

MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
OPEN SESSION

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

WEDNESDAY, FEBRUARY 14, 2018

9:00 A.M.

JAMES F. PETERS, CSR  
CERTIFIED SHORTHAND REPORTER  
LICENSE NUMBER 10063

A P P E A R A N C E S

BOARD MEMBERS:

Ms. Priya Mathur, President

Mr. Rob Feckner, Vice President

Ms. Margaret Brown

Mr. John Chiang, represented by Mr. Steve Juarez

Mr. Richard Costigan

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. Henry Jones

Mr. David Miller

Mr. Ramon Rubalcava

Mr. Bill Slaton

Ms. Theresa Taylor

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Charles Asubonten, Chief Financial Officer

Ms. Liana Bailey-Crimmins, Chief Health Director

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Douglas Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

Mr. Brad Pacheco, Deputy Executive Officer

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

STAFF:

Mr. Scott Terando, Chief Actuary

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Kara Buchanan, Board Secretary

Mr. Matt Flynn, Interim Chief Operating Investment Officer

Ms. Renee Ostrander, Chief, Employer Account Management  
Division

ALSO PRESENT:

Mr. Tim Behrens, California State Retirees

Mr. Paul De La Hoya, Corona General Employees Association

Mr. Mike Futrell, City of South San Francisco

Mr. Dillon Gibbons, California Special Districts  
Association

Mr. Dane Hutchings, League of California Cities

Mr. Richard Lee, City of South San Francisco

Mr. Russ Leonard, City of Corona

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

Ms. Donna Snodgrass, Retired Public Employees Association

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

2 PRESIDENT MATHUR: I'm going to convene the Board  
3 meeting this morning.

4 The first order of business is roll call.

5 BOARD SECRETARY BUCHANAN: Good morning.

6 PRESIDENT MATHUR: Good morning.

7 BOARD SECRETARY BUCHANAN: Priya Mathur?

8 PRESIDENT MATHUR: Good morning.

9 BOARD SECRETARY BUCHANAN: Rob Feckner?

10 VICE PRESIDENT FECKNER: Here.

11 BOARD SECRETARY BUCHANAN: Margaret Brown?

12 BOARD MEMBER BROWN: Good morning.

13 BOARD SECRETARY BUCHANAN: Steve Juarez for John  
14 Chiang?

15 ACTING BOARD MEMBER JUAREZ: Here.

16 BOARD SECRETARY BUCHANAN: Richard Costigan?

17 BOARD MEMBER COSTIGAN: Here.

18 BOARD SECRETARY BUCHANAN: Richard Gillihan?

19 BOARD MEMBER GILLIHAN: Here.

20 BOARD SECRETARY BUCHANAN: Dana Hollinger?

21 BOARD MEMBER HOLLINGER: Here.

22 BOARD SECRETARY BUCHANAN: Henry Jones?

23 BOARD MEMBER JONES: Here.

24 BOARD SECRETARY BUCHANAN: David Miller?

25 BOARD MEMBER MILLER: Here.

1 BOARD SECRETARY BUCHANAN: Ruben Rubalcava?

2 Or Ramon, I apologize.

3 BOARD MEMBER RUBALCAVA: Here. Thank you.

4 BOARD SECRETARY BUCHANAN: Bill Slaton?

5 BOARD MEMBER SLATON: Here.

6 BOARD SECRETARY BUCHANAN: Theresa Taylor?

7 BOARD MEMBER TAYLOR: Here.

8 BOARD SECRETARY BUCHANAN: And Lynn Paquin for  
9 Betty Yee?

10 ACTING BOARD MEMBER PAQUIN: Here.

11 PRESIDENT MATHUR: Thank you. Well, we have a  
12 full complement.

13 I have asked the Vice President of the Board, Rob  
14 Feckner, to lead us in the pledge this morning.

15 VICE PRESIDENT FECKNER: Would you all please  
16 rise?

17 Hand over heart.

18 (Thereupon the Pledge of Allegiance was  
19 Recited in unison.)

20 PRESIDENT MATHUR: Well, that brings us to the  
21 President's Report. I have a short report this morning.

22 First of all, good morning, and Happy Valentine's  
23 Day. I see lots of red in the audience. Makes me happy.

24 I want to begin by thanking my colleagues for  
25 their support in my role as President of the Board.

1           This is my first boarding meeting. And I hope I  
2 don't mess up too bad, and especially to Rob for his  
3 guidance during this transition. I see my role as really  
4 facilitating a constructive and effective partnership  
5 between the Board, the CEO, and the CalPERS team as a  
6 whole. And in order to achieve a sustainable pension fund  
7 primarily, and a sustainable health care system for the  
8 very long-term, where we expect to be in business, I  
9 think, well into the future.

10           And key to our success is open, frank, and  
11 frequent communication with our stakeholders. That is  
12 something I think that we have learned very well and that  
13 Marcie has been really leading us in improving and  
14 achieving.

15           It's also crucial, in my opinion, that we engage  
16 our members directly, cutting through some of the  
17 misperceptions with data and facts. And I -- Marcie and I  
18 have been talking about this. This is something we're  
19 going to be doing more over the coming year. So I look  
20 forward to working with each of you to working with  
21 executive team, and our stakeholders to make this a  
22 terrifically productive year for the system.

23           So now I want to officially welcome Ramon  
24 Rubalcava to our Board, and to the CalPERS family. He  
25 joins us for his first Board meeting this month. We're

1 really looking forward to you bringing your member benefit  
2 experience to CalPERS, and to the contributions that you  
3 will undoubtedly make to help us ensure the retirement  
4 security for our members.

