and especially for the retiree unions and some  
5 credit unions to be able to make it easier for the member  
6 to have that deduction.

7 But today, it's not as a relevant. And so again,  
8 just trying to narrow the program and...

9 CHAIRPERSON COSTIGAN: Okay. We're going to do  
10 this a little unusual, because we've got so many items  
11 here. So I would just ask Mr. Linn or Mr. Johnson do you  
12 want to speak on this item within 7a, because we have five  
13 people signed up. Since we're going to go item by item, I  
14 don't want to -- all right. Seeing no one jump up. Okay.

15 Next item.

16 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Does  
17 the Committee approve moving forward with the technical --

18 CHAIRPERSON COSTIGAN: No, let's just go through  
19 them, and then we'll do it.

20 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Okay.  
21 So the next three items, three proposals would be for  
22 stand-alone policy bills. And the first one has to do  
23 with the terminating agency process. And this proposal is  
24 to shorten the time frame in which a contracting agency  
25 can voluntarily terminate its participation in CalPERS and

1 also to require a terminating agency to notify its past  
2 and present employees of its intention to terminate.

3           So the proposed changes would allow a contracting  
4 agencies to formally terminate its contract not less than  
5 90 days, and not more than one year after providing the  
6 Board notice of its intent to voluntarily terminate.

7           Currently, a contracting agency is required to  
8 wait at least one year from the adoption of a resolution  
9 of intention to terminate its contract before adopting its  
10 final termination. And there is no limit on the length of  
11 time the agency may take to adopt the resolution -- the  
12 required final termination resolution.

13           Additionally, the contacting agency, if we move  
14 forward with this proposal, would be required to notify  
15 impacted employees, retirees, and beneficiaries in writing  
16 of its intention to voluntarily terminate its contract  
17 within seven days of providing notice to the Board.

18           And these proposed changes are in efforts to  
19 ensure affected employees and former employees of a  
20 terminating agency receive timely notice during the  
21 decision-making process, and also to reduce the risk of  
22 default of payment of termination cost.

23           And so we are asking for Committee approval to  
24 pursue legislation for these changes and we are happy to  
25 answer questions.

1           CHAIRPERSON COSTIGAN: Okay. So we're going  
2 to -- we are -- on this item, we're just talking about the  
3 first bullet, shorten the timeframe. So again, I see no  
4 questions on this item. I just want to make sure the  
5 folks that have signed up, did any of you want to speak to  
6 this one?

7           And to Mr. Linn, if you do, come on down, sir.

8           MR. LINN: I believe I wanted to speak to the  
9 prior item.

10          CHAIRPERSON COSTIGAN: Well, that's what I had  
11 just called on and I didn't see you move, but why don't  
12 you come on down. Because we have five items here and I  
13 kind of just want to separate each one out, and then have  
14 the folks comment.

15          And, Mr. Johnson.

16          MR. JOHNSON: (Shakes head.)

17          CHAIRPERSON COSTIGAN: Okay. Thank you, sir.

18          So, Mr. Linn, you're going to go back to the  
19 direct authorizations for retirees and beneficiaries that  
20 may be requested.

21          MR. LINN: Yes.

22          CHAIRPERSON COSTIGAN: Thank you, sir.

23          MR. LINN: Yes.

24          CHAIRPERSON COSTIGAN: Give him three minutes,  
25 please.

1 MR. LINN: I apologize for --

2 CHAIRPERSON COSTIGAN: No problem, sir.

3 MR. LINN: -- not having that on my radar.

4 Having been away from these things for about 11 months,  
5 I'm trying to the play catch-up.

6 Committee Chair, Committee members, Board  
7 members, one of the examples that's been given is pet  
8 insurance. And I have to say that retirees after they  
9 lose their spouse, rely on their pet. And I would imagine  
10 that they understand, like my wife does right now, that  
11 pet insurance is a very vital thing.

12 So whether there are a lot of pet insurance  
13 requests to be deducted at the moment, I still think that  
14 that is not a realistic thing to be dealing with retirees,  
15 because retirees do rely many times on their pets, not  
16 only for comfort, but sometimes to help them get from one  
17 place to the other.

18 But in addition to that, taking a look. You  
19 know, we at our RPEA pay for the deductions that you make  
20 on the warrants and provide us with the funds for the  
21 membership. This amounts to approximately \$150 a month  
22 that you charge us to collect those funds.

23 Now then, I don't know how much that costs  
24 CalPERS in the electronic process of moving the money from  
25 one place to the other all electronically. Yes, there may

1 be some set-up costs when there are new ones, but I don't  
2 think that this is an excessive amount when we're here to  
3 support our members.

4           The other thing that kind of bothered me a little  
5 bit, and where we're talking about limit chartered credit  
6 union payments. The Board has approved them. We have no  
7 knowledge of what's approved, what isn't approved. I  
8 think that should be included in the report.

9           And the same thing goes true for charitable  
10 organizations. I don't know which charitable  
11 organizations are permitted, and it doesn't say. Maybe I  
12 should have asked, but I would think that placing these  
13 things in the hands of the Board, the Board should keep us  
14 informed if they're approving or disapproving, that maybe  
15 there is a reason to disapprove a particular contribution  
16 to a charitable organization based on what their public  
17 problems are.

18           But I think that is something that I have a  
19 problem with, and I think it needs to be corrected before  
20 this goes forward.

21           CHAIRPERSON COSTIGAN: Thank you, Mr. Linn.

22           Are you going to speak to any other items?

23           MR. LINN: No.

24           CHAIRPERSON COSTIGAN: I was going to say you can  
25 stay if you wanted to, but than you, sir.

1 Mr. Suine, do you want to address very quickly?

2 BENEFIT SERVICES DIVISION CHIEF SUINE: Sure,  
3 happy to address it. As Mr. Jones stated, regarding the  
4 pet insurance for an example, we're not saying that that's  
5 not of valuable insurance policy. But as Mr. Jones  
6 mentioned, there's other methods to be able to pay for pet  
7 insurance, again, directly to the pet insurance company,  
8 through deductions from your bank account. And the  
9 retiree warrant deduction is not really as viable an  
10 option anymore. So regarding that, it's still valuable.  
11 There's other ways to do it.

12 Regarding the fee, we are reassessing the fee as  
13 part of our retirement research planning. It's not quite  
14 covering the administrative cost right now, so we're in a  
15 process to review that fee. And so by limiting the  
16 complexity of the program, too, it will also reduce the  
17 fees and any potential increase in fees. So, Mr. Linn is  
18 right that we do charge an agreement fee, and then a per  
19 transaction cost fee to pay for the administration of the  
20 program.

21 CHAIRPERSON COSTIGAN: All right. And then the  
22 list of charities?

23 BENEFIT SERVICES DIVISION CHIEF SUINE: The list  
24 of charities, yeah, I don't have all the vendors that we  
25 have currently, but it -- and it's not -- it will not

1 affect any current charities. The credit unions are not  
2 affected by it, and we haven't had a new agreement request  
3 for many years right now. So I'm sure we could provide  
4 that list of vendors that we have.

5 CHAIRPERSON COSTIGAN: That would be great maybe  
6 as an informational item for next month.

7 BENEFIT SERVICES DIVISION CHIEF SUINE: Sure, we  
8 could do that.

9 CHAIRPERSON COSTIGAN: Okay. So that was the  
10 second item, Mr. Pacheco, Mary Anne. Any other -- Ms.  
11 Taylor, on this item?

12 VICE CHAIRPERSON TAYLOR: On that particular  
13 item, no.

14 CHAIRPERSON COSTIGAN: Okay. So let's go on to  
15 the third item.

16 Microphone, please.

17 Hang on a second. I'm sorry.

18 Hang on a second. We're going to go to Ms.  
19 Taylor.

20 VICE CHAIRPERSON TAYLOR: I'm sorry. I  
21 just -- Mary Anne, I just want to clarify, shortening the  
22 timeframe in which a contracting agency can voluntarily  
23 terminate, didn't one of you guys say earlier that you  
24 wanted to wait on that? That you didn't want this to be  
25 swept through with the rest of this because you were

1 working with other stakeholders?

2 DEPUTY EXECUTIVE OFFICER PACHECO: Actually, Ms.  
3 Taylor, that was related to the joint powers of authority.  
4 So we looked at legislative solutions around -- you might  
5 recall that this Committee received some analysis around  
6 those JPAs that are currently in the system that don't  
7 have joint and severally responsibility for pension  
8 obligations.

9 VICE CHAIRPERSON TAYLOR: Right.

10 DEPUTY EXECUTIVE OFFICER PACHECO: And we've been  
11 looking at how that might be able to be applied in a  
12 legislative fix retroactively. That's the topic that we'd  
13 like to work with our employer --

14 VICE CHAIRPERSON TAYLOR: So that's not here. SO  
15 this one is just about the timeframe with --

16 DEPUTY EXECUTIVE OFFICER PACHECO: Correct, and  
17 the member notification.

18 VICE CHAIRPERSON TAYLOR: So we're -- I did want  
19 to clarify, though we are still going to notify members as  
20 well just to make sure that we cover it, or is that --  
21 we're trying to stop that? Does anybody know that?

22 DEPUTY EXECUTIVE OFFICER PACHECO: Andy, do you  
23 want to address that?

24 PENSION CONTRACT MANAGEMENT SERVICES DIVISION

25 ASSISTANT CHIEF NGUYEN: So we -- the process is we will

1 notify the members when the agency is involuntary  
2 terminate, when they are delinquent -- 60 days after the  
3 delinquency. But currently for the volunteer termination  
4 process, we don't have any process to notify the  
5 employer -- the members.

6 VICE CHAIRPERSON TAYLOR: I thought we were  
7 anyway though.

8 PENSION CONTRACT MANAGEMENT SERVICES DIVISION  
9 ASSISTANT CHIEF NGUYEN: The volunteer termination, no.

10 VICE CHAIRPERSON TAYLOR: Not on voluntary?  
11 Okay.

12 PENSION CONTRACT MANAGEMENT SERVICES DIVISION  
13 ASSISTANT CHIEF NGUYEN: Not on the voluntary no.

14 VICE CHAIRPERSON TAYLOR: Okay.

15 CHAIRPERSON COSTIGAN: Okay. Again, because I  
16 know we're going through a lot, we have three other  
17 people. Do you want to speak on this item?

18 Okay. Not seeing anything from the government  
19 representatives. Okay. That's find. You're signed up.  
20 We'll go down.

21 All right. So we've covered the first bullet,  
22 the fifth bullet.

23 Mr. Jones.

24 COMMITTEE MEMBER JONES: Yeah. My question goes  
25 to Mr. Linn's comments. And have you had an opportunity

1 to share with the retiree groups the exact kinds of  
2 deductions that would no longer be required?

3 BENEFIT SERVICES DIVISION CHIEF SUINE: We have  
4 not, Mr. Jones, but we can do that.

5 COMMITTEE MEMBER JONES: So would you do that --

6 BENEFIT SERVICES DIVISION CHIEF SUINE:  
7 Absolutely.

8 COMMITTEE MEMBER JONES: -- since this is an  
9 information item, because you may be focusing on two or  
10 three they say they don't care about. And so that would  
11 help form your decision when you come back.

12 BENEFIT SERVICES DIVISION CHIEF SUINE:  
13 Absolutely.

14 COMMITTEE MEMBER JONES: Okay. Thanks.

15 CHAIRPERSON COSTIGAN: Okay. Next bullet, next  
16 proposal.

17 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Next  
18 bullet, second policy proposal. This proposal is to  
19 pursue legislation that would add a Chief Operating  
20 Officer and a Chief Health Director to those employees for  
21 which the Board has authority to set the compensation,  
22 conditions of employment, and performance standards.

23 Currently, the Board has such authority for the  
24 Chief Executive Officer, the General Counsel, the Chief  
25 Actuary, the Chief Investment Officer, the Chief Financial

1 Officer, and other Investment Office managers.

2 CalPERS is the largest public employer purchaser  
3 of health benefits in California. And historically  
4 CalPERS has faced challenges to recruiting candidates and  
5 retaining incumbents in the Chief Health Director position  
6 due to the specialized knowledge, skills, and expertise  
7 needed to be successful, as well as its lower compensation  
8 structure compared to what is provided by other public and  
9 private sector employers with equivalent positions.

10 Similarly, CalPERS experience salary compaction  
11 issues between the Deputy Executive Officer over  
12 Operations and Technology, and its subordinate information  
13 technology leadership team.

14 Moreover, the key enterprise functions, such as  
15 the overall management of human resources, business and  
16 strategic planning, retirement policy, and information  
17 technology performed by the CalPERS DEO of Operations and  
18 Technology are those same in common to those of the Chief  
19 Operating Officer position of other health and financial  
20 services organizations similar in size and complexity to  
21 CalPERS.

22 This proposal is in efforts to improve CalPERS'  
23 ability to attract and retain a Chief Operating Officer  
24 and a Chief Health Director, key positions that required  
25 specialized expertise to manage the increasingly complex

1 operational and health enterprise functions, and to  
2 proactively plan for the succession of these vulnerable  
3 top level positions. Providing Board authority over these  
4 to positions would not be setting a precedent as there are  
5 other similar agencies with such authority and, for  
6 example, CalSTRS obtained authority over a Chief Operating  
7 Officer position last year.

8 With that, we are happy to answer any questions

9 CHAIRPERSON COSTIGAN: Oh. Thank you.

10 Mr. Jelincic.

11 COMMITTEE MEMBER JELINCIC: A couple of things.  
12 Salary -- yeah, come on up, Marcie. Salary compaction is  
13 not our problem. It is a problem. It's a problem that  
14 ACSS has worked on for years. The place to deal with  
15 salary compaction is over at CalHR to tell them to get  
16 real about what skill sets are needed.

17 So that's -- the Health Director I actually have  
18 a lot of sympathy for, that is a specialized skill set  
19 that we may very well have to pay up to get.

20 I have been a big proponent of paying up to get  
21 the skill sets we need. But on the other hand, we  
22 shouldn't be paying up for skill sets that we're not using  
23 or don't need.

24 The Chief Operating Officer is basically running  
25 a State agency. And we are able to -- the State is able

1 to hire people to run State agencies at the current salary  
2 levels. I don't see a specialized skill there that we  
3 ought to be paying up for.

4 I'm going to pick on Joe Dear, because, one he's  
5 dead and I can't libel him, but we hired -- we hired Joe  
6 for his management skills, and he did a very good job, but  
7 we paid Investment Officer wages for it. And I'm not sure  
8 that that was appropriate. I mean, if we need to pay more  
9 for those management skills, then we ought to deal with  
10 that. But I don't see the Chief Operating Officer as  
11 something other than what we can currently hire.

12 CHAIRPERSON COSTIGAN: Mr. Gillihan.

13 BOARD MEMBER GILLIHAN: Thank you, Mr. Chair.  
14 Yeah, I don't know where I am on these proposals at this  
15 point, but I would just note that some of the examples of  
16 comparable organizations with a Chief Operating Officer, I  
17 think have a significantly different organizational  
18 structure. And that's something I think we would look at  
19 in our analysis of any legislation down the road is the  
20 structure comparable? And if we're going to cite CalSTRS,  
21 they do have very different structure I believe of who  
22 reports to the Chief Operating Officer.

23 And then the other question I have is because  
24 these issues are sensitive for us. And some of us that  
25 hold important positions in the State and work for

1 salaries that are significantly below what we're citing  
2 that we need to pay for these skill sets, is where does it  
3 stop? Is this it for the -- for CalPERS or is this just  
4 this year's plan, and then next year we're going to add a  
5 couple other positions? I don't know.

6 So it's more of a philosophical question for Ms.  
7 Frost. But it is a concern that we -- year-over-year, we  
8 keep adding on. We did the CFO and we supported that, and  
9 then -- so...

10 CHIEF EXECUTIVE OFFICER FROST: Okay. Would you  
11 like me to comment, Mr. Chair?

12 CHAIRPERSON COSTIGAN: Sure, Ms. Frost.

13 CHIEF EXECUTIVE OFFICER FROST: All right.  
14 Marcie Frost, CalPERS team.

15 So I think, J.J., I'm not sure that there was  
16 actually a question in your comments, but if there was,  
17 I'll see if I can respond to what I heard.

18 And then -- so the way that I look at the  
19 organization is I use data, right? So if we look at the  
20 Chief Health Director position we did recruit for that  
21 position. And during that process, we received much  
22 feedback from highly talented candidates that we were  
23 unable to get to come into CalPERS. And the predominant  
24 reason was salary.

25 Many of these candidates were coming from private

1 sector organizations, some from public sector  
2 organizations. But what we found through that analysis is  
3 we were the lower paid position, even if they were  
4 contemplating another position at the time that they were  
5 competing for ours.

6 So there was a large amount of data, salary  
7 survey data on the Chief Health Director position. We, of  
8 course, if this -- if you approve this and it were to go  
9 forward to the legislature and to be approved, we would  
10 use salary survey data as well to determine what the  
11 appropriate salary level would be for this position.

12 So we are running -- and you hear this all the  
13 time, we're running the second largest health purchaser.  
14 We are the second largest health purchaser beyond the  
15 federal government. And with that, you're looking for a  
16 certain type of talent, both on the policy and the  
17 technical side, as well as running a large complex  
18 organization with the health care team itself.

19 And so at CalPERS, we're -- dual mission. We  
20 have the pension side and the health side. And this Chief  
21 Health Director role is very important, so that we can  
22 sustain this high quality care, negotiate with the health  
23 plans, get the rates the way that we need them. But we  
24 have a complex organization that we're working in and we  
25 need the right people to deliver those services for our

1 members.

2           On the Chief Operating Officer there -- you know,  
3 this is one where again we are a complex organization. We  
4 are by far the most complex pension system in the United  
5 States. You see that through the CEM benchmarking data  
6 that we bring to you on an annual basis.

7           The current incumbent does this with ease. And  
8 sometimes when it looks easy, people believe it is easy.  
9 It is not easy. We have a large technology footprint. He  
10 recent -- the incumbent recently also, through a small  
11 reorganization is now responsible for our research  
12 function, and our strategic planning function, as well as  
13 having oversight over human resources.