5           Ramon replaces Ron Lind who served on our Board  
6 since 2013. Ron is not with us today, but I do want to  
7 take a moment of personal privilege to recognize him for  
8 his service to CalPERS and this Board. As many of you  
9 know, Ron encouraged constructive dialogue and thoughtful  
10 decision making on this Board, and always welcomed the  
11 views of our members, our stakeholders, and our employer  
12 partners. He offered important insights on ensuring the  
13 financial soundness and integrity of the system, and  
14 advocated that the Board consider long-term systemic  
15 risks, such as economic inequality.

16           Ron's expertise and judgment have contributed to  
17 enhancing the financial security of CalPERS members and  
18 protecting defined benefit plans. The Board has prepared  
19 and signed a resolution for Ron to honor his work and  
20 contributions to the system, and we will make sure that he  
21 gets it. We wish him all the best and express our deepest  
22 gratitude for his service. And now, I'd like to turn it  
23 over to Marcie Frost our CEO.

24           CHIEF EXECUTIVE OFFICER FROST: Thank you. And  
25 good morning, Madam President, and members of the Board.

1 This morning I'm going to start off my report regarding  
2 the Health Benefits Program. I'll also touch briefly on  
3 the CalPERS amortization policy that was heard yesterday,  
4 and then bring you up to date on events and activities  
5 that are taking place both internally and externally.

6 But first I'd like to talk a little bit about  
7 OptumRx around health care, and pharmacy benefits. Of  
8 course, we are focused on keeping our members healthy,  
9 while also providing affordable options to do so. And  
10 good prescription medication coverage is essential to  
11 positive health outcomes.

12 As you know, and again, we heard in public  
13 comment again yesterday, there have been challenges with  
14 stabilizing the transition to OptumRx. Yesterday, we  
15 heard about significant improvements in Optum's customer  
16 service. Liana Bailey-Crimmins gave you an update on  
17 that.

18 We also know that we have work still to do to get  
19 it to the level that our members deserve and CalPERS  
20 expects. I am continuing to have conversations with the  
21 CEO OptumRx, John Prince, who remains amenable to looking  
22 at policies within OptumRx that may be having negative  
23 impacts on member experience. He has committed to  
24 continuing to work on this relationship, and we look  
25 forward to seeing what he comes up.

1           As many of you know, there aren't that many  
2 pharmacy benefit managers in the marketplace that can  
3 handle the size and scale of CalPERS. So it's really  
4 important that we are able to get this right.

5           And I encourage our stakeholders to continue  
6 talking with us. We will listen to them, and continue to  
7 talk to the Board about problems that they are  
8 experiencing.

9           So moving on to health negotiations, February is  
10 the time of year when our health teams will begin building  
11 on last year's successful health plan negotiations, and  
12 start the process for 2019 and rates.

13           Last year's negotiations, as you know, resulted  
14 in the lowest overall premium increase that CalPERS has  
15 seen in about 20 years. In addition to holding the line  
16 to contain costs for 2019, which include the pharmacy  
17 pricing strategies discussed yesterday. We'll continue  
18 looking for innovative ways to reduce the overuse of  
19 ineffective or unnecessary medical care and improving the  
20 health of our members through programs like the  
21 SilverSneakers program.

22           Combined with that we learn from the open  
23 enrollment results that were shared with the Pension and  
24 Health Benefits Committee, our teams will work with the  
25 plans to support these ongoing priorities. We will also

1 be bringing you preliminary rates to review in May, with  
2 the final rates coming to you in June.

3 Now, on to the Amortization Policy. Protecting  
4 member benefits takes on many forms, and one of them is  
5 the Amortization Policy that was discussed yesterday. The  
6 vote the Committee took yesterday is an important step in  
7 strengthening the fund for generations to come as Priya  
8 indicated in her comments as well.

9 And I really don't say that lightly, because the  
10 Amortization Policy does just that. It does prevent  
11 future generations from bearing the burden of paying for  
12 today's unfunded liabilities. And another major benefit  
13 of the new policy is that it will save employers money  
14 over the long term, and will reduce their unfunded  
15 liability balances sooner.

16 But we know that these decisions are difficult  
17 ones to make for the Board, difficult for the team to  
18 bring to the Board to make the decision, and the impacts  
19 to the employers are not easy.

20 But we also know that these are actuarial best  
21 practices and our professional team working at CalPERS in  
22 providing you the advice and the guidance that you need to  
23 make these decisions from is equally important.

24 The -- on to some events that we will be  
25 participating in outside of CalPERS. We have the CSMFO,

1 which is the Municipal Financial Organization conference.  
2 We do have leadership teams that will be attending that  
3 event in the next week.

4 First up, again, is the California Society of  
5 Municipal Finance Officers annual conference on February  
6 23rd. And we'll have a panel -- a CalPERS panel. I will  
7 be facilitating a dialogue with Charles Asubonten our CFO,  
8 and Fritzie Archuleta out of the Actuarial Office to  
9 address pension sustainability and its impact on our  
10 employers.

11 It's a great opportunity to meet and talk with  
12 decision makers from cities throughout the State and to  
13 reinforce our commitment to do what it takes to strengthen  
14 the fund, and our ability, our primary duty, which is to  
15 pay member benefits.