14           So this is a position that we, on the executive  
15 team, rely on. We rely on it very significantly to make  
16 sure that we're running the operations from a cost  
17 effective standpoint as well as a high quality standpoint.

18           So these are two very important positions to this  
19 organization, and having the right talent is critically  
20 important to the success.

21           So I would leave it there, and then, J.J., if  
22 there's something I can respond to more directly, I'd be  
23 happy to do that.

24           CHAIRPERSON COSTIGAN: So first, before I call on  
25 Mr. Jelincic, I will have to take a little disagreement

1 with Mr. Gillihan. Mr. Gillihan, I think you do fantastic  
2 work, for which I think you're underpaid. And I think at  
3 times the benchmark -- well, I'm just saying is you run a  
4 significant HR organization. And when you look at what  
5 folks are making vis-à-vis in the private sector compared  
6 to you and others.

7 I think at some time we're going to have to  
8 change this misnomer about what public sector employees  
9 make based upon the skill set. And I agree with you, I'm  
10 not sure where it starts and where it ends. I'd be  
11 supportive of you getting an increase.

12 (Laughter.)

13 CHAIRPERSON COSTIGAN: And I know you can't say  
14 that.

15 (Laughter.)

16 CHAIRPERSON COSTIGAN: But when you look at  
17 CalHR -- and then I call on J.J. But when I look at even  
18 some of the appointments that were made yesterday, at  
19 times there seems to be really no rhyme or reason, a  
20 little bit on salaries. But when you look at Mr. Hoffner,  
21 who I have known a long time, and the organization that we  
22 run, and I know folks that work in the private sector,  
23 vastly underpaid.

24 And I'm not going to go down the line here, but I  
25 know with Mr. Pacheco we do very similar work. I know

1 what Mr. Pacheco makes. I know what I make. And our work  
2 is very similar. He oversee more people than I do. When  
3 you look at what we need do, it goes back to the review.  
4 And it also starts with the onboarding and trying to make  
5 it easier.

6 But if we're Not an employer -- and we saw this  
7 yesterday a little bit in the Investment Committee  
8 discussion, unless we really become an employer -- a  
9 destination employer, we seem to be exporting more people.  
10 Hence our discussion about vacancy rates earlier.

11 A little bit of my soapbox.

12 CHIEF EXECUTIVE OFFICER FROST: I think if you  
13 look at where our former Health Director -- where he  
14 promoted to, there was a significant pay increase  
15 associated with that promotion. And we would -- again,  
16 we'd look at salary survey data to determine where this  
17 position would fit. But the reason we were unable to  
18 retain the last incumbent was due to a significant salary  
19 increase that he was able to get in another public  
20 employer -- or quasi-public employer.

21 CHAIRPERSON COSTIGAN: And again, the system  
22 permitted that, and there were no issue with that.

23 CHIEF EXECUTIVE OFFICER FROST: Yep.

24 CHAIRPERSON COSTIGAN: Mr. Jelincic.

25 COMMITTEE MEMBER JELINCIC: I never that I'd

1 heard Rich admit he was overpaid.

2 (Laughter.)

3 COMMITTEE MEMBER JELINCIC: On the health, I  
4 absolutely agree. I mean, that is a very special skill  
5 set, and we need to pay up to get it.

6 I'm not convinced that the Chief Operating  
7 Officer really is that much of a specialized skill set. I  
8 certainly would appreciate if you can enlighten me on what  
9 I'm missing, why that is different than running a large  
10 State agency?

11 CHIEF EXECUTIVE OFFICER FROST: So again, I don't  
12 know that it's a lot different than running a large State  
13 agency. But what I'm asking you to do is to approve this  
14 proposal to move forward, because this is an area where we  
15 actually do have the ability to make a change to the  
16 compensation structure for a position that I think is very  
17 important and critical to the success.

18 And so Chief Operating Officer is making sure,  
19 again -- and it's very similar to the IT analogy, when  
20 things are working really well, you just forget that you  
21 have an IT department. And they're really assessed and  
22 they're competencies are determined when something goes  
23 wrong and how well they respond to that problem.

24 I would say the same thing would apply to an  
25 operational officer. This is someone who's looking ahead

1 two to five years, looking ahead to what we need around  
2 infrastructure, what do we need around cost efficient  
3 processes, how do we make sure that this organization  
4 remains effective.

5           And sometimes this is a person having to say no  
6 internally, you know, inside the organization. And those  
7 are not easy conversations to have with people who have  
8 great ideas about how to move CalPERS forward, but when  
9 you have to balance all of these competing priorities, the  
10 Chief Operating Officer is the one who's really making  
11 sure that you are both cost effective and that you have  
12 this high quality service.

13           So again, I think sometimes when you're a very  
14 strong operational officer or operational person, it looks  
15 really simple. I used to have this role, so I can talk,  
16 you know, in detail about it, but it's not an easy role.  
17 There -- people are relying on it to again make sure that  
18 we're telling the right story about the system. And this  
19 is the day to day, you know, not to take anything away  
20 from our firefighter, but this is firefighter within the  
21 organization. And they're keeping that fire at the lowest  
22 possible level that they can. And that's something that  
23 Mr. Hoffner is quite good at.

24           And so I think I would be remiss in also not  
25 indicating that this is also a retention opportunity for

1 Mr. Hoffner, who is obviously recruited almost on a  
2 monthly basis. And so I take that into consideration.  
3 It's very important that I'm able to keep a talented team.  
4 We can't do what we do if we don't have the right talent  
5 on the team. And I think, again, the current incumbent  
6 represents that talent that I would be looking for.

7 CHAIRPERSON COSTIGAN: Anything else, Mr.  
8 Jelincic?

9 COMMITTEE MEMBER JELINCIC: No, I --

10 CHAIRPERSON COSTIGAN: Thank you, sir.  
11 Ms. Taylor.

12 VICE CHAIRPERSON TAYLOR: This just brings to my  
13 attention, Mr. Frost, something you and I had discussed  
14 that Mr. Gillihan had talked about. Are we looking into  
15 other positions, besides the two listed here for a  
16 future -- for example, IT?

17 CHIEF EXECUTIVE OFFICER FROST: Potentially. So  
18 as I started my dialogue or my answering of your  
19 questions, I really look at the data that's associated  
20 with are we able to get the right candidates, are we able  
21 to get a candidate pool where we can select, you know, a  
22 qualified individual for the position?

23 And I think the Chief Health Director, it seems  
24 like there's fairly common agreement around that. There  
25 may be common agreement about it if we would have had to

1 actually recruit for a COO, but that's not the case that  
2 we're in right now.

3 Now, I would say our CIO has been problematic in  
4 filling, so that's something that we're going to have to  
5 take a look at. And then there are potentially a couple  
6 of IT positions related to the support of my|CalPERS where  
7 we actually have to bring some contracting support in,  
8 because a marketable -- it's marketable talent that we  
9 can't compete with the wages.

10 So there could be like a handful, but I'm not  
11 seeing that the data is indicative of that yet.

12 VICE CHAIRPERSON TAYLOR: So CIO you're still  
13 kind of gathering data?

14 CHIEF EXECUTIVE OFFICER FROST: We're still  
15 gathering data. We've been recruiting.

16 VICE CHAIRPERSON TAYLOR: The other positions  
17 isn't something I think --

18 CHIEF EXECUTIVE OFFICER FROST: Right.

19 VICE CHAIRPERSON TAYLOR: Yeah. Okay.

20 CHIEF EXECUTIVE OFFICER FROST: You got it.

21 CHAIRPERSON COSTIGAN: Okay. We're going to take  
22 Mr. Bilbrey's question and then we're going to break just  
23 to let the court reporter know.

24 Mr. Bilbrey.

25 BOARD MEMBER BILBREY: No question. Just a quick

1 comment. On behalf of Performance, Compensation and  
2 Talent Management, I'm glad we're bringing these forward.  
3 The Committee has had a lot of issue as we've seen many  
4 people leave, and are not being able to retain or bring  
5 quality talent to CalPERS like we would like. So I'm  
6 encouraged also to hear that we may be bringing some other  
7 positions into the fold, because I think that's something  
8 we agree on in the Committee, and have thought about.

9 So thank you.

10 CHIEF EXECUTIVE OFFICER FROST: Thank you.

11 CHAIRPERSON COSTIGAN: And I'm going to look to  
12 the court reporter. You don't have to take this down.

13 Do you want to break now or go another 15  
14 minutes?

15 THE COURT REPORTER: Break now.

16 (Laughter.)

17 CHAIRPERSON COSTIGAN: Okay. We're going to take  
18 a break.

19 We'll reconvene at 3:25.

20 (Off record: 3:09 p.m.)

21 (Thereupon a recess was taken.)

22 (On record: 3:25 p.m.)

23 CHAIRPERSON COSTIGAN: Okay. We're going to  
24 reconvene.

25 Mary Anne, next item.

1           LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: So  
2 the final policy proposal is to require members who elect  
3 to purchase service credit, a tier conversion, or to  
4 redeposit for prior service on or after January 1st, 2019  
5 to pay any remaining balances within 60 days of the  
6 member's retirement date.

7           Currently, CalPERS credits an active member's  
8 account with a service credit upon his or her election to  
9 purchase eligible leave or service, conducted tier  
10 conversion, or to make a redeposit for prior service. The  
11 member in turn may elect to make installment payments into  
12 retirement for a period of up to 180 months, if he or she  
13 has not completed the installment payments at the time of  
14 retirement.

15           If the member subsequently passes away with an  
16 outstanding balance, CalPERS will continue to deduct the  
17 required monthly payment from the beneficiary's monthly  
18 allowance or deduct the unpaid balance from any lump sum  
19 death benefit payments.

20           However, if the member does not provide for an  
21 ongoing survivor allowance or lump sum death benefit  
22 payment, there is an unpaid balance that cannot be  
23 collected.

24           Research has shown the CalPERS allowance of  
25 installment payments into retirement is unique among

1 public pension retirement systems, and that none of the 11  
2 other public pension retirement systems surveyed allowed  
3 their members to continue installment payments into  
4 retirement for any reason.

5           Therefore, team members propose to seek  
6 legislation to change the requirement for installment  
7 payments for service credit related purchasers made on or  
8 after January 1st 2019, by requiring members and the  
9 survivor or beneficiary of a deceased, active, or inactive  
10 member to pay any remaining balance within 60 days of  
11 their retirement date.

12           And with that, we are happy to answer questions.

13           CHAIRPERSON COSTIGAN: Okay. Thank you.

14           Mr. Feckner.

15           PRESIDENT FECKNER: Thank you, Mr. Chair.

16           I have a number of questions and concerns about  
17 this proposal. First of all, I think we need to be real  
18 clear on the language, because as I read through that, I  
19 think a lot of people are going to question whether that  
20 60 days pre-retirement or post-retirement, first of all.  
21 If you read through it, you can probably glean that out.  
22 But at first glance, it may look like they have to pay for  
23 it two months early.

24           That being said, right now they have up to 15  
25 years that they can spread this out. So if we had someone

1 that retired in 2010 and as of 2019, they now had -- and  
2 they're going to retire in 2019, they now have to pay out  
3 six years early. They've been making payments for 10  
4 years, the way I understand this, is that not correct?

5 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

6 That's not correct. It would apply to those made  
7 beginning January 1st 2019.

8 PRESIDENT FECKNER: So nobody that is currently  
9 in the program that is making payments?

10 MEMBER ACCOUNT MANAGEMENT DIVISION CHIEF CAROLAN:

11 Correct, this would only be for people who elect  
12 to purchase January '19.

13 CHAIRPERSON COSTIGAN: Identify, please.

14 MEMBER ACCOUNT MANAGEMENT DIVISION CHIEF CAROLAN:

15 Sorry. My name is Carene Carolan, CalPERS team  
16 member.

17 This would only apply to future elections. So it  
18 wouldn't impact any current retirees or members that are  
19 currently under contract purchasing service credit  
20 purchase.

21 PRESIDENT FECKNER: Okay. Thank you. That helps  
22 that part, but I would hope we'd make that a little more  
23 clear in the language.

24 Second piece in there, I see no teeth from the  
25 employer's side of the equation. Right now, you have

1 employers that are refusing to give that back information  
2 on when the people were hired. Now, I'm talking  
3 specifically about school employees. Typically, they're  
4 the ones who are taking advantage of this purchase prior  
5 to membership, et cetera, because they have employers that  
6 were hiring them in a 3.45 hours.

7           So before -- below the 4-hour threshold, so they  
8 weren't eligible to be PERS members. They then became  
9 PERS members. Years later they want to purchase this time  
10 back that they weren't allowed to have ahead of time. So  
11 it's a low income set of folks.

12           But the employers -- a lot of employers out there  
13 are refusing to come back and give that information. The  
14 onus can't be on the employee, because they don't have  
15 that information. It's on the employer. Yet, I don't see  
16 anywhere in here where we're putting anything upon the  
17 employer to put this forward.

18           So when the employee makes its request, what do  
19 we do? The employee just sits there. So when I've been  
20 around when the question has been asked, oh, well. That's  
21 not a good enough answer. We have to have an answer on  
22 the back end for these employers. I heard comments at the  
23 employer's conference this year, the employers were  
24 saying, well, we're cutting off our records at seven  
25 years. We're not going back any farther than that.

1           That's not okay in my opinion. I'm a 40 year  
2 employee. What happens if I wanted to buy back my first  
3 three years. Our record -- the employer is not going to  
4 have any records for that. That's not fair to the  
5 employee. So we're here to look at both sides of the  
6 equation, looking at the employer and the employee side.  
7 I want to find out if there's somehow in there we can put  
8 some teeth in there for the employer to be more responsive  
9 to the request of the employee on these dates -- these  
10 purchase dates, because then -- they're the ones that are  
11 at the end. Geez in 2019, I can't even reply -- apply for  
12 it, because the employer wouldn't give us the information.

13           DEPUTY EXECUTIVE OFFICER PACHECO: Thanks, Mr.  
14 Feckner. Let us look at that and see what we can do  
15 related to that.

16           PRESIDENT FECKNER: And I understand the part  
17 about not wanting to allow -- we're not their bank. We  
18 don't want to be their loan going forward. At the same  
19 time, I would like to see some ability in there to have  
20 some wiggle room. Now, if that means that they have --  
21 that they're allowed to spread it out forward, et cetera,  
22 to a smaller number of time. I don't know if two months  
23 is going to be able to be helpful to anyone, but we could  
24 make the calculation.

25           I understand this is more work based, but we can

1 make the calculation, yet they wouldn't assume the higher  
2 rate until they paid off their debt. So they would retire  
3 with X amount, and once they were -- that was completely  
4 paid, they would pop up to the amount that they -- what's  
5 going to be for the entire service credit they purchased.

6 So just options I would like to look at as we go  
7 forward as well.

8 Thank you.

9 CHAIRPERSON COSTIGAN: I now you looked a little  
10 confused. And I think -- I want to make sure what Mr.  
11 Feckner is raising. So you retire. You seek the  
12 additional time. And you're looking at two benefits, one  
13 until the entire -- I'm going to -- push your microphone,  
14 please. I'm going to turn it back on. Sorry, sir --  
15 would be that they would not see an increase in the  
16 benefit until the entire amount has been paid?

17 PRESIDENT FECKNER: Yeah, I don't -- like I said,  
18 I don't want us to be their bank, but at the same time if  
19 they can't afford to pay it off all at one time, let them  
20 pay it on their own, but they don't get that increase, so  
21 we're not there banking their money for them. They don't  
22 get the increase until they paid off their debt.

23 CHAIRPERSON COSTIGAN: Ask your question. I  
24 mean, this is the only legislative proposal going forward,  
25 so you look like you might have a question.

1 MEMBER ACCOUNT MANAGEMENT DIVISION CHIEF CAROLAN:

2 Well, we did look at -- it's a couple of  
3 different issues, so let me take the last one first.

4 As to the issue of allowing -- not doing this  
5 proposal to require payment of all installments, 61 days  
6 after retirement, or in the case of pre-retirement death,  
7 what we -- we did look at what if we gave people longer to  
8 pay, but we didn't post their service credit initially,  
9 because right now, the system works that you can start  
10 reaping the benefit of that purchase service credit, even  
11 if you haven't fully paid for it if you're financing it  
12 upon retirement.

13 We proposed this particular legislation to reduce  
14 complexity, to enhance fund sustainability, and also to  
15 have some operational efficiencies. Eventually, we could  
16 redirect about six PYs that currently maintain these  
17 accounts into retirement, and redirect them to other work  
18 if we no longer had install payments into retirement.

19 But if we did not post the service credit  
20 initially, and waited until people paid it off, it would  
21 increase our complexity in a number of ways.

22 It would require a lot of system changes that are  
23 costly. It would complicate issues such as community  
24 property. Right now, if we could not credit service until  
25 it's fully paid, that would cause a lot of problems with

1 community property settlements. We would have to be  
2 monitoring those accounts continuously to make sure that  
3 settlements are properly applied and that the divorced  
4 spouses are getting appropriately credited.

5           So we did do some initial research. And if the  
6 Chair directs, certainly program can go back and look into  
7 other possibilities, but we did do some initial research.  
8 And we didn't feel that it would save us money or it would  
9 certainly not decrease the complexity.

10           The other issue about requiring employers or  
11 putting teeth into the law to require employers to  
12 complete service prior to membership, authorization, or  
13 certification where somebody worked at a CalPERS covered  
14 employer, often schools, where they weren't brought into  
15 membership perhaps, because it was a temporary or limited  
16 term position, and now they want to go back and buy that  
17 time, because they are a CalPERS member and they want that  
18 time to enhance their benefit, that happens early in the  
19 process prior to us even telling someone how much it's  
20 going to cost.

21           So that's in the election process, and that's  
22 certainly not a bad idea if the Committee directs us to  
23 look at that. But this particular proposal had to do with  
24 installments payments after someone has already elected  
25 and is paying for the service. So it wasn't that we

1 didn't think that was a good idea, it was just that the  
2 intent of this particular proposal didn't have to do with  
3 the pre-election process.

4 CHAIRPERSON COSTIGAN: Mr. Feckner.

5 PRESIDENT FECKNER: I agree with you to a point,  
6 except for if the member is waiting for the employer to  
7 come back with the answer and they haven't gotten back to  
8 you with the appropriate numbers by January 2019, that  
9 employee is now in peril, because they can't purchase the  
10 time. They can't buy it in two months, if the employer  
11 has not done their part in the back end.