16 I'm also looking forward to meeting with pension  
17 industry leaders at the California Association of Public  
18 Retirement Systems generally assembly on March 4th. I get  
19 the opportunity to talk about the CalPERS culture, and how  
20 to really reinforce team engagement as part of an  
21 important culture for people to work and thrive in.

22 As you know, Donna Lum is the recently elected  
23 president at CALAPRS. And then speaking of team  
24 engagement, we had an outstanding leadership development  
25 event here last month to check in with CalPERS leaders on

1 the work that they're doing to implement the five values  
2 around culture, which I have spoken about in the past.

3           These principles are aimed at driving team  
4 engagement with organizational goals that ultimately  
5 improve customer satisfaction, and also improve our  
6 operational efficiencies.

7           We heard from several of them in a video, we  
8 shared during the event, and I'd like to share that with  
9 you now. I think it's important from time to time to give  
10 you a glimpse into the organization, and some of the work  
11 that's happening with the leadership and the teams. So if  
12 we could roll that video now, please.

13           (Thereupon a video was played.)

14           (Applause.)

15           CHIEF EXECUTIVE OFFICER FROST: So I'd like to  
16 take moment to recognize the team members and leaders who  
17 volunteered to tell their stories, not only in a video,  
18 but sitting up here on this stage for the second part of  
19 the leadership series. And they are here in the audience  
20 today. So if we could give them a thank you.

21           (Applause.)

22           CHIEF EXECUTIVE OFFICER FROST: And then also the  
23 Leadership Development Team out of the Human Resources  
24 Office, and our video production team who does just  
25 amazing work on behalf of CalPERS.

1 (Applause.)

2 CHIEF EXECUTIVE OFFICER FROST: And this will be  
3 some of the work that I get to share on behalf of the team  
4 here at the CALAPRS event talking about team engagement  
5 and the strategies that our team leaders have really  
6 embraced.

7 In addition to helping to develop leaders we're  
8 working with the results of our employee engagement  
9 survey, which we received at the close of 2017. We were  
10 very pleased with a 70 percent response rate from our  
11 team. And the fact that we did exceed McLean & Company's  
12 benchmark score.

13 We did learn also that more than half of our team  
14 members are fully engaged exceeding expectations, and  
15 passionate about the work that they're doing, but we also  
16 have some work to do in the areas of accountability,  
17 recognition, and relationships with senior and executive  
18 management. And we are committed to coming up with  
19 actions that will improve those scores for next year.

20 Getting back to some of the executive activities,  
21 Doug and I will also be joining leaders at the upcoming  
22 Government Operations Lean Conference. And this is the  
23 first -- first meeting of this type here. And Marybel  
24 Batjer is leading that effort and has asked us to  
25 participate.

1           As you know, I'm a strong believer in Lean as a  
2 means to focus our processes on the customer and what adds  
3 value and making sure that our employees and our teams are  
4 involved in the problem solving. And I have been able to  
5 see first hand here at CalPERS how effective that can be  
6 in helping to improve job satisfaction.

7           So that does conclude my report this morning,  
8 Madam President, and I'm happy to answer any questions.

9           PRESIDENT MATHUR: Well, thank you very much, Ms.  
10 Frost. It is really something to see all of the  
11 self-motivated, engaged leaders that we have here at  
12 CalPERS and all of the work that you and your team are  
13 doing to continue their development, so that we can be the  
14 most effective organization in State government.

15           So thank you very much for that.

16           That brings us to Agenda Item number 5, the  
17 consent action items. I would just note for the Board  
18 that we have a revised travel item. Margaret Brown will  
19 be traveling to the CII 2018 conference. So that's -- I  
20 just submit that for your consideration. What's the  
21 pleasure flesh of the Board.

22           VICE PRESIDENT FECKNER: Move approval.

23           BOARD MEMBER TAYLOR: Second.

24           PRESIDENT MATHUR: Moved by -- moved by Mr.  
25 Feckner, seconded by Ms. Taylor.

1 Any discussion on the motion?

2 Seeing none, all those in favor say aye?

3 (Ayes.)

4 PRESIDENT MATHUR: All opposed?

5 Motion passes.

6 I've had no requests to pull anything off of  
7 the -- I'm sorry that was the -- that was for both of the  
8 consent items, correct?

9 BOARD MEMBER RUBALCAVA: I abstain on the  
10 minutes.

11 PRESIDENT MATHUR: Okay. Please note Mr.  
12 Rubalcava's abstention on the minutes.

13 PRESIDENT MATHUR: Thank you very much.

14 So that brings us to the information consent  
15 items. I've had no requests to pull anything off, so that  
16 brings us to the Committee reports.

17 And first, I will call on the Chair of the  
18 Investment Committee, Mr. Jones.

19 BOARD MEMBER JONES: Yeah, thank you, Madam  
20 President. The Investment Committee met on February 12th,  
21 2018. The Committee held an election of the Investment  
22 Committee Chair and Vice Chair positions. I was  
23 re-elected as Chair of the Committee, and Richard Costigan  
24 was elected as Vice Chair of the Committee.

25 The Committee received reports on the following

1 topics:

2           Consultants and staff presented performance and  
3 risk reviews of the CalPERS portfolios, and the first  
4 reading of the revision of the Real Assets Program Policy.

5           The Chair directed staff to do the following: To  
6 include information on the economic impact of extreme  
7 weather-related events and future economic reports; and to  
8 provide data on the low income cohorts and youth cohorts  
9 regarding household information.

10           The Committee heard public comment on the support  
11 of CalPERS Global Investment Performance Standards, GIPS,  
12 compliance.