12 MEMBER ACCOUNT MANAGEMENT DIVISION CHIEF CAROLAN:

13 It could potentially delay retirement dates. But  
14 current law requires people to elect service credit prior  
15 to retirement or separation, so that's -- actually, this  
16 is not a change to that provision of law that's currently  
17 in place.

18 CHAIRPERSON COSTIGAN: Thank you, Mr. Feckner.

19 Mr. Jelincic.

20 COMMITTEE MEMBER JELINCIC: One point before I  
21 respond to this. I think Neal had actually wanted to talk  
22 about the previous one.

23 CHAIRPERSON COSTIGAN: Yeah, we're going to --

24 COMMITTEE MEMBER JELINCIC: Okay. No --  
25 virtually nobody retires under Tier 2 anymore, because

1 they can opt into Tier 1, buy the time. Their pension  
2 warrant is actually larger than it would have been under  
3 Tier 2, even with the payment coming out.

4 MEMBER ACCOUNT MANAGEMENT DIVISION CHIEF CAROLAN:  
5 Correct.

6 COMMITTEE MEMBER JELINCIC: It seems to me that  
7 we could say all of the incremental gain, the incremental  
8 increase in warrant goes to paying the debt until it's  
9 paid. And so you would retire at the tier 2 level. And  
10 once it was paid, it would pop up. Now, that means we  
11 have to monitor people's checks, but if they're paying on  
12 an installment plan, we have to monitor it anyhow. So I  
13 think that's something that ought to be looked at.

14 One of the issues that got raised, that I think  
15 is a legitimate issue is where people have taken option 1,  
16 and die before they pay us back.

17 One of the other things we might consider is say  
18 that you can't finance it over time, if you take option 1.  
19 There has to be a beneficiary source that we can continue  
20 to tap.

21 So I think that gets to the issue as well. So I  
22 would -- I would encourage you to look at both of those  
23 options.

24 Thank you.

25 CHAIRPERSON COSTIGAN: Okay. I see no other

1 questions on this.

2           Two things. Mr. Johnson, if you'll come on down.  
3 And then if there's no objection, I would like to take is  
4 it Mr. Lillio? Is he still here? With the City of El  
5 Segundo.

6           Okay. Never mind, that took care of that. He  
7 had a flight to catch, so that -- I will cross him off.

8           Okay. Mr. Johnson.

9           MR. JOHNSON: Good afternoon Neal Johnson, SEIU  
10 1000.

11           Actually, I wanted to speak about the 20000  
12 proposal under the 20098 expansion. We have several times  
13 over the past been very concerned, I think, as this  
14 proposal now raises of, well, I can probably, as Mr.  
15 Jelincic did, argue that the health director may make  
16 sense. I might agree that a Chief Operating Officer might  
17 make sense.

18           But, you know, who next, and do we now have a  
19 Deputy Health Director, do we have and Associate Deputy?  
20 Where do we go in this problem?

21           I disagree with Mr. Jelincic's comment that  
22 salary compaction is not PERS issue. It's an issue that  
23 PERS and every other agency of the State of California  
24 faces, and in some sense, probably every public agency in  
25 California. But I don't think we really resolve that

1 problem by creating yet another way of -- I won't say  
2 circumventing the civil service system, but allowing  
3 people to come into the system in a different route, and  
4 then somewhat enjoy civil service protection once they're  
5 in, and get highly compensated.

6           You know, where does that go or where does that  
7 end? And, you know, one of the things I think Mr.  
8 Gillihan and -- said, and I hate to think that I'm  
9 starting to agree with him, of we need to really look at  
10 how many of these we have, what do the groups we really  
11 want to create? He also made a comment that, you know,  
12 that there's different structures to State agency. The  
13 Health Benefits Exchange had a different statutory  
14 structure than other agencies. The State Compensation  
15 Insurance Fund has a different structure.

16           So, you know, I'm not sure there's -- PERS has a  
17 different structure. So I'm not sure how analogous all of  
18 this -- are what are the analogous pieces, but I think you  
19 really not -- need to start really looking at how many of  
20 these special pieces do we create and carve out?

21           And, you know, when you think that the highest  
22 paid State employee is a football coach in Southern  
23 California whose team is 5 and 5, you really start  
24 wondering about State compensation.

25           Thank you very much.

1           CHAIRPERSON COSTIGAN: All right. Before we --  
2 Mr. Gillihan, I think you're going to make a motion. But  
3 we have three more people that want to comment on 7a, and  
4 that would be Mr. Gibbons, Mr. Hutchings, and Ms. Johnson,  
5 if you'd all come on down. And then Mr. Jelincic, I'll  
6 call on you.

7           All right, Mr. Jelincic, go ahead said, sir.

8           COMMITTEE MEMBER JELINCIC: Neal, if I -- salary  
9 compaction is a problem at PERS, what I was saying is it's  
10 not one we can address.

11          CHAIRPERSON COSTIGAN: Thank you, sir.

12          All right. Mr. Gibbons, you're first, sir.

13          MR. GIBBONS: Chair, members of the Committee.  
14 Dillon Gibbons with the California Special Districts  
15 Association.

16           I want to start by talking about the potential  
17 JPA proposal coming next month. And start by thanking the  
18 CalPERS staff and the members of the Board and this  
19 Committee for their commitment to working with us to  
20 develop a solution that is workable for employers,  
21 employees, and the Board.

22           Couldn't agree more that it is important that we  
23 ensure that retirees get the benefits that were promised  
24 to them, at the time that they took employment and upon  
25 retiring.

1           The second proposal that I wanted to talk about.  
2           Theresa, you mentioned something about notification, and  
3           the role of CalPERS in providing that notification. I  
4           think it's important to note that as employers, when it  
5           comes time for us to notify former employees, we don't  
6           necessarily track where all the employees go after their  
7           done they're employment. So I think it would be wise for  
8           CalPERS to also notify the employees. And if we only have  
9           7 days to do it, trying to track down all that information  
10          of former employees where they've gone may be a challenge.  
11          So I think that's something that you need to look at in  
12          that legislation.

13          Third, I want to address there was some  
14          conversation on the previous item related to actuarial  
15          liability and possible legislative fix. And I was as  
16          surprised as you were, that the rules were different for  
17          public agencies versus the State. And I think that that  
18          is something that we need to be looking at to make sure  
19          that the rules apply the same to everybody. I know that  
20          when I was working in State employment and I was hiring  
21          folks into the State from other public agencies, we were  
22          offering higher lease, and those local agencies were on  
23          the hook for what we were paying.

24          So I think it is something that is worth CalPERS  
25          looking into. So with that, thank you very much.

1 CHAIRPERSON COSTIGAN: Mr. Hutchings.

2 MR. HUTCHINGS: Thank you, Chair and members.

3 Dane Hutchings with League of California Cities. I align  
4 my comments with the special districts association on the  
5 items he covered. Just more specifically on the potential  
6 JPA legislation.

7 I do want to thank the staff for holding the item  
8 over until December till we can have a more thorough  
9 conversation on best practices. I certainly have been  
10 reaching out to my members and trying to find a way to  
11 figure this out.

12 I certainly agree that it is the lasting we want  
13 to do is have another East San Gabriel. But one thing I  
14 do want to highlight. I want to -- you know, I have  
15 expressed this to CalPERS staff, and I want to express the  
16 same to the Board, is that, you know, we look back on that  
17 particular situation, and correct, there was four cities a  
18 count that were responsible for that, for that particular  
19 JPA that has gotten so much press.

20 But let us not forget that like a lot of things  
21 that happen to do with this -- with all things CalPERS, we  
22 talk about shared accountability, shared responsibility,  
23 you know, it was also CalPERS who played a role in this  
24 situation as well by allowing such contract to be approved  
25 and benefits be paid when the sole source of funding was

1 federal grant funds.

2           And so again, I'm certainly not trying to defend  
3 the agencies that were a party to these East San Gabriel  
4 incident merely to say that when we do come together and  
5 think about a global solution, it is my hope that we  
6 simply don't say, well, it's those -- you know, we're  
7 doing the finger pointing, it's just those agencies.

8           I think all of us had a shared role in what  
9 happened and the retirees are th ones who suffered. And  
10 we certainly don't want to see that happen. So it is my  
11 hope that as we move forward and we continue to work  
12 collaboratively to try and look at this situation, that we  
13 call all understand that all of us had a role to play in  
14 this, and we certainly don't want that to be repeated.

15           So with that, I appreciate the time and look  
16 forward to continuing our conversations in December.

17           Thank you.

18           CHAIRPERSON COSTIGAN: Thank you, sir.

19           Ms. Johnson

20           MS. JOHNSON: Good afternoon. Dorothy Johnson  
21 with the California State Association of Counties. I want  
22 to thank my colleagues for hitting my talking points. I  
23 will echo them, and also I want to expand a little bit on  
24 the JPA issue again, express an appreciation that we are  
25 holding this over and the opportunity to speak to the

1 concerns that our counties have expressed, not only for  
2 the additional potential liability that would be placed on  
3 that, but the unintended consequences of knocking out JPA  
4 as an important financing tool for infrastructure, dams,  
5 waterways, and then service delivery, fire protection, for  
6 instance.

7           So look forward to continuing that conversation,  
8 and really taking a hard, close look at the options on the  
9 table to make sure again, as my colleagues from the League  
10 and Special Districts said, the retirees are not the ones  
11 suffering in the end.

12           Thank you.

13           CHAIRPERSON COSTIGAN: Thank you. And we'll look  
14 forward to seeing you all next month when this item comes  
15 up.

16           All right. Is there any further discussion  
17 before we have a motion?

18           All right. Mr. Jelincic.

19           COMMITTEE MEMBER JELINCIC: I move that we  
20 approve bullet points 1, 4, and 5.

21           CHAIRPERSON COSTIGAN: Okay. So it has been  
22 moved bullet point number 1, would be to shorten the time  
23 frame in which the contracting -- a contracting agency can  
24 voluntarily terminate. Four would be, and I'm just  
25 paraphrasing, allow CalPERS to collect any overpayment

1 made to or on behalf of any member. And then number 5 is  
2 limit the categories of direct authorization that retirees  
3 and beneficiaries may request. So that's 1, 4, and 5.

4 Is there a second or a substitute motion?

5 Mr. Slaton

6 COMMITTEE MEMBER SLATON: Substitute motion to  
7 include bullet number 2.

8 CHAIRPERSON COSTIGAN: Okay. So we have a  
9 substitution motion before us that would add the three  
10 that Mr. Jelincic moved, along with adding a Chief  
11 Operating Officer and a Chief Health Director.

12 Is there a second?

13 VICE CHAIRPERSON TAYLOR: Second.

14 CHAIRPERSON COSTIGAN: It has been seconded by  
15 Taylor.

16 So the motion before us is to approve, unless  
17 there's a substitute motion.

18 COMMITTEE MEMBER JELINCIC: I'm going to ask to  
19 split the question then.

20 CHAIRPERSON COSTIGAN: Oka. I'm sorry.

21 COMMITTEE MEMBER SLATON: Well, we have a motion  
22 on the -- point of order. We have a motion on the floor.

23 CHAIRPERSON COSTIGAN: Your motion, that's  
24 correct.

25 COMMITTEE MEMBER SLATON: Yes, and I'd like to

1 speak to the motion.

2 CHAIRPERSON COSTIGAN: Okay. Yes, Mr. Slaton.

3 COMMITTEE MEMBER SLATON: Okay. I think on this  
4 issue of the Chief Health Officer and the COO, you know,  
5 we hire a CEO to run this organization, and to bring the  
6 skill sets necessary to be able to do that. And I think  
7 we as a governing board when the CEO tells us that she  
8 needs this kind of authority to be able to fill positions  
9 to do the job that she is hired to do, I think the benefit  
10 of the doubt goes to the CEO.

11 So it would be nice if we could fix all the  
12 structural problems at the State of California, but that's  
13 not on the agenda today. And meanwhile, we have an agency  
14 to run here. And I think this particular -- particularly  
15 the Chief Health Officer I think is a no-brainer. I think  
16 the COO is also a no-brainer. And the reason it is  
17 because it frees up the CEO to work on the strategic  
18 matters that are so critical to the success of this  
19 agency. And someone has to be watching the store on an  
20 hourly and daily basis and that's your COO.

21 And she's assessed the marketplace. The  
22 marketplace is telling us what we need to do. So I  
23 encourage a yes vote on the substitute motion.

24 Thank you.

25 CHAIRPERSON COSTIGAN: Ms. Taylor.

1           VICE CHAIRPERSON TAYLOR: I want to speak to the  
2 motion as well, including 1, 2, 4 and 5 and leaving out 3.  
3 The reason I would like -- I just feel like if -- leaving  
4 out 3, because there were so many concerns listed with the  
5 purchase of service credit, which is why I would like to  
6 do the substitute motion, or support the substitute  
7 motion. And I agree with Mr. Slaton that the Chief  
8 Operating Officer based -- I know Ms. Frost does most of  
9 her analytics based on data. So I'm quite comfortable  
10 with the fact that she feels that she needs to be paying  
11 the salary for the Chief Health Director and the Chief  
12 Operating Officer.

13           CHAIRPERSON COSTIGAN: Your mic is on Mr.  
14 Jelincic.

15           COMMITTEE MEMBER JELINCIC: Oh --

16           CHAIRPERSON COSTIGAN: You were going to make.

17           COMMITTEE MEMBER JELINCIC: I'm just moving that  
18 we split the question.

19           CHAIRPERSON COSTIGAN: Okay. And I've exhausted  
20 Robert's Rules of Order here. You -- I don't believe you  
21 can split the question.

22           COMMITTEE MEMBER JELINCIC: You can.

23           CHAIRPERSON COSTIGAN: But there's no second, but  
24 I'll ask Mr. Jacobs.

25           CHAIRPERSON COSTIGAN: There has to be a second

1 to split the question.

2 VICE CHAIRPERSON TAYLOR: He never had a second.

3 CHAIRPERSON COSTIGAN: No. My understand -- I  
4 just want to make sure. Mr. Jacobs, please have a seat.

5 Mr. Jelincic made a motion which was not  
6 seconded. Mr. Slaton made a substitute motion, which was  
7 separated -- or which was seconded. Mr. Jelincic has now  
8 raised that he'd like to make a motion to separate, which  
9 I assume would be bifurcate one 1, 2, and 5 -- or 1, 3,  
10 and -- his 1, 4, 5, but it has not been seconded.

11 GENERAL COUNSEL JACOBS: Right, it needs to be  
12 second, if it's going to move forward.

13 CHAIRPERSON COSTIGAN: Thank you.

14 Is there a second to Mr. Jelincic's motion?

15 There is no second to Mr. Jelincic's motion to  
16 split the question. We are back to Mr. Slaton's  
17 substitute motion.

18 Any further discussion?

19 Mr. Jones.

20 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.  
21 Chair. On the one that's limiting the authorization for  
22 retirees, Mr. Suine indicated that he would meet with the  
23 retirees to talk about what types of limitations. And so  
24 I would like to either have direction from you or have Mr.  
25 Slaton include that in his motion to include that.

1 COMMITTEE MEMBER SLATON: I'll take that as a  
2 friendly amendment.

3 DEPUTY EXECUTIVE OFFICER PACHECO: Mr. Chair, I  
4 took that as a note to follow up with the retiree groups,  
5 so we'll do that.

6 CHAIRPERSON COSTIGAN: And Mr. Suine and I did  
7 discuss that during the break, along with Ms. Lum and Mr.  
8 Linn.

9 COMMITTEE MEMBER JONES: Okay.

10 CHAIRPERSON COSTIGAN: We got it all as we were  
11 having that conversation.

12 Okay. So the motion before us is to adopt  
13 legislation for items 1, 2, 4, and 5, and then we'll visit  
14 3 in a second.

15 Any further discussion?

16 Seeing none.

17 All those in favor?

18 (Ayes.)

19 CHAIRPERSON COSTIGAN: Opposed?

20 (No.)

21 CHAIRPERSON COSTIGAN: Please note Mr. Jelincic  
22 as voting no. And I assume it's the objection to the  
23 adding of number 2.

24 COMMITTEE MEMBER JELINCIC: Yes.

25 CHAIRPERSON COSTIGAN: Let the record correct.

1           COMMITTEE MEMBER JELINCIC:  And it's actually  
2 objection to Chief Operating Officer within number two,  
3 because I would have supported the other.

4           CHAIRPERSON COSTIGAN:  Thank you, sir.

5           Okay.  I just want to make sure just on  
6 housekeeping, is there a motion on the remaining  
7 legislative proposal?

8           COMMITTEE MEMBER JELINCIC:  I actually would  
9 like -- either make a motion or ask the Chair to direct  
10 staff to look at proposing legislation to replace the  
11 replacement benefit fund that is something that's giving  
12 us a lot of bad press by creating very high pensions.  It  
13 is something that is simply passed through.  And so I  
14 would ask that -- I'll either make a motion --

15          CHAIRPERSON COSTIGAN:  So it's a little broader  
16 than the lege request.  What is was actually going to  
17 give, because I assume that this item at least did not  
18 have support of the Committee right now, was to give  
19 Committee direction to come back with the issues Mr.  
20 Feckner raised.

21          Mr. Jelincic, I'm sorry it's late in the  
22 afternoon.  This seems -- your request seems a little far  
23 off from what this request was.

24          COMMITTEE MEMBER JELINCIC:  Well, one of the  
25 things we're looking at is legislative recommendations.

1 And one of the recommendations that I think we ought to  
2 look at, and I'm perfectly willing to do it through  
3 direction of the Chair to bring it back.

4 CHAIRPERSON COSTIGAN: I think Ms. Frost.

5 COMMITTEE MEMBER JELINCIC: It's eliminating this  
6 program, and getting it out of our house and letting the  
7 people who created the obligation pay for it themselves.

8 CHAIRPERSON COSTIGAN: Mr. Frost.

9 CHIEF EXECUTIVE OFFICER FROST: Yeah, Mr. Chair,  
10 I understand Mr. Jelincic's direction and we can prepare  
11 some analysis to bring it back in December about the  
12 removal of the Replacement Benefit Fund.

13 CHAIRPERSON COSTIGAN: And addressing Mr.  
14 Feckner's issue.

15 CHIEF EXECUTIVE OFFICER FROST: As well as  
16 addressing Mr. Feckner's concerns.

17 CHAIRPERSON COSTIGAN: All right. Is the rest of  
18 the Committee fine with that for December for that  
19 proposal?

20 Okay. That's Committee direction, and Mr.  
21 Pacheco you've made a note of that.

22 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah, I did.  
23 Thank you.

24 CHAIRPERSON COSTIGAN: Okay. I believe that is  
25 it on Item 7a.

1           Okay. Al right. Good thing I've only been here  
2 have a day.

3           All right. We're going to go on to 8a now, which  
4 is an informational item, which is the review of the  
5 actuarial assumptions.

6           Our Chief Actuary is coming up.

7           CHIEF ACTUARY TERANDO: Good afternoon, Mr.  
8 Chair, members of the Committee. Scott Terando, CalPERS  
9 team.

10           This is an informational item. And this contains  
11 information reviewing the actuarial assumptions. Every  
12 four years, along with the ALM process, where we look at  
13 the assets, we also look at the liabilities. And what we  
14 do is we look at the -- we take a thorough review of the  
15 economic and demographic experience that occurred in the  
16 system. We run some analysis and we make recommendations  
17 on changes to those assumptions, as well as review the  
18 impact of those changes.

19           We're going to run through a number of our  
20 findings and the relationship -- impact of those on  
21 various organizations. Please, hire safety and various  
22 state groups.

23           With that, I'll pass it on to Randy to continue  
24 the presentation.

25           DEPUTY CHIEF ACTUARY DZIUBEK: Thanks, Scott.

1 Good afternoon. Randy Dziubek, CalPERS actuarial team.

2 As Scott said, we're going to walk through the  
3 main results of our analysis of the actuarial assumptions.  
4 And we do this every four years. It's a very important  
5 process for many reasons. The Actuarial staff comes to  
6 the Board quite often with actuarial results that provide  
7 information on the health of the system both currently on  
8 a projected basis. And then the Board makes very  
9 important decisions based on that information. And to the  
10 extent future experience deviates from our actuarial  
11 assumptions, the numbers change, as we all know.

12 Obviously, we can't avoid some change in the  
13 numbers. We're never going to predict future experience  
14 perfectly, but if we do the proper due diligence up front,  
15 we can generally minimize those types of deviations and  
16 select assumptions that, at least on the demographic side  
17 fairly closely predict future experience. It's very  
18 difficult to predict investment experience, just due to  
19 the volatility of the investment markets.

20 I'll just make -- I'll make one general comment  
21 before we get into the results that what we found with  
22 this study in looking at recent experience is that the  
23 experience lined up fairly closely with our current  
24 assumption. Thousand we are proposing many changes to  
25 many assumptions. Although, they're generally fine-tuning



1 economic assumptions are price inflation, wage inflation,  
2 payroll growth, and investment return. Investment return  
3 again is also our discount rate. And that's the rate that  
4 we're not going to be talking about today, but it is one  
5 of our economic assumptions.

6           On the demographics side, that's mostly  
7 assumptions having to do with the membership, how long  
8 they'll work, what type of benefit they'll receive, will  
9 it be a service retirement, a disability retirement, how  
10 long will they live in retirement?

11           And for those assumptions, we base a lot of our  
12 recommendations on what we see in terms of actual  
13 experience when we look at the last several years.

14           If there are factors that we think may influence  
15 future experience so that it may be different than past  
16 experience, of course, we will attempt to build that in.  
17 But by and large we base a lot of our recommendations for  
18 demographic assumptions on actual experience of the  
19 membership, unlike economic assumptions where we tend to  
20 look more forward than backward.

21           For example, if we were recommending a price  
22 inflation assumption or investment return based on, let's  
23 say, the last 50 careers, we'd probably be coming to you  
24 with vastly different assumptions than what we are,  
25 because the outlook going forward is quite a bit different

1 than if you go back 50 years.

2 --o0o--

3 DEPUTY CHIEF ACTUARY DZIUBEK: So let's start  
4 with the economic assumptions. I'll talk about price  
5 inflation, wage inflation, and payroll growth together.  
6 They're all somewhat related.

7 Price inflation is simply the expected increase  
8 in the Consumer Price Index. We have COLA benefits that  
9 are based in part on CPI increases. And price inflation  
10 is also a component of some of the other assumptions that  
11 we use, including wage inflation and the investment  
12 return.

13 So we set price inflation every four years. We  
14 are currently using 2.75 percent, and we are recommending  
15 a decrease of 25 basis points down to 2.5 percent.

16 And we are recommending a two-year phase-in of  
17 that. And that's basically to be consistent with the  
18 phase-in of the discount rate. No other reason than that.

19 We, you know, looked at a lot of different things  
20 to set that assumption. One of the main things we would  
21 look at, the Social Security Trustee Report that comes out  
22 every year predicts inflation going toward. And their  
23 intermediate prediction was to 2.6 percent, so our 2.5 is  
24 fairly aligned with that.

25 Now, wage inflation, is typically a little bit

1 higher than price inflation. When you look at how wages  
2 increase throughout the country versus price inflation,  
3 it's usually a bit higher due to some productivity  
4 increases. So we have been using a three percent  
5 assumption for wage inflation. So that there's a 25 basis  
6 point difference between that and our price inflation.  
7 And we're proposing to keep that same difference, so we  
8 would be dropping the wage inflation from 3 percent down  
9 to 2.75 percent.

10 And payroll growth is primarily important with  
11 regard to how we create amortization schedules for  
12 unfunded liability. As you probably know, our  
13 Amortization Policy includes a level percent of pay  
14 payment process, as opposed to level dollar.

15 And we'll be talking about that a lot in the next  
16 agenda item as well. And the idea with that has been that  
17 the UAL payments if they're calculated on that basis will  
18 remain relatively constant as a percentage of payroll.

19 And so the way we calculate those amortization  
20 schedules is to use our payroll growth assumption, which  
21 has been 3 percent, and we're proposing another 25 percent  
22 basis point decrease to 2.75 percent.

23 --o0o--

24 DEPUTY CHIEF ACTUARY DZIUBEK: Again, long-term  
25 expected return on assets, we think of as the sum of price

1 inflation and the real return assumption. The real return  
2 assumption is very dependent on the investment policy that  
3 the Board selects. So once that decision is made, the --  
4 this assumption will follow.

5 --o0o--

6 DEPUTY CHIEF ACTUARY DZIUBEK: Okay. Let's --  
7 I'm going to talk fairly quickly about a lot of the  
8 demographic assumptions. I'll spend a little bit more  
9 time on mortality. That's generally one of the more  
10 interesting assumptions.

11 With regard to termination of employment, and  
12 there a couple different ways someone can terminate. You  
13 can you terminate that it with a deferred annuity owed to  
14 you at some later date or you can determinate and take a  
15 refund.

16 What we saw with our analysis is that for the  
17 most part we saw fewer terminations than expected based on  
18 the data. And so when we build that into our proposed  
19 assumptions, that's going to result in slightly higher  
20 contribution requirements since, you know, we're now  
21 saying that folks have a greater chance of making it to  
22 retirement and earning higher benefits.

23 So given we are seeing fewer terminations than  
24 expected, we're building that into our proposed rates.  
25 And, in general, that is resulting in a slight increase

1 cost. The one, I guess, outlier was with regard to the  
2 schools population. We actually -- with regard to  
3 refunds, we saw more refunds than expected. And so by  
4 reflecting that into our assumptions, we'll now see  
5 slightly lower contribution rates for schools.

6 And so some of the agencies as we show on slide  
7 7, the experience was close enough to the assumptions  
8 where we're either not making a change or the change is  
9 minimal.

10 --o0o--

11 DEPUTY CHIEF ACTUARY DZIUBEK: There are two  
12 types of disability retirement, non-industrial and  
13 industrial. And we have to predict disability retirements  
14 under both of those. Since the benefits folks are  
15 entitled to are different.

16 What we saw with our analysis is generally fewer  
17 than expected disability retirements. And so when we  
18 reflect that into our proposed assumptions, we're going to  
19 see slightly lower contribution rates. Disability  
20 benefits tend to be more costly, so the more folks that  
21 qualify for those, the higher the costs generally are.

22 --o0o--

23 DEPUTY CHIEF ACTUARY DZIUBEK: With regard to  
24 retirement, we had a bit of a mixed bag. For the State  
25 peace officers, and firefighters, and CHP, we saw more

1 retirements than expected. And so building that into our  
2 proposed assumptions would result in slightly higher  
3 contribution rates for those groups. Generally, the  
4 earlier someone retires, the more costly it is. They tend  
5 to give up some service potentially, but the fact that  
6 they will be in pay status longer usually is the greater  
7 impact. And so if folks retire earlier than expected, it  
8 usually results in higher costs.

9 Now, with regard to public agency police, State  
10 miscellaneous, and schools, we saw the opposite. We saw  
11 fewer retirements than expected. And so the revised rates  
12 will lower contribution rates for those groups.

13 --o0o--

14 DEPUTY CHIEF ACTUARY DZIUBEK: Salary scale is  
15 another important assumption. Now, we already talked  
16 about wage inflation. And that's one piece of our  
17 assumption with regard to how an individual's pay will  
18 change from one year to the next. In addition to wage  
19 inflation, of course, people get promotions and that type  
20 of thing. And so from year to year, we would expect a  
21 person's pay to go up more than wage inflation, so we have  
22 a second component that we add on top of that for merit  
23 seniority. And what we saw generally was for many of the  
24 groups, the actual pay increases were comparable to what  
25 we expected, other than for CHP, State members, public

1 agency, safety, and schools where we saw slightly higher  
2 pay increases than expected. And so the proposed  
3 assumptions will increase costs a little bit for those  
4 groups.

5 --o0o--

6 DEPUTY CHIEF ACTUARY DZIUBEK: Okay. Mortality  
7 generally is the demographic assumption that if anything  
8 causes a significant increase in contribution rates, with  
9 regard to an assumption change, a lot of times it's with  
10 regard to mortality. Because as we all know, every time  
11 we look at mortality experience, it's better than the last  
12 time. So typically, you know, what's happened over  
13 decades, with CalPERS and with every plan sponsor, is as  
14 we get more up-to-date mortality experience, we improve  
15 the rates and costs go up.

16 Now, what we did at the last experience study,  
17 that was a little bit different, was recognizing that  
18 every time we look at mortality it's better than the last  
19 time. We built in an expectation for improvements going  
20 forward. So we first looked at current mortality  
21 experience and set those rates, but then said we think,  
22 given the past, it's likely to improve going forward.  
23 Even though, we don't see that improvement yet, we're  
24 building it into our mortality assumptions.

25 And so at the last experience study, we built in

1 20 years worth of mortality improvements, which -- so now  
2 when we get to this point -- and yes, there have been  
3 mortality improvements since the last time, but since we  
4 already had built in an expectation for improvements, the  
5 rates that we're proposing to move to now are much closer  
6 to the rates we had. We're not seeing a big jump in costs  
7 due to building in improvements in mortality, because we  
8 already built them in last time around.

9           So, in general, we are proposing new rates, and  
10 we're proposing slightly different improvements going  
11 forward. But for virtually all groups, the mortality  
12 rates are very close to what we had from the last study.  
13 Some are a little bit higher, some are a little bit lower,  
14 as we indicate on slide 11. But basically, the new  
15 mortality rates that we're proposing are not producing  
16 significantly different costs than the current rates.

17           --o0o--

18           DEPUTY CHIEF ACTUARY DZIUBEK: And slide 12 and  
19 13 just provide a little bit of information on life  
20 expectancy. Slide 12 shows life expectancy for a male and  
21 female at age 55 over time. So going back to 1994 through  
22 today, you can see how those life expectancies have been  
23 increasing.

24           And the last two bars you can see we have future  
25 improvements built into those, and you can see that there

1 was a bit of a jump between the 2009 study and the 2013  
2 study which also included mortality improvements built in.

3 --o0o--

4 DEPUTY CHIEF ACTUARY DZIUBEK: And slide 13 just  
5 shows some life expectancies for different ages for males  
6 and females. So we're showing the current assumption  
7 versus the proposed assumption. And again, we're seeing  
8 virtually, you know, very small changes either up or down  
9 for each of those attained ages.

10 --o0o--

11 DEPUTY CHIEF ACTUARY DZIUBEK: Something  
12 significant that, of course, we have to look at is how  
13 these assumption changes affect results for our PEPRAs  
14 members, because unlike classic members, PEPRAs members are  
15 required to pay half of their normal cost. And so when we  
16 make a change in an actuarial assumption, it changes the  
17 normal cost -- excuse me -- which then can lead to an  
18 automatic change in the member contribution.

19 Fortunately, the entire package of assumption  
20 changes is not expected to change the PEPRAs normal cost  
21 significantly. So we don't expect just because of the  
22 assumption changes to see any change in required member  
23 contributions. Now, with regard to the discount rate,  
24 that's a different matter. But the time we get down to the  
25 7 percent discount rate, we do expect to see increases in

1 PEPRA member contribution rates.

2 --o0o--

3 DEPUTY CHIEF ACTUARY DZIUBEK: So as we said,  
4 this is an information item. We will be coming back in  
5 December with our final proposed assumptions. And I guess  
6 we'll be happy to take any questions.

7 CHAIRPERSON COSTIGAN: Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: Yeah. On slide 11,  
9 the first point there, CalPERS experience with 15 years  
10 static projection using 90 percent, what's the telling me?  
11 If you'd put it in English instead of actuaries.

12 DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, that's a  
13 good question. So CalPERS is -- first of all, is  
14 fortunate enough to have enough bodies where our mortality  
15 experience is meaningful to be able to set at least our  
16 base mortality rates. Most systems around the country  
17 don't have the population to be able to do that. They're  
18 relying on standard tables, either issued by the SOA or  
19 some other body. That's based on mortality for the whole  
20 country in some respect. So first of all, we're able to  
21 use our mortality experience to set our base mortality  
22 rates.

23 Now, with regard to projecting those improvements  
24 that we talked about, there we do rely on some published  
25 improvement rates from the Society of Actuaries, and

1 that's what MP-2016 is referring to.

2 Now, we did look at how our -- how CalPERS  
3 mortality rates have improved over the recent past, and  
4 compared that with the improvements from this published  
5 table. And what we saw was our improvements were about 90  
6 percent of that published table. And rather than just  
7 base everything off our experience, we just took 90  
8 percent of this published SOA table.

9 And we're building in 15 years. Ideally what you  
10 would like to do is build in continually improving  
11 mortality rates all the way out into the future. It  
12 requires a level of sophistication in your software that  
13 we are working on, and we expect to have for the next go  
14 round.

15 A very valid approximation for that is to build  
16 in enough years of improvements so that you get results  
17 that are close to what you would get if you were using  
18 fully, what we call, generational mortality improvements.  
19 So that's where the 15 comes from. It's attempting to  
20 approximate -- it's actually -- so in the early years,  
21 it's using better mortality rates than what we think will  
22 happen, and using what we think will be -- will happen 15  
23 years from now, and then vice versa after 15. But, in  
24 general, it's trying to approximate fully generational  
25 mortality improvements.

1           COMMITTEE MEMBER JELINCIC: And then on slide 12,  
2 which is life expectancy at 55 for healthy recipient, you  
3 know, at the Health Committee we learned that we have more  
4 obese and more diabetic population than the rest of the  
5 population. So how relevant is that table to us?

6           DEPUTY CHIEF ACTUARY DZIUBEK: Well, it's a good  
7 question, and it -- you know, it -- we can measure  
8 mortality experience over the last several years. We have  
9 the data to do that. But when we're talking about  
10 building in future improvements, how do you do that?

11           You can look at past improvements. But to your  
12 point, how does that take into account changes in  
13 mortality, due to things that you're mentioning, that we  
14 don't know? And of course, nobody -- nobody knows how  
15 long any of us really going to live. We have to just use  
16 the best information we have.

17           What the SOA tables are showing, and the SOA has  
18 been doing this every year now, publishing these  
19 improvement tables, is that they're seeing a slow down in  
20 the improvement, and we're seeing that in our population.

21           Now, whether that's due to childhood obesity,  
22 diabetes, opioid addiction, your guess would be as good as  
23 mine, but -- so to your point are we -- are we  
24 over-improving mortality rates? Time will tell. We're  
25 setting them the best way we think we can, based on the

1 information we have.

2 COMMITTEE MEMBER JELINCIC: Okay. And let me go  
3 back to inflation. When you reduce inflation, you reduce  
4 our liabilities, because you're saying, wages aren't going  
5 to go up as fast, cost of living is not going to be as  
6 great, et cetera, et cetera.

7 DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

8 COMMITTEE MEMBER JELINCIC: But the inflation  
9 assumption is also part of the discount rate and the  
10 investment returns. And you're trying to separate the  
11 two. But net/net, how much is reducing the inflation  
12 likely to reduce our expected return greater than our  
13 reduction in liabilities, or vice versa?

14 DEPUTY CHIEF ACTUARY DZIUBEK: That's a good  
15 question. And I guess I'll take a step back. And Scott  
16 can certainly chime in if he has any comments on this. I  
17 think -- I think we might all agree that when the Board  
18 reduced the expected return from 7 and a half to 7, while  
19 it wasn't discussed how much many of that was a reduction  
20 in price inflation expectation versus real return, it was  
21 probably a mixture of the two.

22 COMMITTEE MEMBER JELINCIC: Or politics.

23 DEPUTY CHIEF ACTUARY DZIUBEK: And so, you know,  
24 we're not -- we're not proposing a change in the discount  
25 rate. As we saw yesterday, under the current portfolio,

1 the 7 percent that was already adopted is our best  
2 estimate of future return.

3 So these reductions in inflation are essentially  
4 catching up to the discount rate changes that we're  
5 adopted.

6 COMMITTEE MEMBER JELINCIC: So on -- at the asset  
7 liability, you're telling me the half -- or the quarter  
8 percent discount rate -- or the quarter percent inflation  
9 assumption was built into those numbers?