13           At this time, I would like to share some  
14 highlights of what to expect at the March Investment  
15 Committee meeting:

16           A report to the California Legislature on  
17 Assembly Bill 20, a review of the Investment Committee  
18 delegation; revision of Real Assets Program policy, second  
19 reading; supplemental income plans asset allocation review  
20 and proposed policy revisions, first reading; Governance  
21 and Sustainability Principles; ESG strategic plan update;  
22 and corporate governance update: Proxy voting, shareowner  
23 campaigns, and corporate engagement.

24           The next meeting of the Investment Committee is  
25 scheduled for March 19, 2018 in Sacramento, California.

1 And that completes my report Ms. -- Madam president.

2 PRESIDENT MATHUR: Thank you.

3 Mr. Juarez.

4 ACTING BOARD MEMBER JUAREZ: Yes. I'm a -- and  
5 thank you for acknowledging me.

6 I'm a bit surprised to see there's no mention of  
7 the item that I raised on Monday, which is the -- having  
8 staff report back on -- as a discussion item on the  
9 breadth of issues surrounding divestment from illegal fire  
10 arm manufacturers and related accessories.

11 Again, I want to be clear that it's -- it was the  
12 Treasurer's expectation that we would be hearing that as  
13 an item at the next meeting -- Investment meeting in  
14 March. And again, I'm just a little taken aback that  
15 there's no mention of it whatsoever.

16 BOARD MEMBER JONES: Well, the -- as I mentioned  
17 at the Investment Committee yesterday. The item is  
18 included as part of the ESG presentation, and your request  
19 was to move it out and make it a separate item. And I  
20 said I would take a look at it, and I do want to talk with  
21 staff before we do that.

22 ACTING BOARD MEMBER JUAREZ: And I would hope you  
23 share that directly with Treasurer when --

24 BOARD MEMBER JONES: I will.

25 ACTING BOARD MEMBER JUAREZ: -- you make that

1 decision.

2 PRESIDENT MATHUR: Thank you, Mr. Juarez.

3 That brings us to Agenda Item number 7b, Pension  
4 and Health Benefits Committee report.

5 Mr. Feckner.

6 VICE PRESIDENT FECKNER: Thank you, Madam Chair.  
7 The Pension and Health Committee, PHBC met on February  
8 13th, 2018. The Committee elected Rob Feckner as Chair  
9 and Theresa Taylor as Vice Chair.

10 The Committee recommends and I move that the  
11 Board approve the following:

12 Agenda Item 4b, approve staff's recommendation to  
13 deny members's request for a new form of retirement Option  
14 Settlement 4.

15 PRESIDENT MATHUR: So there's a motion before  
16 you. Before I move to the vote, I just wanted ask, Mr.  
17 Behrens, did you have a comment on the two action items or  
18 a general comment that you wanted to make at the end of  
19 this report.

20 MR. BEHRENS: Just a general comment on the high  
21 deductible part of it.

22 PRESIDENT MATHUR: Okay. Thank you very much.

23 So on the motion.

24 All those in favor say aye?

25 (Ayes.)

1 PRESIDENT MATHUR: All opposed?

2 Motion passes.

3 VICE PRESIDENT FECKNER: Agenda Item 6, approve  
4 staff's recommendation to pursue the proposed regulation  
5 defining full-time employment.

6 PRESIDENT MATHUR: On motion by Committee.

7 All those in favor say aye?

8 (Ayes.)

9 PRESIDENT MATHUR: All opposed?

10 Motion passes.

11 VICE PRESIDENT FECKNER: The Committee received  
12 reports on the following topics:

13 Public agency recruitment and retention for the  
14 Health Benefits Program; this self-funded preferred  
15 provider organization Value-Based Insurance Design  
16 proposal; improvements with OptumR; and potential pharmacy  
17 pricing strategies for 2019 and beyond.

18 The Chair directed staff to:

19 Provide the Committee research related to high  
20 deductible/low cost plans, and, its potential impact to  
21 active and retiree populations;

22 Evaluation the impact to active and retirees when  
23 sponsoring agencies leave the CalPERS Health Program;

24 And provide more in-depth analysis on savings and  
25 alternatives regarding the Value-Based Insurance Design

1 proposal.

2           At this time, I would like to share some  
3 highlights of what to expect at the March PHBC meeting.  
4 The Committee will review the PHBC delegation. The  
5 Committee will hear information on Health Beliefs, retired  
6 ben -- retired members cost of living; 2019 health plans  
7 and rates, and population of health.

8           The next meeting of PHBC is scheduled for March  
9 20th 2018 in Sacramento, California.

10           That completes my report, Madam President.

11           PRESIDENT MATHUR: Thank you, Mr. Feckner.

12           That brings us to Agenda Item number 7c, Finance  
13 and Administration Committee Report. For that, I call on  
14 the Chair, Ms. Taylor.

15           BOARD MEMBER TAYLOR: Thank you, Madam President.  
16 The Finance and Administration Committee met on February  
17 13th, 2018. The Committee held an election for Finance  
18 and Administration Committee Chair and Vice Chair.  
19 Theresa Taylor was elected as Chair. Richard Costigan was  
20 elected as Vice Chair.

21           The Committee recommends and I move the Board  
22 approve the following:

23           Agenda Item 4b, approve the June 30th, 2017  
24 Judges' Retirement System Actuarial Valuation Report, and  
25 Employer and Employee Contribution Rate.