10 CHIEF ACTUARY TERANDO: That's correct. When we  
11 did the ALM work, we included the 2 and a half percent  
12 inflation that we have here, as well as we include the  
13 demographic information, and the results of the ALM  
14 probabilities that you saw in the actuarial section  
15 yesterday. The demographic impacts weren't that great  
16 overall, but --

17 COMMITTEE MEMBER JELINCIC: As long as we're  
18 looking at both sides of the equation, I'm happy. I just  
19 want to make sure we're not looking at the inflation --  
20 reducing the inflation on the liability side and ignoring  
21 the reduction inflation on the asset side.

22 CHIEF ACTUARY TERANDO: No, we -- in one sense,  
23 you can think about work -- this reduction is catching up  
24 to the reduction that happened last December.

25 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

1           DEPUTY CHIEF ACTUARY DZIUBEK: But your point is  
2 well taken. Normally, if you just reduce price inflation,  
3 you're also reducing the expected return on assets, which  
4 is causing an increase in liabilities, where because the  
5 COLAs are coming down it's a decrease in their offsetting  
6 factors. In this case, we've already taken the cost  
7 increases of the return assumption decrease, and now we're  
8 building in what will be a cost savings due to the price  
9 inflation of the specific assumption.

10           CHAIRPERSON COSTIGAN: Mr. Juarez.

11           ACTING COMMITTEE MEMBER JUAREZ: Yeah, I wanted  
12 to just ask the question, we do this every four years,  
13 correct?

14  
15           DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

16           ACTING COMMITTEE MEMBER JUAREZ: Have we found  
17 that in these four-year cycles that some parts of our  
18 analysis are better than others, meaning that the actual  
19 experience is closer to what we thought than others, and  
20 maybe other aspects we've been farther off, and does that,  
21 in any way, adjust our belief in what we put forward for  
22 the Board to consider.

23           DEPUTY CHIEF ACTUARY DZIUBEK: It's an  
24 interesting question. I will say, for example, this time  
25 around, what we've seen recently -- and it may very well

1 be related to the market downturn, we are seeing fewer  
2 terminations as we talked about, and in a lot of cases  
3 fewer retirements. People are not retiring as early.

4           And you know -- and that's different experience  
5 than we would have seen prior to the market downturn. So  
6 are people less likely to leave a job? Are they less  
7 likely to retire early, because there's just a little bit  
8 more uncertainty about the financial markets and their  
9 retirement prospects?

10           So from period to period, we see different  
11 results, which don't mean the prior results were wrong,  
12 it's just factors in the world change and it's driving  
13 behavioral changes. I don't know if that's answering your  
14 question, but --

15           ACTING COMMITTEE MEMBER JUAREZ: Well, I think it  
16 does. I'm just wondering with the four-year span of time  
17 whether or not that's the -- is it -- whether it's maybe a  
18 little too long for us then to adjust to what really is  
19 happening?

20           DEPUTY CHIEF ACTUARY DZIUBEK: Well, great point.  
21 And, for example, for the retirement rates, we did look at  
22 the last four years, but we also went back 12 years and  
23 looked at that, and looked at how the retirement patterns  
24 were different 12 years ago versus four years ago. And  
25 are the -- and then we had to consider are the changes

1 that we see in the last four years likely to continue? Is  
2 that a permanent shift in retirement patterns, or, as the  
3 markets adjust and, you know, people feel more confident,  
4 well they go back to the early retirement. So it's a lot  
5 of actuarial discussions, expertise, in putting all those  
6 pieces together.

7 ACTING COMMITTEE MEMBER JUAREZ: Thank you.

8 CHAIRPERSON COSTIGAN: Okay. Thank you for your  
9 presentation.

10 DEPUTY CHIEF ACTUARY DZIUBEK: Okay. Thank you.

11 CHAIRPERSON COSTIGAN: That's all our questions.  
12 All right, Scott, next item 7b -- 8b.

13 (Thereupon an overhead presentation was  
14 presented as follows.)

15 CHIEF ACTUARY TERANDO: Good afternoon. Mr.  
16 Chairman, members of the Board. Scott Terando CalPERS  
17 team member. Back in September, we had -- the actuarial  
18 office presented a information item going over, what we  
19 call, amortization basics. We talked about the difference  
20 between level dollar versus level percent of pay;  
21 amortization, the impact on the amortization period,  
22 whether a 20-year, 15-year, 30-year amortization period;  
23 how it affects the payment, the balance on the unfunded  
24 amount; as well as whether you encourage -- or incur  
25 negative amortization with those payments.

1           Today, we're bringing forward, after our analysis  
2 that's been done over the last several months, our  
3 recommendation on changes to the Amortization Policy. I'm  
4 joined by Kelly Sturm, who's going to step through step by  
5 step our recommendations on the changes, as well as the  
6 impacts that we see of this policy, as well as the pro --  
7 discuss a number of the pros that we see and why we think  
8 this is a positive change for the amortization policy.

9           SENIOR PENSION ACTUARY STURM: Good afternoon,  
10 Mr. Chair, members of the Committee. Kelly Sturm, CalPERS  
11 team member. This agenda item is for the proposed changes  
12 to the actuarial amortization policy. Note that this is  
13 the first reading. This is an information item, and we're  
14 expected to bring the second reading back to you in  
15 December.

16           In trying to be sensitive to the needs of the  
17 employer community, we would be looking at adopting the  
18 changes on a prospective basis only. So new sources of  
19 unfunded liability or new amortization bases that were  
20 incurred first in the June 30, 2017 valuation would be  
21 subject to the proposed changes.

22           Anything that had been incurred for the June 30,  
23 2016 valuation and prior would still maintain their  
24 structure and periods and those types of details.

25                           --o0o--

1 SENIOR PENSION ACTUARY STURM: So first, I wanted  
2 to start off with kind of a quick summary of our current  
3 policy. For the gains and losses that we see, we  
4 currently amortize them over a longer period. They're 30  
5 years. Assumption method changes and benefit changes are  
6 all done over 20 years, except Golden Handshakes, which  
7 are five.

8 In general, we amortize using a level percent of  
9 pay. For our inactive plans, we do amortize those as a  
10 level dollar, because there is no payroll component. And  
11 then for the gains and losses and the assumption method  
12 changes, we do ramp those in over a five-year period, and  
13 we ramp them back out over a five-year period.

14 --o0o--

15 SENIOR PENSION ACTUARY STURM: So there's three  
16 main reasons why we're looking at the policy. The first  
17 is negative amortization. So initially, on a lot of our  
18 payments, they're not large enough to cover the interest  
19 that's accruing on the balance. So there is some growth  
20 of the balance fairly far into the progression of the  
21 payment schedule, until we really start to chunk down on  
22 that balance.

23 Secondly, there's concerns over intergenerational  
24 equity, our future generations paying for the benefits  
25 that are accrued by current employees.

1           And lastly, we're really concerned about industry  
2 guidance and best practices. So what we have here is one  
3 example. There are a number of examples of published  
4 papers that have come out from the Society of Actuaries,  
5 the Conference of Consulting Actuaries, and then the  
6 California Actuarial Advisory Panel that have, you know,  
7 recommended practices, and we do fall outside or on the  
8 line of these policies.

9                               --o0o--

10           SENIOR PENSION ACTUARY STURM: So our proposal is  
11 highlighted in red. The changes are highlighted in red on  
12 slide 4. In general, we're looking to reduce the period  
13 on the gains and losses from 30 down to 20. For the  
14 inactive agencies, and that means an agency that no longer  
15 has any active members in any plan, we're looking at a  
16 15-year closed period.

17           And then we're also looking to remove the  
18 escalation rate. So rather than amortize as a level  
19 percentage of payroll, we're looking at level dollar.

20           And lastly, we're looking to remove all of the  
21 ramps except for the ramp up on the investment gains and  
22 losses. And the main reason to leave it on the investment  
23 gains and losses is to smooth out those market returns,  
24 because as we know, that is one of the largest sources of  
25 volatility in the contributions.

1                   --o0o--

2                   SENIOR PENSION ACTUARY STURM: So the next six  
3 slides or so are demonstrating the impact of the proposal  
4 on the various types of amortization bases. Note that  
5 while they are shown here as losses, they do work in the  
6 same fashion for actuarial gains. So in the case of an  
7 investment gain or loss, we are looking again to reduce it  
8 to 20 years. We're looking to keep the ramp on the  
9 beginning to deal with the market volatility, but then  
10 amortize it over a level door rather than a level percent  
11 of pay.

12                   And if you look on the graph on the right, it  
13 shows the annual payments that would be associated with a  
14 \$1 million asset loss. You'll notice hat they do step-up  
15 and then they remain level until it's paid off.

16                   And then if you look at the graph on the left, it  
17 shows the unfunded liability balance associated with that  
18 amortization base. And while it does grow over the  
19 next -- the first several years, that's due to the  
20 ramping, it does payoff much quicker and you do reach the  
21 point where you are paying off the balance a lot earlier.

22                   --o0o--

23                   SENIOR PENSION ACTUARY STURM: So then we  
24 summarize, you know, in general, the total payments that  
25 would be associated with paying off a \$1 million loss with

1 this strategy. The current policy for a \$1 million loss,  
2 an employer would be pay \$2.7 million. That means they're  
3 paying \$1.7 million in interest on a \$1 million balance.  
4 Under the proposed policy, they would be paying \$1 million  
5 of interest on a \$1 million loss.

6 --o0o--

7 SENIOR PENSION ACTUARY STURM: So next for the  
8 non-investment gains and losses, we're talking about  
9 removing the ramping altogether and amortizing it over 20  
10 years as a level dollar payment. You can see that the  
11 payments are exactly the same for the 20-year period, and  
12 that in the beginning the payments are larger, but towards  
13 the end of the period, they are lower than what would be  
14 scheduled under the current policy.

15 On the graph on the left, you'll see that the  
16 unfunded liability balance associated with this  
17 amortization base does decline immediately with the first  
18 payment, and it's paid off after 20 years.

19 --o0o--

20 SENIOR PENSION ACTUARY STURM: And then we show  
21 the details about, you know, the total payments  
22 associated. And in the case, they actually pay half as  
23 much interest, or less, than under the current policy.

24 --o0o--

25 SENIOR PENSION ACTUARY STURM: So moving on to

1 the assumption change, we're demonstrating this again with  
2 a \$1 million example. You'll see that we're looking to  
3 remove the ramp, and keep it as a level dollar payment, so  
4 the payments are equal.

5 In the first four years, the payments are  
6 greater. But then you'll notice starting in year five,  
7 the payments are much less than they would have been under  
8 the current policy. So when we're talking about two --  
9 you know, for public agency employers, two more years of  
10 discount rate change, your adding two sets of ramps on top  
11 of each other. So those payments are escalating quite  
12 quickly, as opposed to if you did the level dollar without  
13 the ramps, yes, there would be an increase up front, but,  
14 you know, towards the middle of the schedule it would be  
15 much lower.

16 And you'll notice in the graph on the left with  
17 the unfunded liability balance that the payments do take  
18 care of the interest and the balance is decreasing  
19 immediately.

20 So in this respect, you'll notice that the  
21 initial payment is larger under the proposed policy, but  
22 by year five the payment is lower than the current policy.  
23 And while it doesn't look like the total payments save  
24 much, it really is a reduction of about 20 percent of  
25 interest than they -- that they would have paid.

1                   --o0o--

2                   SENIOR PENSION ACTUARY STURM: So we did run the  
3 new policy through the ALM model. And the main result  
4 that came out of it was that there is some increased  
5 volatility, which we would expect, because we're looking  
6 at shortening payments or periods. But one thing about  
7 this is it's very path dependent. So you can run a  
8 million scenarios through. But the one that matters is  
9 the one that you're on. And without a crystal ball, we  
10 can't tell for sure how it's going to materialize.

11                   One thing we do know, we did put out the public  
12 agency valuations over the summer that included the impact  
13 of the changes -- the next two discount rate changes. We  
14 reran those projections with the new policy, and also  
15 including the 11.2 percent investment return.

16                   And in the first few years, yes, the payments are  
17 a little bit higher than we projected. But by year four,  
18 the payment is actually lower than we would have  
19 projected. And by year six, it's more material.

20                   So there would be, you know, possibly some  
21 increases up front. But then towards the years four,  
22 five, and six, the payments may actually be lower under  
23 the new policy. But again, this is subject to other  
24 investment gains or losses, or other demographic gains and  
25 losses. So without knowing what the path is going to be

1 like, we can't really tell how it's going to materialize.

2 --o0o--

3 SENIOR PENSION ACTUARY STURM: So we did look  
4 through several other systems in California and other  
5 plans in California. We looked at their amortization  
6 policies, and the treatment of their gains and losses.  
7 And except for one, they are all within 15 to 20 years of  
8 amortizing the gains and losses. So we do fall on the  
9 edge ore outside.

10 And with that, I'd be happy to take any  
11 questions.

12 CHAIRPERSON COSTIGAN: All right. Very thorough  
13 report. We've got a few, and then we do have several  
14 people who are going to speak on this item from the  
15 public. We want to start with Mr. Juarez.

16 ACTING COMMITTEE MEMBER JUAREZ: Yeah. Thank you  
17 for the report. Appreciate it.

18 I got a couple of questions. First on the -- on  
19 that one page where you had the various changes that  
20 could -- you know, getting rid of the ramp up and ramp  
21 down, and those types of things. Are the changes  
22 potentially severable that you could do some and maybe not  
23 do others where it would make sense?

24 CHIEF ACTUARY TERANDO: Yes. I mean, they are  
25 separable. We could do different things. One thing I

1 would caution is a number of those changes were -- we  
2 looked at them in conjunction with everything else. For  
3 example that ramp up and ramp down, that's -- we're  
4 currently using for our gain, loss, and change of  
5 assumptions, there's no other system in the country that  
6 uses that. That's, I think, pushing the reasonableness of  
7 an Amortization Policy. It really ends up creating  
8 additional volatile in the rates.

9           When we have a loss, you're -- what you -- what  
10 we have is you end up having five years of increasing  
11 rates. And that's what we're looking at right now when  
12 employers are saying -- are seeing the rates increase for  
13 the next several years. It's the result of that ramp up.

14           ACTING COMMITTEE MEMBER JUAREZ: Okay. I think  
15 the real crux of my question is could you keep the rate  
16 the same -- amortization rate the same, and do some of  
17 these other changes and still have it makes sense, from  
18 your perspective?

19           CHIEF ACTUARY TERANDO: When you say amortization  
20 rate?

21           ACTING COMMITTEE MEMBER JUAREZ: The period.

22           CHIEF ACTUARY TERANDO: The period?

23           ACTING COMMITTEE MEMBER JUAREZ: Yeah. Keep the  
24 period at 30 years and do the other changes?

25           CHIEF ACTUARY TERANDO: You -- we could, but

1 that's not our recommendation.

2 ACTING COMMITTEE MEMBER JUAREZ: I know it isn't,  
3 but I'm just asking if you could, and would it make sense?

4 CHIEF ACTUARY TERANDO: I mean, everything is up  
5 for change.

6 ACTING COMMITTEE MEMBER JUAREZ: Yeah.

7 CHIEF ACTUARY TERANDO: I mean, it's your -- the  
8 policy, you can -- those are all variables that can be set  
9 via policy.

10 ACTING COMMITTEE MEMBER JUAREZ: Okay. You, I  
11 think, previously mentioned, or at least I've heard it  
12 mentioned, that, you know, you've talked to various folks  
13 about this, including some of the best practices that are  
14 out there, including GFOA and the like. Have we had  
15 extensive discussions with the stakeholders, both the  
16 contracting agencies as well as beneficiaries, to know  
17 that, in fact, this is something that they would support?

18 CHIEF ACTUARY TERANDO: Well, we did have some  
19 discussions with various groups. At the Education Forum,  
20 we had a number of comments made during the general  
21 session in favor of changing this amortization policy.  
22 And we also had a poll taken in one of the sessions on  
23 actuarial hot topics. And the results of that poll  
24 basically came back as the 20-year level dollar was the  
25 most favorable period chosen. Fifteen years was actually

1 the second most popular. And the 30-year currently is  
2 the -- was the least popular option.

3           So when we were out there talking to the members  
4 of -- at the Ed Forum, that's what we saw. We continually  
5 hear that there are -- there is pressure -- there's  
6 concerns about the high level of contributions, but we  
7 also hear that they don't like the amortization policy?  
8 It's confusing. The ramp up doesn't make sense. It  
9 causes more volatility, and they would just like a simpler  
10 flat rate. We've had a number of agencies call in and  
11 make a request for that.

12           It will increase rates for some members in terms  
13 of they'll pay more initially. Long-term they're going to  
14 save money. Every case it saves money. So in terms of  
15 saving the employer's money, making the system more  
16 stable, this is definitely the way you want to go. You  
17 also talk about wealth transfer between generations. By  
18 having that escalation, you're pushing the period --  
19 you're pushing payments forward into the next generation.

20           When you go up, and you have an escalation over  
21 the 20-, 30-year period, the period -- the amount you  
22 start out with is less than half of what you're paying by  
23 the end of the period. So you're definitely pushing  
24 things down the road. You're kicking can -- kicking the  
25 can down the road.

1           ACTING COMMITTEE MEMBER JUAREZ: I wasn't around  
2 and I don't know the history behind how we got to 30  
3 years.

4           CHIEF ACTUARY TERANDO: I can speak a little bit  
5 to that. Prior to when -- we changed to like the current  
6 policy in around 2014. Prior to that, what we had at  
7 CalPERS was a -- considered a 30-year open amortization  
8 period, which meant we just took the amortization -- the  
9 unfunded amount amortize it over 30 years. Next year, we  
10 just took the unfunded amount and amortized it over 30  
11 year.

12           That was changed to our current policy, because  
13 basically that was an unacceptable practice. You look at  
14 all the -- the papers that we talked about, and that was  
15 an unaccepted practice, and it fell out of line with GASB  
16 as well.

17           And so what happened is we moved the notch from  
18 basically unacceptable to not recommended, and that's  
19 where we are today. So what we are proposing is we move  
20 that needle to at least the recommended practice, and  
21 become in line with current practice that you can see  
22 other systems throughout California are using. We're kind  
23 of on the edge, and we're kind of an outlier in the wrong  
24 respect.

25           You know, we're the biggest pension plan in the

1 country, and yet, we're using practices that aren't  
2 recommended.

3           ACTING COMMITTEE MEMBER JUAREZ: And I hear that,  
4 and I can appreciate the argument for why we'd want to be  
5 sort of in the mainstream, if not a leader in some  
6 respects. But I guess my concern extends to the idea that  
7 we got to 30, and now we're -- it looks like we want to  
8 rollback to 20. And maybe we -- I don't know if we were  
9 ever at 20 or 15 or wherever we might have been. But at  
10 the same time, we're -- you know, we're reducing the  
11 discount rate, doing other things that are increasing  
12 pressure on our member agencies. And if this is one more  
13 thing that's going to do that, I can expect that we will  
14 find it very difficult to incur the favor of those folks  
15 who are going to have to pay the freight.

16           So I, for one, I just -- and on behalf of  
17 Treasurer John Chiang, I know that we have concerns with  
18 this -- the proposal, at least as it relates to reducing  
19 the time period. The other changes might be worth  
20 pursuing, but I, for one, just want to raise that as an  
21 issue. I know we'll get another chance at this when you  
22 come back to us in December, but I feel like I'd be remiss  
23 if I didn't mention my concerns at this point.

24           CHIEF ACTUARY TERANDO: Right. I will mention  
25 that with the 30 years, you do have negative amortization.

1 You're not saving the employer's money. You're costing  
2 them money. And if you -- you're taking a short-term view  
3 that I want to pay as least as possible, and I don't care  
4 what my future contributions will be or my growth in my  
5 unfunded. You're taking a short-term view by making  
6 payments shorter or by making lower payments at the  
7 current time.

8 ACTING COMMITTEE MEMBER JUAREZ: Well, in that  
9 case, why don't we go to 15 or 10? I mean, if that were  
10 the sole argument for going to 20, you would even go  
11 lower, because you're going to make -- you're going to pay  
12 it of much quicker, so --

13 CHIEF ACTUARY TERANDO: And you know what, 15  
14 is -- 15 to 20 is a standard recommendation. We're taking  
15 into consideration publication agencies, what the current  
16 rates and where they're at not, and that's why we're not  
17 recommending 15 and that's why we're recommending going  
18 prospective forward.

19 ACTING COMMITTEE MEMBER JUAREZ: Thank you.

20 CHAIRPERSON COSTIGAN: Ms. Taylor.

21 VICE CHAIRPERSON TAYLOR: So thank you, Scott.  
22 You and I -- I appreciate the presentation. You guys did  
23 a good presentation. You and I spoke about presenting  
24 some numbers, and I'll get to that in just a minute, that  
25 would look at instituting this after the ramp up for the 7

1 percent rate reduction, so at the end of 2019 I think is  
2 what we -- or 20.

3           Excuse me.

4           So -- but before we get there, and I assume, you  
5 have the numbers, right?

6           CHIEF ACTUARY TERANDO: We looked at some of the  
7 numbers. We just -- postponing it two careers really  
8 doesn't -- it's not where we want to go -- what you're  
9 doing is your just basically continuing the negative  
10 amortization. There's no real reason to wait to two  
11 years.

12           VICE CHAIRPERSON TAYLOR: Okay. So I'm going to  
13 stop you there. I understand that's where staff wants us  
14 to go, but I heard a whole lot of people yesterday tell us  
15 differently. Okay. So since you didn't come with the  
16 numbers that I asked you to come with, I understand that  
17 we need to get here, but I also understand that we need to  
18 not put our Fund at risk. And if you put our employers in  
19 a position where they have to terminate or cannot pay  
20 their fees, then you're putting the fund at risk.

21           And all I was asking for was a -- was giving us a  
22 little extra time to let the agencies have some time to  
23 settle in with the rate reduction, and then start ramping  
24 up for the 20 years. And I think we should leave -- in  
25 addition to that, I think that maybe we should even talk

1 about leaving the option open, for right now, so the  
2 agencies that want to do 20 years right now, can do 20  
3 years right now. But the agencies that don't, don't do it  
4 right now. And then at the end of the three-year ramp up  
5 for the 7 percent, we can talk about making it mandatory  
6 for all the public agencies, and all of our -- but I think  
7 that to present this as a zero sum game and that we only  
8 have the choice to institute this is not productive.

9           So since I didn't get the numbers I asked for,  
10 and I will also add that this presentation when I  
11 initially asked everybody for numbers was to provide  
12 scenarios, like you did in, I think it was the actuarial  
13 assumptions -- actual scenarios. So pick Public Agency A  
14 and say -- and you don't even have to name them, but use  
15 real numbers, okay? That this small little agency owes  
16 this much in unfunded liability, and these are their  
17 payments right now.

18           Now, here's their payments as we institute the 7  
19 percent and here's their payments as we institute the 20  
20 year. This is what I wanted to see, and I have not seen  
21 that. So I'm hoping in December that we certainly can see  
22 a real number, a real like scenario. You don't have to  
23 name the agency, just give us the numbers.

24           CHIEF ACTUARY TERANDO: To your point, if you --  
25 if we postpone the two years, it's -- there's no way --

1 since it's a prospective change, we don't know what the  
2 gains and losses will be in two years.

3 VICE CHAIRPERSON TAYLOR: Right.

4 CHIEF ACTUARY TERANDO: It's a total guess. So  
5 you're asking for numbers that really don't exist. So the  
6 only --

7 VICE CHAIRPERSON TAYLOR: So give us the numbers  
8 for right now.

9 CHIEF ACTUARY TERANDO: So only -- so if we  
10 looked right now, we did look at a number of agencies.  
11 And what we saw was the contribution would be higher in  
12 the first two years.

13 VICE CHAIRPERSON TAYLOR: Uh-huh.

14 CHIEF ACTUARY TERANDO: In the third year, they  
15 would be the same.

16 VICE CHAIRPERSON TAYLOR: The same as they are  
17 right now?

18 CHIEF ACTUARY TERANDO: The same as they are  
19 projected to be right now under the current policy. And  
20 then going forward, they would be lower. So if you  
21 readopted the current -- if under the proposed policy,  
22 compared to the current policy, the contributions for a  
23 number of agencies would be higher for the first two  
24 years, the same in the third year, and then lower after  
25 that.

1           VICE CHAIRPERSON TAYLOR: So let's see those  
2 numbers in December, since you didn't provide them now. I  
3 need to see those numbers, and I asked for those numbers  
4 before, and I have not yet received them. So I would  
5 appreciate to see -- I'm glad you looked at them, but I  
6 want to see them.

7           CHIEF ACTUARY TERANDO: But we got the request --  
8 I talked to you late last week.

9           VICE CHAIRPERSON TAYLOR: Well, no, no, no.

10          CHAIRPERSON COSTIGAN: All right. All right.  
11 All right.

12          VICE CHAIRPERSON TAYLOR: I asked previous to you  
13 and I speaking.

14          CHAIRPERSON COSTIGAN: Ms. Taylor. We'll need  
15 the numbers on it. I mean, this is a -- as you can tell,  
16 we have a lot more questions to go through. So I just  
17 want to go back to the earlier presentation where you had  
18 some examples. Examples are always very helpful. And I  
19 think we do have some of the data available that you  
20 requested. And it may have been a timing issue, but I do  
21 expect that we'll see that in December. You don't have to  
22 wait until December to provide it. All right. So we're  
23 going to go -- anything else, Ms. Taylor?

24          VICE CHAIRPERSON TAYLOR: No, thank you.

25          CHAIRPERSON COSTIGAN: All right. Mr. Jones.

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

2 I have three questions. The issue of offering  
3 options. How difficult would that be, and -- with the  
4 public agencies? And also, with the schools, because if  
5 you give schools different options, aren't they all in the  
6 same pool and you can't give schools different options  
7 because they're all in the same pool?

8 CHIEF ACTUARY TERANDO: That's correct. Right  
9 now the options are available to public agencies. If they  
10 want to reduce their amortization period, they can give us  
11 a call, and we'll work with them on that.

12 COMMITTEE MEMBER JONES: So that's important. So  
13 you're saying that if we adopt this policy as presented  
14 here, some of the public agencies will have an option not  
15 to implement this?

16 CHIEF ACTUARY TERANDO: No, no. What we're  
17 saying is they have an option right now of picking 20  
18 years. They can come to us today and reduce their current  
19 amortization period. But you don't -- what this -- what  
20 the policy is is kind of like the minimum. It sets the  
21 minimum contribution. They have to pay that as the --  
22 that's the minimum, and they can always work with us to  
23 have a quicker amortization payment schedule.

24 For the schools, it's one big pool, and so it  
25 would apply to the whole pool.

1           COMMITTEE MEMBER JONES: So the second question  
2 then is that if you had a dollar amount rather than A  
3 percentage amount over 30 years, would you still  
4 experience the same negative amortization?

5           CHIEF ACTUARY TERANDO: No. Using a dollar  
6 amount, eliminates the negative amortization?

7           COMMITTEE MEMBER JONES: So that is one  
8 possibility to get to the same point over a 30-year period  
9 by having a fixed dollar amount.

10          CHIEF ACTUARY TERANDO: Yes.

11          COMMITTEE MEMBER JONES: Okay. The next question  
12 is the Golden Handshake. When agencies offer a Golden  
13 Handshake, do they -- do you approve that or you just  
14 assess the viability of it?

15          CHIEF ACTUARY TERANDO: We just assess the  
16 liability of it.

17          COMMITTEE MEMBER JONES: Okay. And so -- because  
18 you're going to get the money anyway regardless of whether  
19 they have a proposal to you that's funding itself, you're  
20 going to charge them once you get the data.

21          CHIEF ACTUARY TERANDO: That's correct. And it's  
22 amortized over a five-year period.

23          COMMITTEE MEMBER JONES: Okay. Thank you.

24          CHAIRPERSON COSTIGAN: Just a quick question.  
25 Was there a survey done as related to employers on this,

1 asking 15, 20, 25 or 30? So there's no survey?

2 CHIEF ACTUARY TERANDO: Just the survey --

3 CHAIRPERSON COSTIGAN: Mr. Pacheco.

4 CHIEF ACTUARY TERANDO: -- at the Ed Forum.

5 DEPUTY EXECUTIVE OFFICER PACHECO: Mr. Chair,  
6 Brad Pacheco, CalPERS team. There wasn't an official  
7 survey done, but I will echo what Scott has said. I mean  
8 at the general session of the Educational Forum, this  
9 policy was highlighted as part of the ALM work that we  
10 were doing in front of 800 employers in the audience. It  
11 was discussed in some of the consultations that the  
12 actuaries have. We've brought this policy forward at our  
13 Labor Roundtable, at our Employer Roundtable, and at our  
14 briefings over the last couple weeks. So there's been --

15 CHAIRPERSON COSTIGAN: No, the outreach is -- you  
16 have all done a very good job of talking to folks. We had  
17 just understood there might be a formal survey. But there  
18 is no formal survey?

19 DEPUTY EXECUTIVE OFFICER PACHECO: No. No, there  
20 is not. Just we have done some outreach on this though.

21 Thank you.

22 CHAIRPERSON COSTIGAN: Thank you, sir.

23 Mr. Jelincic.

24 COMMITTEE MEMBER JELINCIC: Twenty years, 30  
25 years, obviously it's better to get the money in early

1 rather than later. The net present value of those  
2 payments, you know, it's like a 30-year mortgage versus a  
3 20-year mortgage. You save money by doing shorter.

4 The -- because the next evaluation is going to  
5 have gains from last year, the shorter period actually  
6 amortizes the gains quicker, and will lower the payment.  
7 However, next -- the following year may not be the same.

8 Whether we do 20 or 30 has absolutely nothing to  
9 do with negative amortization. If you amortize it, you  
10 amortize it. The negative amortization is coming because  
11 of policy decisions this Board made, which was to ramp up,  
12 to phase-in, and that's what's building the negative  
13 amortizations.

14 The other form of the negative amortization is a  
15 policy decision by this Board to set a funding discount  
16 rate that is higher than the actual expected return on the  
17 portfolio. So it's -- if we want to address negative  
18 amortization, then we ought to address it directly and get  
19 rid of the things that are causing it.

20 Am I missing something?

21 CHAIRPERSON COSTIGAN: You don't have to answer,  
22 unless you want to.

23 Okay. We'll move on to the next question.

24 COMMITTEE MEMBER JELINCIC: I assume the answer  
25 is no or --

1 CHAIRPERSON COSTIGAN: Actually you asked a lot  
2 of questions there that are actually -- Scott, the policy  
3 recommendations were adopted by the Board. We'd have to  
4 go back and revisit -- your points are well taken, but I  
5 think to ask Scott each one without having the data is not  
6 really what the issue is before us.

7 You're right, whether the discount rate is  
8 appropriate, whether the ramp up, we're talking right now  
9 on the amortization.

10 COMMITTEE MEMBER JELINCIC: Okay. Let me go  
11 point by point. Does the ramp up lead to negative  
12 amortization?

13 CHIEF ACTUARY TERANDO: Yes.

14 COMMITTEE MEMBER JELINCIC: Does the phase-in  
15 lead to amortization?

16 CHIEF ACTUARY TERANDO: Yes.

17 COMMITTEE MEMBER JELINCIC: Does having a funding  
18 ratio --

19 CHIEF ACTUARY TERANDO: Well -- okay.

20 COMMITTEE MEMBER JELINCIC: Go ahead.

21 CHIEF ACTUARY TERANDO: When you say the  
22 phase-in, phase-in to...

23 COMMITTEE MEMBER JELINCIC: Well, we phase-in the  
24 changes in actuarial assumptions. You know, we -- the  
25 employers asked us to do the ramp up when we moved to --

1 CHIEF ACTUARY TERANDO: Yeah, you're comparing  
2 the -- instead of going right to seven percent, that  
3 three-year phase-in.

4 COMMITTEE MEMBER JELINCIC: Yeah.

5 CHIEF ACTUARY TERANDO: Yeah. The ultimate  
6 assumption, you know, should be seven percent. And that  
7 three years is causing the negative amortization over that  
8 period.

9 COMMITTEE MEMBER JELINCIC: And so when we --  
10 this year we are assuming seven and three-quarters, but we  
11 have a portfolio that we acknowledge is only likely to do  
12 seven and one. That, in fact, adds to the negative  
13 amortization, correct?

14 CHIEF ACTUARY TERANDO: You can think about that,  
15 yes.

16 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

17 CHAIRPERSON COSTIGAN: All right. I just want  
18 to -- just a little bit on the ground rules. Scott, these  
19 are in your professional judgment as our Chief Actuary.  
20 It's not that -- as the question were posed to you by Mr.  
21 Jelincic, it is -- again, I always struggle with the  
22 fiduciary obligation. It's -- your answer --it's not that  
23 you weren't answering it as -- you, as our Chief Actuary,  
24 are giving us the information that you have in front of  
25 you at this time, is that correct?

1 Correct.

2 CHAIRPERSON COSTIGAN: Okay. Thank you, sir.

3 Ms. Paquin.

4 ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr.  
5 Chair. I'm just curious how many employers are currently  
6 taking advantage of a lower amortization period just, an  
7 estimate?

8 CHIEF ACTUARY TERANDO: I would say the majority  
9 of them take the option to make -- to do it similar to  
10 what the State did, and make discretionary payments to  
11 bring down when they have some extra funds payoff an extra  
12 base or make several raises to reduce their contribution,  
13 as opposed to actually shorten their amortization period.

14 ACTING COMMITTEE MEMBER PAQUIN: Okay.

15 CHIEF ACTUARY TERANDO: There are the -- some,  
16 you know, cases where some employers have asked can we  
17 reduce the amortization period, or can we get rid of the  
18 ramp up and down, but I'd say there's a handful of those.

19 ACTING COMMITTEE MEMBER PAQUIN: And if they make  
20 the request, are you able to accommodate that?

21 CHIEF ACTUARY TERANDO: Yes.

22 ACTING COMMITTEE MEMBER PAQUIN: Okay. And my  
23 other questions is you mentioned the negative amortization  
24 over the 30-year period at -- starting out at what year  
25 does it switch from negative to positive under the current

1 policy?

2 CHIEF ACTUARY TERANDO: If you go back to the  
3 graph, what you can see is the unfunded, I think, grows, I  
4 think, until -- if you look at it, it grows until like  
5 year eight. But it's not until like year 18 that your  
6 even again. So you make 18 years worth of payments, and  
7 you're right where you started from. That's kind of the  
8 reason why our un -- our funded status has remained flat  
9 while our assets have grown. We're not paying enough on  
10 the unfunded.

11 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

12 CHAIRPERSON COSTIGAN: All right. We have one  
13 more Committee member then we'll go to the non-Committee  
14 members.

15 Mr. Slaton.

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

17 So, Scott, talk to me about -- let's assume for  
18 the moment that we made the decision to -- on your --  
19 based on your recommendation to go to 20 years for the  
20 amortization period. And maybe -- I'm not sure. Maybe  
21 you're not the right person to answer this question, but  
22 is there a way -- because if you look at every local  
23 employer, I mean, the range is pretty wide in terms of  
24 funded status, in terms of unfunded liability among that  
25 universe. So we keep talking about 68, but it's not

1 that -- that's not a number. It's a whole set of numbers.

2 So is there feasibility for us to go to 20, and  
3 then have a -- call it a backstop, call it an emergency,  
4 call it for a jurisdiction that is really under  
5 significant stress to be able to have some mitigation from  
6 that for a period of time.

7 CHIEF ACTUARY TERANDO: There is --

8 COMMITTEE MEMBER SLATON: What are your thoughts  
9 on that?

10 CHIEF ACTUARY TERANDO: There is part of the  
11 amortization policy that talks about extending --  
12 extending -- extenuating circumstances, and allowing a  
13 longer amortization period. That's called a hardship  
14 request. It exists in the current policy today.

15 COMMITTEE MEMBER SLATON: Okay.

16 CHIEF ACTUARY TERANDO: A hardship request hasn't  
17 been granted in over, I think, eight years. They've been  
18 rare to be granted. Just --

19 COMMITTEE MEMBER SLATON: Does hardship just deal  
20 with amortization period or does it deal with other  
21 components?