1 PRESIDENT MATHUR: On motion by Committee.

2 All those in favor say aye?

3 (Ayes.)

4 PRESIDENT MATHUR: All opposed?

5 Motion passes.

6 BOARD MEMBER TAYLOR: Agenda Item 4c, approve the  
7 June 30th, 2017 Judges' Retirement System II actuarial  
8 valuation report and employer and employee contribution  
9 rates.

10 PRESIDENT MATHUR: On motion by Committee.

11 All those in favor say aye?

12 (Ayes.)

13 PRESIDENT MATHUR: All opposed?

14 Motion passes.

15 BOARD MEMBER TAYLOR: Agenda Item 4d, approve the  
16 June 30th, 2017 Legislators' Retirement System actuarial  
17 valuation report and employer and employee contribution  
18 rates.

19 PRESIDENT MATHUR: On motion by Committee.

20 All those in favor say aye?

21 (Ayes.)

22 PRESIDENT MATHUR: All opposed?

23 Motion passes.

24 BOARD MEMBER TAYLOR: Agenda Item 6a, the  
25 Committee reviewed the delegation from the Board to the

1 Committee and has no recommendation -- recommended changes  
2 for the Board.

3 PRESIDENT MATHUR: On motion by the Committee.

4 All those in favor say aye?

5 (Ayes.)

6 PRESIDENT MATHUR: All opposed?

7 Motion passes.

8 BOARD MEMBER TAYLOR: Agenda Item 7a, approve  
9 adoption of changes to the Amortization Policy for all  
10 public agency, State, and schools actuarial valuations as  
11 recommended by the Actuarial Office in the agenda item.

12 PRESIDENT MATHUR: We do we have some public  
13 comment on this item. I'll call down Mr. Futrell and Mr.  
14 Lee.

15 If you can take these two seats here to my left,  
16 identify yourself and your affiliation for the record.  
17 And you'll have three minutes each to speak.

18 MR. FUTRELL: Thank you very much. We'll be  
19 brief. My name is Mike Futrell. I'm the City Manager for  
20 the City of South San Francisco. I read a statement  
21 yesterday, but today just a comment. And that is we would  
22 greatly appreciate if beyond today, we could have some  
23 respite and a period of time when there are no additional  
24 rules or regulations, which will make it harder for the  
25 employer to make those contributions.

1           The item today by itself in a silo, yes, it does  
2 increase the burden, but not dramatically. If this were  
3 the only item, we would have no difficulty paying the  
4 additional \$2 million this particular item will cost the  
5 City of South San Francisco.

6           But you put that in the same category as the rate  
7 reduction, and before that the risk management strategy,  
8 and before that the amortization smoothing, all of those  
9 combined have created a huge burden for the employers to  
10 pay their portion.

11           So we are your business partners, and we'd like  
12 for you to look at us in that way. We need you. We need  
13 a solvent retirement system, so that we can recruit,  
14 retain, and take care of the public servants that serve  
15 the people of California, and you need us. You need us  
16 solvent, and able to pay, so that that system remains  
17 solvent. So we need each other.

18           So today one more change, which will negatively  
19 impact, although in a small way, most of the employers  
20 that are paying in California. And we would just ask for  
21 some time, time to talk to our voters, to talk to our  
22 labor groups, and develop a plan where we can come up with  
23 the additional revenue to pay for the heavier PERS  
24 contributions, which we recognize we must make.

25           But that doesn't happen overnight. It takes a

1 long time to educate voters and business on why they  
2 should pay more to educate our labor groups on why we  
3 should be at the table negotiating and having the  
4 employees paying a heavier part of the PERS obligations.

5 So that's the message for today. Please send a  
6 clear message to all of the agencies in California, that  
7 there are no additional things that will come out of the  
8 closet, things that will cause us to worry, and instead we  
9 should be focused on raising revenue, reducing expenses,  
10 and finding a way to pay the bill that is currently before  
11 us.

12 Thank you.

13 PRESIDENT MATHUR: Thank you for your comments.

14 Mr. Lee.

15 MR. LEE: Good morning, Madam President and  
16 members of the Board. Again, Richard Lee, Director of  
17 Finance for the City of South San Francisco.

18 Yesterday, Mr. Futrell and I addressed the  
19 Finance and Administration Committee, so I won't  
20 recapitulate those comments. Rather, I have a few  
21 observations and requests.

22 First, as part of the staff report and  
23 presentation to the Finance and Administration Committee,  
24 the accompanying scenarios illustrated projected  
25 investment returns that matched the discount rate three

1 percent and 11 percent with three percent reflecting the  
2 25th percentile, and 11 percent representing the 75th  
3 percentile.

4 Board Member Costigan remarked that during  
5 Monday's Investment Committee meeting, CalPERS' projected  
6 ROI over the next 10 years will be 6.1 percent. This is  
7 consistent with remarks that Mr. Costigan shared almost  
8 one year to the day at the annual CSMFO conference here in  
9 Sacramento.

10 I applaud the actuarial department's efforts.  
11 Over the past six years, they have made great strides to  
12 make the annual actual -- annual actuarial valuations more  
13 robust and full of pertinent information from member  
14 agencies.

15 I found them to be very responsive to our  
16 inquiries, and I'm thankful for their presence at regional  
17 events, such as the annual CSMFO conference.

18 That being said, while I don't wish to place  
19 additional burden on the Department, given their heavy  
20 workload, I would ask for additional information to be  
21 provided in the sensitivity analysis of the actuarial  
22 valuation. For example, in the current sensitivity  
23 analysis, it does show percentile returns. However, given  
24 the information that Board Member Costigan provided of 6.1  
25 percent, we'd ask that that information be projected in

1 terms of contribution rates, UAL, normal cost,  
2 specifically over the next seven to eight years, rather  
3 than just the three years that are currently shown.

4 This concludes my comments and thank you for your  
5 consideration.

6 PRESIDENT MATHUR: Thank you very much for your  
7 comments. I'm going to call down Mr. Hutchings -- Dane  
8 Hutchings as well, if you could identify yourself and your  
9 affiliation for the record, and you'll have three minutes  
10 to speak. And I would just note I apologize. I neglected  
11 to call down Mr. Behrens for public comment on 7b. So at  
12 the conclusion of the Finance Committee report, I will  
13 invite you down to speak. Apologies for that.

14 Mr. Hutchings.

15 MR. HUTCHINGS: Good morning, Chair and members.  
16 Dane Hutchings with the League of California Cities. As  
17 you heard from one of my members from the City of South  
18 San Francisco, this may be a challenge for some of my  
19 cities. Again, you've heard from other -- other of my  
20 cities that they've -- they're welcoming the change. So  
21 again, no change in our position with regards to formally  
22 weighing in on the amortization schedule.

23 However, I had a very brief moment to sort of  
24 scan through the hardship criteria that is outlined for  
25 some of those struggling agencies. And I can tell you

1 that in the limited time that I had to review, it did seem  
2 somewhat complex. There were significant -- I would say  
3 significant huddles for really any agency to try and  
4 qualify for such hardship criteria, and including -- there  
5 was a section -- again I can't quote it for you exactly,  
6 but essentially it gives full discretionary authority from  
7 the Chief Actuary to make the determination.

8 I would argue that while it is the charge of this  
9 body to honor the fiduciary responsibility of the fund, I  
10 joke around with your actuarial team that you guys still  
11 have not built in an assumption for employers that can't  
12 pay any more.

13 You know, really there is a real fear that even  
14 if it's 10 percent of my membership, which would  
15 constitute about 47 cities, not being able to pay would  
16 have caused significant ripples, not only through our  
17 state's economy, but for this fund.

18 And so I would ask that as you adopt this revised  
19 policy that during the time in which we are implementing  
20 these policies that this Board and the staff work with the  
21 League of Cities and the other employer partners to try  
22 and take a better look at the hardship criteria to ensure  
23 that, you know, look, I don't want this to be a  
24 free-for-all, where everybody is running to the same  
25 status quo.

1           I understand that you guys had to make a tough  
2 decision, but I do believe that there should be a criteria  
3 that will enable cities, not only to be able to qualify  
4 for this, but to easily navigate it.

5           I think one of the big challenges too that I hear  
6 from my members is that it's often very difficult to  
7 navigate the bureaucracy of CalPERS. And again, you know,  
8 we've talked about this before, you know, CalPERS is --  
9 has the highest complexity score of any pension fund in  
10 the country. So it's -- you know, we have the most  
11 members. It's going to be challenge.

12           But I -- you know, I am here. I'm -- you know,  
13 our members are here. We're wanting to be a partner with  
14 you guys. We just ask that you look -- that we take a  
15 hard look at some of the issues that surround some of the  
16 current criteria, and make it easy for those folks who are  
17 struggling.

18           Again, it's those cities who maybe -- they may  
19 not be as, you know, advanced. They've got small teams,  
20 and it would be really hard to check all those boxes. So  
21 again, certainly asking that we work together to ensure  
22 that those cities that are on the bubble can maintain  
23 their payments and quite frankly ensure they can retain  
24 their public employees and pay their obligations.

25           Thank you.

1           PRESIDENT MATHUR: Thank you, Mr. Hutchings.

2           On the motion?

3           Ms. Brown.

4           BOARD MEMBER BROWN: Thank you, Madam Chair.

5           I want to thank the League of California Cities,  
6 and the City of South San Francisco for their comments  
7 today.

8           I, too, had questions about the hardship  
9 criteria. I don't necessarily agree that I want to make  
10 it easy, but maybe not super tough. Again -- again, it's  
11 supposed to be a hardship, so it's supposed to be  
12 difficult to qualify.

13           And then since I'm not on the Committee, I do --  
14 I do wonder if we anticipate any other rule or regulation  
15 changes coming in the near future that will impact our  
16 employer partners? I don't know if we have a calendar or  
17 how that works here, but I think it would be interesting  
18 for me to know, and our employers to have some confidence.

19           PRESIDENT MATHUR: So, Ms. Frost, do you have an  
20 answer today, or do you think that's something you would  
21 like to come back on?

22           CHIEF EXECUTIVE OFFICER FROST: So I do have a  
23 comment on the hardship process. And so after the Finance  
24 and Admin Committee yesterday, I did make a commitment to  
25 cities, counties, and special districts, Dane, Dillon, and

1 Dorothy, that within the next month we would sit down with  
2 them and walk through the hardship process, and find out  
3 where that could be made more clear. To the extent that  
4 we have flexibility, take advantage of that flexibility.

5           And then at -- when we've had that opportunity to  
6 work with the employers bring that back for your review as  
7 well.

8           And then on anything within the next year that we  
9 anticipate impacting employers, because the discount rate  
10 was just changed in December, our mid-year cycle is about  
11 two years out for that. I would have to talk with the  
12 actuaries off line to see if there's anything from a  
13 policy level coming from them.