22 CHIEF ACTUARY TERANDO: Just the amortization  
23 period.

24 COMMITTEE MEMBER SLATON: Well, you're at 30  
25 years now. What would be the -- what would you do, go to

1 35? I'm not sure.

2 CHIEF ACTUARY TERANDO: The maximum is 30. So  
3 you could go from 28 to 30. We haven't had that many  
4 requests, because it just doesn't --

5 COMMITTEE MEMBER SLATON: Because you're already  
6 at the boundary.

7 CHIEF ACTUARY TERANDO: We're pretty much at the  
8 boundary and it's -- but it's still out.

9 COMMITTEE MEMBER SLATON: So how would you feel  
10 about going to -- if we did a 20, and yet essentially  
11 reactivated that policy, where we did -- could make a  
12 judgment call on jurisdictions that really were under  
13 severe stress? Do you think that would meet the intent of  
14 what you're trying to accomplish?

15 CHIEF ACTUARY TERANDO: I think so. As we  
16 drafted up the policy, we left the 30-year hardship  
17 request as 30 years. And left it up to 30 years. We  
18 generally don't want to decrease payments. And we also  
19 have to consider as you extend the amortization policy,  
20 you're -- what you're doing is you're putting the members  
21 at risk in terms of funded status.

22 COMMITTEE MEMBER SLATON: Sure.

23 CHIEF ACTUARY TERANDO: So if a plan were to  
24 eventually terminate, they're going to be worse off. And  
25 you basically have allowed the plan to -- not to fund the

1 benefits that should be there.

2 COMMITTEE MEMBER SLATON: Well, which is worse,  
3 an earlier termination or a later termination.

4 CHIEF ACTUARY TERANDO: It depends.

5 COMMITTEE MEMBER SLATON: Yeah, exactly, so --  
6 okay. Well, that's something for us to think about.

7 Thank you.

8 CHAIRPERSON COSTIGAN: Mr. Lind.

9 BOARD MEMBER LIND: Thank you.

10 Scott, you made a clear and logical argument for  
11 staff's position or recommendation on this. And, of  
12 course, you know, yesterday we heard from a lot of  
13 employers. And I suspect we'll hear from a few today  
14 that -- the fact that different employers are differently  
15 situated, and some believe that they could afford to make  
16 higher payments sooner, and some can't, and -- you know I  
17 won't restate all their arguments. We all heard them late  
18 into the evening.

19 Typically, we have -- the Board has been asked to  
20 make decisions like this, been given different options.  
21 You know, kind of to Steve's point, could we do a part of  
22 this and not? Could we eliminate the ramp up, but not  
23 change the 30-year period? And then I wonder is there any  
24 magic to 20 years? Could it be 25 years? And would that  
25 mean?

1 I mean, you know, are there -- are there  
2 different options that we could look at or different  
3 combinations that might make some sense?

4 CHIEF ACTUARY TERANDO: The reason we picked 20  
5 years is we looked at the -- we looked at what we have, we  
6 looked at the -- we looked at other retirement systems,  
7 and they're all at 15 to 20. Those are industry  
8 standards. The 15 to 20 is pretty much where everyone is  
9 now. If you also look at the duration of the liabilities,  
10 the duration of our liabilities are under 15 years. So  
11 what you're doing is when you -- you want to pay those  
12 off, you know, you kind of want to match up the payments  
13 to the liabilities.

14 And 20 years is, you know, a little bit beyond  
15 the duration of the liabilities, but at least it's better  
16 than a 30, two times where we're at now.

17 It's just -- we looked at to 20 to 30 -- the 30  
18 is not being reasonable. It just seems it falls outside  
19 of where we want to be.

20 BOARD MEMBER LIND: Sure. But 20 is better than  
21 30, but so is 25 or 24 or 26, right?

22 CHIEF ACTUARY TERANDO: Right.

23 BOARD MEMBER LINE: I'm just saying are -- there  
24 are other options that we could look at. I know the  
25 standard is 20, but we're at 30, so maybe there's not as

1 big of a move to come down to something like 25. I'm just  
2 asking is that a possibility?

3 CHIEF ACTUARY TERANDO: Well, yeah, those are  
4 options. As Mr. Slaton mentioned, you know -- or I think  
5 it was Mr. Jones, going to a level dollar as opposed to  
6 the level percent of pay allows you to have a 20 -- or  
7 avoid the negative amortization. And definitely removing  
8 that ramp up and down on anything, except the investment  
9 gains and losses, will also mitigate some of those issues.

10 BOARD MEMBER LIND: Sure, I agree. Okay. Thank  
11 you.

12 CHAIRPERSON COSTIGAN: Okay. Mr. Feckner.

13 PRESIDENT FECKNER: Than you, Mr. Chair.

14 Scott, first of all, I thank you for your  
15 integrity and your professional standards in bringing this  
16 information to us. And I understand that this is how you  
17 perceive it from your profession. On the flip side, we  
18 heard a lot of comments yesterday, and I know you heard  
19 them as well. In a perfect world, you're right. We  
20 should be starting at 15 or 20. We're not in a perfect  
21 world. And the comments I heard yesterday, I'm afraid  
22 that it's going to be even more problematic.

23 The first two years is what really concerns me,  
24 because those numbers are really high. I just -- as Mr.  
25 Lind and others have said, I think you need to be able to

1 give us options. I would hate for it just to be a answer  
2 of no. And I'm afraid that's where we're leaning right  
3 now, if we don't get some options on the table where we  
4 can talk about them.

5 On the flip side, after hearing all the employers  
6 yesterday and the comments that were made, I was at the  
7 employers conference when there was a workshop and the  
8 question was asked how many -- and they used the clickers,  
9 200 employers in the room, how many of you -- your  
10 employers can't afford to pay any more money than what  
11 you're paying now?

12 Seven percent in the room said we couldn't keep  
13 pay more.

14 So I agree with you that there are folks out  
15 there that think that they can pay more, but we shouldn't  
16 be the ones telling them that. That should be their  
17 decision. So somehow we need to be able to find an area  
18 where we can give them options, instead of us being the  
19 hammer, because it's not going to be a pretty picture.

20 Thank you.

21 COMMITTEE MEMBER JELINCIC: Can I ask Rob a  
22 question? Rob, did you --

23 CHAIRPERSON COSTIGAN: Hang on. Hang on.

24 Mr. Jelincic.

25 COMMITTEE MEMBER JELINCIC: Did you say seven

1 percent or 70?

2 PRESIDENT FECKNER: Seven percent. Seven percent  
3 of the people in the room of 200 people said that the  
4 employer could not afford to pay anymore.

5 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

6 PRESIDENT FECKNER: So a lot of the others  
7 obviously thought they had extra money laying around.

8 (Laughter.)

9 CHAIRPERSON COSTIGAN: Thank you.

10 Mr. Bilbrey.

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

12 I concur with many of my colleagues, in  
13 particular Mr. Lind, about the options. We were talking  
14 about the Employers Forum. And though, I'm sure if you  
15 misspoke, Brad, but is it 800 employees, or 800 employers?  
16 Because I know that there are multiple employees that were  
17 there from various organizations, and I'm not sure that we  
18 had 800 employers there. When we talk about 200 in the  
19 room, what employees were in that room? Were they people  
20 who make those decisions or were those people who came to  
21 hear about something and they don't really have the  
22 decision-making process or really even know some of their  
23 stats and they made a decision that may not be factual. I  
24 don't know. I wonder about that. I'll let you answer  
25 that first before I go on.

1           DEPUTY EXECUTIVE OFFICER PACHECO: Sure, Mr.  
2 Bilbrey. Brad Pacheco, CalPERS team.

3           So we had 800 people in attendance at the  
4 conference roughly. Typically, around 400 are unique  
5 employers. So people send multiple people from different  
6 employers.

7           My point was in echoing Scott's comments is that  
8 part of the presentation in the general session was a  
9 discussion around different things to ensure the  
10 sustainability of the fund, and we did talk about the  
11 amortization policy, in addition to some of our other  
12 briefings.

13           BOARD MEMBER BILBREY: All right. Thank yo.  
14 It's just important. I want to make sure that we're  
15 looking at the -- and giving the projections of right --  
16 the correct numbers. I do appreciate, Scott and your  
17 staff, and all the work that you're putting forward in  
18 brining to us. As a Board, that's what we expect to have  
19 happen. But at the same time as a Board, we also have to  
20 think about as many options as there are.

21           We talk about the extenuating circumstance. And  
22 after what I heard yesterday, if we move to 20 percent, I  
23 now see a line at your door of people asking for  
24 extenuating circumstances, because what I heard yesterday  
25 was a very -- a small amount, when we talk about the small

1 amount of number, saying they could pay and much more  
2 saying please keep it where it is, with the option of  
3 paying, if they can.

4           With what we have in place, they might be able to  
5 start moving more to -- to 20 year over, you know, some  
6 period of time. I don't know for sure. As we say, we  
7 don't all have the crystal ball to see what's going to  
8 happen.

9           And when we talk and we looked about how we've  
10 gone from 2.1, or something like that, down to 1.3 active  
11 members to every -- or, yeah, active members to retirees,  
12 I think part of the reason we found out why that happened  
13 is we heard yesterday about the number of layoffs and  
14 reductions and things that are taking place.

15           If we pass this, are we going to further erode  
16 that number? I worry about that. So just a few things  
17 for us to think about as we move to next month.

18           CHAIRPERSON COSTIGAN: Ms. Hollinger.

19           BOARD MEMBER HOLLINGER: Yeah, thank you.  
20 Appreciate that, and appreciate that we have 3,000  
21 employers at varying levels of solvency. But one question  
22 I wanted to ask you. With this, can somebody stay where  
23 they are or choose this, or do we -- does this have to  
24 apply universally? In other words, can you have the  
25 option?

1 CHIEF ACTUARY TERANDO: Right now, employers can  
2 shorten their amortization period, so --

3 BOARD MEMBER HOLLINGER: So theoretically, they  
4 could do this now?

5 CHIEF ACTUARY TERANDO: Yeah. To the extent that  
6 we got like a long line, it would be a burden on staff to  
7 have to -- to manually adjust these every year.

8 BOARD MEMBER HOLLINGER: I see. Okay.  
9 Because --

10 CHIEF ACTUARY TERANDO: Because, like you said,  
11 we have 3,000, 4,000 plans.

12 BOARD MEMBER HOLLINGER: Right, because --

13 CHIEF ACTUARY TERANDO: And to manually go  
14 through and adjust each one individually,

15 BOARD MEMBER HOLLINGER: Because my concern from  
16 a risk perspective is I think that, you know, the markets  
17 going forward aren't going to be as frothy as they've been  
18 in this past 10 years.

19 So I see with the current amortization spike, you  
20 know, also having, you know, all that space too, if you  
21 believe we're going to make our assumed discount rate of  
22 return. So I also see as this mitigating maybe future  
23 corrections in the market, or not.

24 CHIEF ACTUARY TERANDO: Overall, we would expect  
25 the gains and losses to offset one another. And so we

1 would expect going forward that, you know, in any one  
2 particular year you may have a gain or a loss, but it  
3 should offset. You would think the gains and losses would  
4 offset one another. And then the payments would basically  
5 offset one another going forward.

6 BOARD MEMBER HOLLINGER: So the reason this has  
7 to be something universal or not is because of the  
8 administrative burden of adjusting to different -- is that  
9 the reason?

10 CHIEF ACTUARY TERANDO: Right. And you want to  
11 have a standard policy that you apply to all the agencies.  
12 You don't want to have a unique policy for every single  
13 agency out there. That doesn't make sense --

14 BOARD MEMBER HOLLINGER: I agree with that.

15 CHIEF ACTUARY TERANDO: -- from an administrative  
16 point.

17 BOARD MEMBER HOLLINGER: Okay. Thank you.

18 CHAIRPERSON COSTIGAN: Okay. Thank you, Scott.

19 So it looks like there's still a lot of questions  
20 on this. I think, if I hear no objection, what I would  
21 like to do is direct you to come back in February with  
22 options that over the next two meetings we're going to be  
23 taking up the ALM and a discussion on the discount rate.

24 Unless you're telling me that there is a sense of  
25 urgency to do this by December, I would rather do it in

1 February, if --

2 CHIEF ACTUARY TERANDO: That's fine.

3 CHAIRPERSON COSTIGAN: Are you agreeing or --

4 CHIEF ACTUARY TERANDO: I agree. That's fine

5 CHAIRPERSON COSTIGAN: Is there any objection  
6 from the Committee?

7 Given that, we have seven people who would like  
8 to speak. Since this item is now going to pivot over to  
9 February, you don't need so speak, but you are more than  
10 welcome to.

11 Is Dillon are you going to stand up? Because  
12 what I'd want is Dorothy, Dillon and Derick first, if you  
13 would like to come down and speak on an item that's going  
14 to be up in February.

15 (Laughter.)

16 CHAIRPERSON COSTIGAN: An item in February.

17 VICE CHAIRPERSON TAYLOR: Yeah, they want to  
18 influence are thinking going forward.

19 That didn't work out.

20 CHAIRPERSON COSTIGAN: No. I appreciate that.

21 VICE CHAIRPERSON TAYLOR: I told you.

22 CHAIRPERSON COSTIGAN: All right. Good evening.

23 MR. GIBBONS: Out of respect, I will make it  
24 very, very --

25 CHAIRPERSON COSTIGAN: We do have one more -- the

1 only reason is we do have one more Committee that's going  
2 to be meeting after this, so.

3 Mr. Gibbons, go ahead sir.

4 MR. GIBBONS: Thank you. Dillon Gibbons,  
5 California Special Districts Association. Thanks for  
6 having me. I'll keep it very brief.

7 I'd like to thank Mr. Terando and his staff on  
8 this. Clearly, he's one of the smartest of people I think  
9 any of us have ever met. And appreciate his efforts in  
10 looking to save money for our public agencies.

11 However, as was mentioned here, you know, local  
12 governments are typically talking about local flexibility,  
13 local control. Giving them the option to determine  
14 whether or not they have the ability to pay more or pay --  
15 or whether or not they can't. As was mentioned, a lot of  
16 time what happens, we get to surplus one-time funds, and  
17 we'll drop that into that unfunded liability to pay that  
18 down to try and save ourselves money.

19 I think one of the things that bringing this  
20 option up is it's educating our members about the option  
21 to have a shorter amortization period, where right now  
22 they might believe that they only have the 30 years.

23 So I think that maintaining those options would  
24 be very important for our members.

25 And with that, I'll close.

1 Thank you.

2 MS. JOHNSON: Thank you. Dorothy Johnson with  
3 the California State Association of Counties, again  
4 echoing my colleague from the special districts. And I  
5 want to say that CSAC wants, of course, to continue to be  
6 a part of this dialogue as this comes back in February.  
7 We'll be educating our members as well about this option  
8 and seeing what other policies, besides just more money,  
9 can help get those counties from the 30-year to the  
10 20-year, or perhaps 25 if that's another viable option  
11 that is presented to the Board.

12 Thank you.

13 MR. LENNOX: Good evening. Derick Lennox on  
14 behalf of the School Employers Association of California,  
15 and the Small School Districts Association. I appreciate  
16 many of the comments made by the Board members here, about  
17 the concerns that we've raised yesterday.

18 So I'll simply add that to the extent the Board  
19 wishes to continue looking at this policy proposal in  
20 February, we would invite CalPERS staff -- and, you know,  
21 we have the utmost respect for Mr. Terando and the  
22 actuarial team to solicit responses from school employers,  
23 while school -- while public agencies are very familiar  
24 with the options when it comes to the amortization policy.  
25 Without taking a formal poll, I can pretty much guarantee

1 that there is not a homogeneous point of view when it  
2 comes to school employers for those who actually know and  
3 follow the amortization policy adopted by the Board here  
4 at CalPERS.

5 So we'd love to get more involved and provide our  
6 contributions. We definitely don't want to take the  
7 option off the table, because we think that there are a  
8 lot of smart reasons to have this sort of discussion, but  
9 we do want to be a part of the discussion.

10 Thank you very much.

11 CHAIRPERSON COSTIGAN: Thank you, Mr Lennox.

12 Is Mr. Lillio still here, El Segundo?

13 He did leave.

14 Okay. I saw -- is Mr. Hutchings still here?

15 There he is. Dane, Mr. Darby, and Mr. Johnson,  
16 if you'll come on down, please.

17 And actually, then, Dan, why don't you as well,  
18 from Newport. We'll go ahead and take all four seats.  
19 And that will be -- hang on. Turn it on. Thank you.

20 Go ahead, Dane.

21 MR. HUTCHINGS: Good evening, Chair and members.  
22 Dane Hutchings, League of California Cities. As you heard  
23 loud and clear from I think about 40 employers that we had  
24 here yesterday or cities, you know, we see that -- that  
25 this item we should have -- we'd have liked to see it a

1 part -- as part of the full ALM cycle in one workshop,  
2 given that they're so intertwined. You know, some of my  
3 members, they're all over the place on this. Some of my  
4 members would -- could -- that they be believe they can  
5 afford to pay this now, they want to. Others can't see  
6 past year five, let alone year 30, and they need that  
7 flexibility.

8           So, of course, the dialogue that you folks have  
9 had today about providing options and local flexibility is  
10 certain something we appreciate.

11           You know, something that Mr. Slaton mentioned  
12 that I'd like to spend just a quick amount of time on is  
13 talking about this hardship criteria. I know it was  
14 discussed by Mr. Bilbrey as well. I do think there is  
15 some merit to discuss not only about the amortization  
16 schedule, but holistically about those agencies that are  
17 just, you know, a heart beat away.

18           And it's not about creating this safe haven where  
19 you have every agency running over and claiming hardship.  
20 I think there should be a vigorous vetting for those  
21 agencies. But I think there should be a discussion had  
22 about those agencies that simply, you know, they can't  
23 afford -- clearly, they can't afford to get out of the  
24 CalPERS system. They can't afford what they're paying  
25 now, but they need some sort of relief because they want

1 to continue to stay in the system. I think we should  
2 certainly come back and have a broader discussion about  
3 that.

4           You know, we certainly respect the hard work of  
5 Mr. Terando and his team, especially trying to align this  
6 fund with best practices across the country. But a  
7 one-size-fits-all approach simply doesn't work for my  
8 cities who cannot afford it.