14           But the experience study was just recently done  
15 as well. So the major policies are done, but there could  
16 be other smaller policies that could have an impact. I  
17 don't want to make that commitment that there's no impact,  
18 but the significant policies have been addressed.

19           PRESIDENT MATHUR: But I think what we can commit  
20 to is doing a scan for the next year or two of things that  
21 we anticipate and communicating as clearly as we can about  
22 that.

23           Okay. Terrific. So any other comment on the  
24 motion Or discussion of the motion?

25           So then on the motion by Committee, all those in

1 favor say aye?

2 (Ayes.)

3 PRESIDENT MATHUR: All opposed?

4 Motion passes.

5 BOARD MEMBER TAYLOR: Agenda Item 8a, approve the  
6 notice election -- notice of election for the 2018 CalPERS  
7 Board of Administration State, schools, and public agency  
8 member elections.

9 PRESIDENT MATHUR: On the motion.

10 Ms. Brown.

11 BOARD MEMBER BROWN: Thank you, again, Madam  
12 Chair.

13 At yesterday's Finance and Administration  
14 Committee Meeting, we did approve the notice of election,  
15 or the Committee did. Again, I don't sit on that  
16 Committee. And during that discussion, information was  
17 provided that the voter's signature and bar code or other  
18 identifying information will no longer be required on the  
19 ballot. And I thank the staff for that.

20 However, the larger question of whether the  
21 California Constitution that says, voting shall be secret,  
22 applies to our CalPERS election.

23 And I'm wondering if our General Counsel could  
24 answer this important question at this time.

25 PRESIDENT MATHUR: Mr. Jacobs.

1           GENERAL COUNSEL JACOBS: Well, I believe we've  
2 addressed this in the fact sheet that we provided both to  
3 the Board and to the public at the time. And frankly, I  
4 don't remember what it says at this point, but I think  
5 it's fully addressed there, and I'd be happy to come back  
6 with further explication of that point if it's not clear  
7 in the fact sheet.

8           BOARD MEMBER BROWN: Thank you.

9           PRESIDENT MATHUR: Thank you very much, Mr.  
10 Jacobs.

11           On motion by Committee.

12           All those in favor say aye?

13           (Ayes.)

14           PRESIDENT MATHUR: All opposed?

15           Motion passes.

16           BOARD MEMBER TAYLOR: Agenda Item 9a, approve  
17 adoption of the 5.25 percent discount rate and --  
18 assumption for the Long-Term Care Program.

19           PRESIDENT MATHUR: Sorry. On motion by  
20 Committee.

21           All those if favor say aye?

22           PRESIDENT MATHUR: All opposed?

23           Motion passes. Oh, I'm so sorry. We did have  
24 some public comment on this item. So let me bring down  
25 Ms. Snodgrass, if you could yourself and your affiliation

1 for the record.

2 MS. SNODGRASS: Good morning. Thank you, and  
3 congratulations again on your election, Ms. Mathur.

4 Yesterday, I had a question about premium  
5 increases on the long-term care with this assumption. And  
6 I did a little more reading last night. I apologize. I  
7 was thinking of something else yesterday, anyway.

8 But I have a couple of questions maybe you can  
9 answer -- the actuaries can answer. Reading the  
10 information and using the new assumptions, the Long-Term  
11 Care Program appears it will be underfunded with a margin  
12 of a negative 1.45. And the goal has always been to be a  
13 positive 10 for this.

14 So with -- with this information, it appears that  
15 there will have to be a future premium increase. So can  
16 anyone give me an idea when that increase will happen in  
17 the premiums? If we stay negative, there will have to be  
18 a premium increase. And I'd like an idea of how soon  
19 that's coming.

20 PRESIDENT MATHUR: Mr. Terando, do you want to  
21 address that question?

22 CHIEF ACTUARY TERANDO: Sure.

23 PRESIDENT MATHUR: Thank you.

24 CHIEF ACTUARY TERANDO: Scott Terando, Chief  
25 Actuary. The discount rate is just one particular item

1 that goes into whether we need a premium increase or not:  
2 The actual returns on the fund, the experience, the claims  
3 costs, there are a number of factors that go into our  
4 analysis on whether we'll need a premium increase or not.

5 We've had negative margins in the past that have  
6 not generated premium increases. This is a very small  
7 negative margin. It just turned negative, and we are  
8 going to kind of monitor it and see where things go. I  
9 can't say where things will wind up in the future. It  
10 just depends on how things play out on the experience  
11 wise, but we don't see a need for a premium increase in  
12 the near future.

13 PRESIDENT MATHUR: Thank you.

14 MS. SNODGRASS: So we don't know?

15 CHIEF ACTUARY TERANDO: I can say, currently, we  
16 don't expect a premium increase. I can never say never,  
17 because --

18 PRESIDENT MATHUR: It depends on the experience.

19 MS. SNODGRASS: Okay. There's only two revenue  
20 sources.

21 PRESIDENT MATHUR: Thank you.

22 Okay. So that motion was voted on and passed.

23 BOARD MEMBER TAYLOR: Yes.

24 PRESIDENT MATHUR: Please continue, Ms. Taylor.

25 Thank you.

1 BOARD MEMBER TAYLOR: Okay. The Committee  
2 received reports on the following topics:

3 2017 CalPERS Board of Administration  
4 member-at-large election results; and the annual Diversity  
5 Report.