9           So with that, I'll yield the rest of my time.

10          Thank you.

11          CHAIRPERSON COSTIGAN: Thank you.

12          Mr. Darby.

13          MR. DARBY: Al Darby, RPEA, Vice President.

14          Bases on what we heard yesterday and back in  
15 September, we've heard about -- we're hard from about 10  
16 percent of the cities in the States, all of -- almost all  
17 of whom indicate that, you know, this would be a strain on  
18 their budget -- a further strain.

19          It's RPEA's position that the current CalPERS  
20 policy on amortization stay in place. Many public  
21 agencies and small schools are experiencing budget strain  
22 due to the discount rate reduction. And this 20-year  
23 mandatory amortization term would further exacerbate some  
24 of those budgets in those public agencies and schools.

25          This is an optional plan that permits a 20-year

1 amortization schedule, if the city chose to do it. So the  
2 need to change it now is not that great.

3 I think the important thing at this point would  
4 be to let the agencies digest the new discount rate that  
5 they're going to have to deal with over the next three  
6 years, and then revisit this later if it's necessary to  
7 revisit.

8 Thank you.

9 CHAIRPERSON COSTIGAN: Dan.

10 MR. MATUSIEWICZ: Thank you. Dan Matusiewicz  
11 with the City of Newport Beach. I'm actually here to  
12 state my strong support of the Actuarial Office's  
13 recommendation for a 20-year level amortization.

14 I think there are a lot of problems with a  
15 30-year level percent of pay you -- I've done a lot of  
16 quantitative analysis on this. And when you look at the  
17 math, the problem with the 30-year amortization, as Scott  
18 points out, for 18 years you're not paying off principal.  
19 All the while, your actuarial liability is increasing.

20 So the funded status of the plan is deteriorating  
21 for 20 years. So it's a problem. That's why nationwide  
22 most people don't allow a 30-year level percent of pay.

23 And the ramps are annoying, but they're not as  
24 devastating as the level percent of pay on a 30-year  
25 basis. If you're going to use a level percent of pay, it

1 needs to be within 20 years, because then you're starting  
2 to pay principal down. If you want a 30-year policy,  
3 then, you know, I wouldn't recommend it, because you want  
4 to get it paid off generally in the time the person is  
5 working, but that's when you consider a level dollar  
6 payment. And maybe that -- that is something you want to  
7 consider.

8 I also want to mention people trust in the  
9 actuarial determine contribution. And so when PERS comes  
10 out and says this is your actuarial determined  
11 contribution, people have faith in it, but they don't  
12 realize it's among the worst options possible.

13 And so they think they're doing the right thing.  
14 And then you put them at a disadvantage to actually  
15 convince their council members that, oh, well, maybe we do  
16 have money to take on some of these -- you know, maybe  
17 it's a frivolous project or so, and make -- and exacerbate  
18 the problem.

19 By having that 30-year policy, the plan is  
20 deteriorating, you're giving employees a false sense of  
21 security. We're in a state of crisis. I think we all  
22 know this, so we can look at other options, but I really  
23 think you need the get rid of the 30-year level percent of  
24 pay, get it down to 20, if it's on a level percent of  
25 basis. Maybe give employers the option to go to a level

1 dollar at 30.

2           Also, on a fresh start, perhaps agencies had the  
3 ability to choose a level dollar. The reason a level  
4 dollar works for a lot of public agencies is once you've  
5 got that built into your budget, that payment becomes a  
6 declining percent of your budget.

7           So thank you.

8           CHAIRPERSON COSTIGAN: Well, I know -- appreciate  
9 the comments. And, in fact, I think, Ms. Frost, if you  
10 want to make a comment, but I do believe we're going to  
11 try and have a workshop on this and potentially survey our  
12 members on this. So, Dan, we would certainly like your  
13 insights, because that's -- we heard differently from some  
14 members, and I think that's going to be extremely  
15 important.

16           That is it for this item.

17           No, Mr. Johnson. I'm sorry. I crossed you off.

18           Mr. Johnson. Sorry. We still have two more  
19 items.

20           Please turn on Mr. Johnson's microphone. There  
21 you go, sir.

22           MR. JOHNSON: Okay. Neal Johnson, SEIU 1000.

23           I thank you for the deferral on the decision to  
24 February. It was clear from the discussion you and I  
25 think we the stakeholders need a little more information.

1 I would ask that one of the nice things about the  
2 presentation yesterday in the ALM workshop was they laid  
3 out a table that covered several different candidate  
4 options. And what, you know, Mr. Juarez brought up  
5 something very early on in the discussion, what are some  
6 of the other -- are there other pieces of this we could  
7 adopt, and what are the -- how do those pieces work  
8 together?

9 Mr. Lind brought up maybe a 25-year amortization.  
10 So I would that -- and I thought it requires more work for  
11 the actuaries who I love dearly, but to bring back some,  
12 you know, options and some examples. And I think also Ms.  
13 Taylor still probably has some unaddressed questions  
14 that -- or data that hasn't been provided. And so I would  
15 ask that that come forward, so that we all can really see  
16 what The implications are, and then can really make a  
17 really informed decision that really reflects the  
18 interests of our membership in the system.

19 Thank you very much.

20 CHAIRPERSON COSTIGAN: Okay. Thank you very  
21 much.

22 All right. We're at a little bit of a crossroads  
23 here. We have two items left to go. Can I get -- who's  
24 presenting on 8c?

25 Come, Gary. Tell me how long that's going to

1 take. And then I would like to know on 9a, Mr. Hoffner,  
2 is that you on Enterprise?

3 Forrest, five minutes.

4 Gary how long?

5 Okay. We'll hit your deadline. I just want to  
6 make sure. We're bumping up on the two hours for the  
7 court reporter.

8 Okay. Item 8c, please.

9 SENIOR LIFE ACTUARY McCOLLUM: Good afternoon,  
10 Mr. Chairman, members of the Board. Gary McCollum,  
11 CalPERS team.

12 In the interest of time, I will make this very  
13 short. This is Agenda Item 8c, the 6-month summary of the  
14 health plans. And this summarizes, as of June 30th, 2017,  
15 the financial results for the HMO plans and the PPO plans.  
16 I'll start with the PPO self-funded plans first.

17 The total assets are sitting at 778.6 million,  
18 and the excess assets are at 167.6 million. Now, that  
19 seems like a lot, and I don't doubt that some of you said,  
20 wow. But that's actually less than one month's worth of  
21 premium on the PPO plan. So it's a large number, but it's  
22 not an excessively large number, when you look at the  
23 program in total.

24 Medical claims costs are currently very favorable  
25 with one exception, and that's the PERS Choice plan is

1 running rather hot right now.

2 Pharmacy claims costs are very favorable. In  
3 fact, the pharmacy trends for the period -- the 12-month  
4 period ending June of '17 over the 12-month period ending  
5 June of '16, are currently negative for all six of the PPO  
6 plans.

7 And that is a reflection of the improved pricing  
8 that we received when we went to the new PBM contract with  
9 OptumRx.

10 So on the HMO plans, assets are currently at 52  
11 million. And that is a decrease from the end of 2016.  
12 But let me qualify that decrease. There are subsidies,  
13 rebates, and risk transfers that were not reflected in  
14 that amount, that will be reflected in the year-end. So  
15 it's a decrease from the year-end 2016, but it's a  
16 decrease based on timing of bookkeeping.

17 In total the claims costs for the HMO plans are  
18 currently trending in the low- to mid-single digits. I  
19 can't -- well, I could give you a separation plan by plan,  
20 but the amount of migration in the HMO plans year to year  
21 makes any real comparison -- any meaningful comparison  
22 very difficult. So I will just say that in total the HMO  
23 plans are in the low- to mid-single digits.

24 And that will finish my report. I'll be happy to  
25 answer any questions.

1 CHAIRPERSON COSTIGAN: All right. I don't see  
2 any, but I do want to thank you. I want to thank  
3 Chairwoman Mathur for the work that her Committee does,  
4 and to our health staff. It's a great report when you can  
5 talk about costs going down. So thank you very much.

6 SENIOR LIFE ACTUARY McCOLLUM: Okay. Thank you.

7 CHAIRPERSON COSTIGAN: Forrest on 9a.

8 CHIEF RISK OFFICER GRIMES: Good afternoon.

9 Forrest Grimes, CalPERS team. The purpose of this item is  
10 to practice the updated risk management profiles,  
11 dashboard, and heatmap for your review. And really at  
12 point, I'm just seeking your comments or feedback, please.

13 Thank you.

14 CHAIRPERSON COSTIGAN: No.

15 Mr. Jelincic.

16 COMMITTEE MEMBER JELINCIC: One question.

17 Attachment 1, 8 of 16, constant monitoring of team member  
18 access, does that include personnel files?

19 CHIEF RISK OFFICER GRIMES: What page was that  
20 again?

21 COMMITTEE MEMBER JELINCIC: Eight of 16, 3.2 at  
22 the top, mitigation controls.

23 CHIEF RISK OFFICER GRIMES: You know, that's  
24 actually the health care item, I believe, Mr. Jelincic.

25 COMMITTEE MEMBER JELINCIC: It's information

1 security is what it's...

2 CHIEF RISK OFFICER GRIMES: I must be looking at  
3 the wrong page. I'm sorry.

4 CHAIRPERSON COSTIGAN: It starts on seven -- Mr.  
5 Jelincic are you talking about it begins on page seven of  
6 16?

7 COMMITTEE MEMBER JELINCIC: Yeah, it starts on  
8 seven, but my question is on page eight of 16.

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

11 So can you repeat the question, please?

12 So I've got it here, 3.2, constant monitoring of  
13 team member access.

14 COMMITTEE MEMBER JELINCIC: Does that include  
15 access to personnel files?

16 DEPUTY EXECUTIVE OFFICER HOFFNER: What this is  
17 referring to is electronic information assets, and the  
18 appropriate usage of that information.

19 COMMITTEE MEMBER JELINCIC: And if it's an  
20 electronic personnel file, would it be included there?

21 DEPUTY EXECUTIVE OFFICER HOFFNER: I believe it  
22 would.

23 COMMITTEE MEMBER JELINCIC: Okay. Thank you.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: But I can  
25 confirm that.

1           CHAIRPERSON COSTIGAN: All right. There are no  
2 further questions on this item.

3           Thank you, Mr. Grimes. We really appreciate it,  
4 sir.

5           CHIEF RISK OFFICER GRIMES: Certainly.

6           CHAIRPERSON COSTIGAN: All right. The next item  
7 I have in front of me is Committee -- we have two people  
8 that want to speak on public comment.

9           Hang on a second. Let me just double check my  
10 binder real quick.

11          MS. HOPPER: Committee direction.

12          CHAIRPERSON COSTIGAN: I'm sorry?

13          MS. HOPPER: Committee direction.

14          CHAIRPERSON COSTIGAN: Yes, I'm going -- just.  
15 Thank you, Pam.

16          Is there a Kings game tonight or something?

17          (Laughter.)

18          CHAIRPERSON COSTIGAN: They're going to lose  
19 anyway.

20          (Laughter.)

21          CHAIRPERSON COSTIGAN: All right, Charles.

22          (Laughter.)

23          CHAIRPERSON COSTIGAN: I did that for Mr. Jones,  
24 and the Clippers.

25          All right. So we'll do Summary of Committee

1 Direction, Charles.

2 CHIEF FINANCIAL OFFICER ASUBONTEN: That's very  
3 good. We'll bring it home.

4 This is what I heard, Mr. Chair, and then I would  
5 appreciate it if there are any comments. To bring back  
6 in -- for the December -- or at the December meeting total  
7 benefit reductions for Niland Sanitary District and  
8 Trinity County Waterworks District as well.

9 The next items, bring back update for mid-year  
10 budget, second reading; working with Department of Finance  
11 on the HCF/CRF item; also working with the State  
12 Controller's Office on the check writing costs.

13 The next item it's in regards to the direct  
14 authorization, provide information on agenda item on  
15 current direct authorization vendors. And also for the  
16 staff to meet with retirees to discuss limitations  
17 associated with the direct authorizations.

18 The next item is to -- for us to bring -- for  
19 staff to bring back analysis on the removal of the  
20 Replacement Benefit Fund.

21 Next, we -- I believe this one wasn't clear, so  
22 if it doesn't come out clear, perhaps I would appreciate  
23 an update on that. Refine language and options for the  
24 proposed legislative changes on cancellation of  
25 installment payments upon retirement. I believe it was

1 Chair Rob Feckner's comment.

2 The next one, this is on the Amortization Policy.  
3 To bring back in February, after conducting workshops and  
4 surveying the stakeholders, and also come back with real  
5 numbers.

6 Mr. Chair, that's what I have, and I would  
7 appreciate any comments or amendments.

8 CHAIRPERSON COSTIGAN: We've got a couple.  
9 So, first, Mr. Feckner.

10 PRESIDENT FECKNER: No, after that.

11 CHAIRPERSON COSTIGAN: Okay. Sir.  
12 Mr. Juarez.

13 ACTING COMMITTEE MEMBER JUAREZ: On the last  
14 time, I think the thought was to come back with options as  
15 well in February regarding the Amortization Policy.

16 CHAIRPERSON COSTIGAN: I thought he said that.

17 CHIEF FINANCIAL OFFICER ASUBONTEN: Will be  
18 included yes.

19 ACTING COMMITTEE MEMBER JUAREZ: He said with  
20 numbers.

21 CHAIRPERSON COSTIGAN: I'm sorry.

22 ACTING COMMITTEE MEMBER JUAREZ: I want with --

23 CHAIRPERSON COSTIGAN: Options.

24 CHIEF FINANCIAL OFFICER ASUBONTEN: We'll make  
25 clear that it will come back with options.

1           CHAIRPERSON COSTIGAN: Mr. Feckner, was it after,  
2 at the very end?

3           PRESIDENT FECKNER: Yeah, I was just going to  
4 make the comment that, since everybody is still here  
5 except Mr. Slaton, to remind everyone we start at 8:00  
6 o'clock tomorrow morning with Investment closed session.

7           CHAIRPERSON COSTIGAN: That's right. Although we  
8 still have one more COMMITTEE as well.

9           Okay. Now, we're going to go to public comment.  
10 I have two people who would like to speak, which are  
11 Richard Averett and Kristin Cofer-Larsen.

12           And I believe, am I going to have staff come up  
13 and speak before this or after?

14           After. Thank you, sir.

15           Is Kristin here?

16           MR. AVERETT: Kristin had to leave.

17           CHAIRPERSON COSTIGAN: Okay. Thank you, sir.

18           All right. Sir, you have three minutes.

19           MR. AVERETT: Thank you. Appreciate speaking  
20 before you. I know it's been a long day.

21           I want to raise the issue of Local Government  
22 Services and the audit that was begun five years ago by  
23 PERS standard audit turned into something far more  
24 significant for us.

25           We've started tracking our costs when it became

1 adversarial. We spent over \$600,000. I'm sure, PERS has  
2 spent a considerable amount, and we will probably spend  
3 well over a million dollars and you probably will as well.

4           What it comes down to is PERS -- the audits  
5 determined that we were not the common law employer of the  
6 employees that were serving other public agencies. We're  
7 a joint powers authority. We were created to do that.

8           We -- and I'll mention, since JPA's have come  
9 under a lot of scrutiny lately. We're 82 percent funded.  
10 We accepted an accelerated amortization schedule, 10  
11 years, because we wanted to do the right thing. We have  
12 never threatened termination. We've never threatened to  
13 walk away from our obligation to our employees, and that's  
14 why we're still fighting.

15           What I ask for is that staff have the discretion  
16 to determine when to fight something legally, and when to  
17 settle something in a way that protects the system, and  
18 protects the interest -- the financial interest of the  
19 system as well.

20           If they say that we shouldn't be the employer,  
21 when -- on one hand, and therefore they're going to throw  
22 about ten percent of our workforce that we've had over the  
23 16 years that we've operated, throw them out of the system  
24 for their Local Government Services Authority service, yet  
25 they're are also willing to let us be a surrogate for our

1 one remaining client, until they can get a PERS contract.

2 We have carried them for a year, while they  
3 pursued that. We have never threatened to kick them out  
4 on the street. We've never threatened PERS. And we  
5 continue to carry them to this day, because it's taken so  
6 long for them to get a PERS contract.

7 How can we be a legitimate employer for them, but  
8 we are not a legitimate employer for the 14 people that  
9 will lose their service.

10 That's all I have. Thank you.

11 CHAIRPERSON COSTIGAN: Thank you, sir.

12 Mr. Jacobs, did you want to respond, sir?

13 GENERAL COUNSEL JACOBS: I'm surprised that Mr.  
14 Averett would come here today and make public comment at  
15 this time, given that this matter is in litigation and  
16 currently pending before the OAH.

17 We have had extensive contact with his outside  
18 counsel, who I guess is not here today. We do take issue  
19 with many of the things that Mr. Averett as just recited.  
20 But I'm really not at liberty to go into that, given that  
21 it's a penning litigation matter, and will come before  
22 this body for decision, potentially or very likely, once  
23 it gets to that point.

24 CHAIRPERSON COSTIGAN: So Mr. Averett's counsel  
25 and you should get together at some point.

1           GENERAL COUNSEL JACOBS: Oh, we've gotten  
2 together --

3           CHAIRPERSON COSTIGAN: Good. That's all I needed  
4 to know.

5           GENERAL COUNSEL JACOBS: -- at great length. And  
6 we -- it's a very complicated matter. It's involved the  
7 AG at some points. And I guess that's all I can say for  
8 right now.

9           CHAIRPERSON COSTIGAN: All right. Thank you, Mr.  
10 Jacobs. Thank you, Mr. Averett for being here today.

11           All right. This meeting is adjourned.

12           (Thereupon the California Public Employees'  
13 Retirement System, Board of Administration,  
14 Finance & Administration Committee meeting  
15 adjourned at 5:32 p.m.)

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## 1 C E R T I F I C A T E O F R E P O R T E R

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

4 That I am a disinterested person herein; that the  
5 foregoing California Public Employees' Retirement System,  
6 Board of Administration, 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 21st day of November,

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21 JAMES F. PETERS, CSR  
22 Certified Shorthand Reporter  
23 License No. 10063  
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