6 The Chair directed the staff to:

7 Continue work on potential legislative changes  
8 relating to schools reporting requirements;

9 Bring back recommendations on Amortization Policy  
10 early opt-in options and information on developing a  
11 CalPERS 115 trust;

12 Review the CalPERS Board of Administration  
13 election phone voting process to include candidate names  
14 in lieu of asking voters to remember candidate order, and  
15 identify if there's an option to bypass directly to vote  
16 for the candidates;

17 Provide additional information on gender  
18 demographics for program areas at the manager and staff  
19 levels and Board diversity;

20 Gather and provide a report on vendor contracting  
21 employee diversity.

22 The Committee heard public comment on the  
23 following topics: Amortization Policy, and the long-term  
24 care discount rate assumption.

25 At this time, I would like to share some

1 highlights of what to expect at the April Finance and  
2 Administration Committee meeting:

3           The 2018-19 annual budget proposal. It's going  
4 to be the first reading;

5           The annual review of Board member employer  
6 reimbursements;

7           The asset and liability transfer to the San  
8 Bernardino County Employees Retirement Association;

9           EMC IT contract extensions;

10           And valuation and employer/employee contract  
11 contribution rates for both State and school employees.

12           And the next meeting of the Finance and  
13 Administration Committee is scheduled for April 7th --  
14 17th, 2018 in Sacramento, California.

15           And that's my report, Madam President.

16           PRESIDENT MATHUR: Thank you, Ms. Taylor.

17           Before I turn to the Chair of the Performance,  
18 Compensation and Talent Management Committee, I would like  
19 to call down Mr. Behrens at this time.

20           Thank you for your indulgence. I apologize for  
21 not calling you in conjunction with the report from the  
22 Pension and Health Benefits Committee.

23           Please identify yourself and your affiliation for  
24 the record, and you'll have three minutes.

25           MR. BEHRENS: Thank you, Madam Chair, Board

1 members. Tim Behrens, California State Retirees.

2 Yesterday, I left off on the discussion, and I  
3 want to start where I left off, and that is again  
4 supporting the health incentives for rebates in the VBID  
5 proposal and supporting efforts to control health care  
6 costs. There was a discussion about higher deductibles.

7 And I would just remind you that historically,  
8 about two years ago, the Governor had an open forum on  
9 higher deductible medical for State employees. And during  
10 that discussion where they had two experts there talking  
11 about how well it was working for them in other states,  
12 one of the things that happened was that the information  
13 that was given did not go past the age of 50. So there  
14 doesn't seem to be any data out there about how higher  
15 deductible insurance may or may not influence the way  
16 people buy or do not buy medical health, or whether or not  
17 they actually die because they can't afford it, et cetera,  
18 et cetera.

19 So I just wanted to throw that out there, so  
20 maybe staff can find some place and other states in the  
21 United States where they have higher deductible plans like  
22 that, whether or not there's any data to suggest that  
23 there actually is a negative impact on the employees,  
24 because of a higher deductible, even though they're paying  
25 a lower premium, because I know that when I -- you know, I

1 worked for the State for 42 and a half years. And when I  
2 started working for the State if I could have paid less  
3 for my medical insurance, I would have been happy to have  
4 taken that, not thinking about being 71 today, and glad I  
5 have medical insurance.

6 So that's all. Happy Valentine's Day. Have a  
7 good day. Thank you.

8 PRESIDENT MATHUR: Thank you very much for  
9 sharing your insights. Appreciate that.

10 Now, I'll move on to Agenda Item 7 -- oh, I'm  
11 sorry. We do have a comment from Mr. Jones.

12 BOARD MEMBER JONES: Yeah. Thank you, Madam  
13 President. Yeah, I would like to ask, Madam President, if  
14 staff can look into that request about the impact of those  
15 individuals that are higher age.

16 PRESIDENT MATHUR: So I think staff is already  
17 going to bring -- be bringing back information and  
18 analysis around high deductible plans.

19 Thank you.

20 So now I will call on the Chair of the  
21 Performance, Compensation and Talent Management Committee.

22 Mr. Slaton.

23 BOARD MEMBER SLATON: Thank you, Madam President.  
24 The Performance, Compensation and Talent Management  
25 Committee met on February 13th, 2018.

1           The Committee held an election for Committee  
2 Chair and Vice Chair. I was elected Chair and Richard  
3 Costigan was elected Vice Chair.

4           On agenda Item 7, semi-annual status reports on  
5 incentive plans for the Chief Executive Officer and Chief  
6 Investment, the Committee recommends and I move the Board  
7 approve the fiscal year 2017-18 semiannual status reports  
8 of the CEO and CIO, and changes to the CIO's plan as  
9 amended by the Committee and shown in attachment 1.

10           PRESIDENT MATHUR: On motion by the Committee.

11           Any discussion on the motion?

12           Seeing none.

13           All those in favor say aye?

14           (Ayes.)

15           PRESIDENT MATHUR: All opposed?

16           Motion passes.

17           BOARD MEMBER SLATON: Thank you.

18           On Agenda Item 8, review of the Performance,  
19 Compensation and Talent Management Committee delegation,  
20 the Committee deferred that item to a future meeting.

21           Agenda Item 9, Executive Compensation Policy  
22 discretionary modifier. The Committee recommends and I  
23 move the Board approve option B to amend the Executive  
24 Compensation Policy discretionary modifier and increase  
25 flexibility by allowing discretion to be exercise upward

1 or downward on an award by any percentage.

2 PRESIDENT MATHUR: On motion by Committee.

3 All those in favor say aye?

4 (Ayes.)

5 PRESIDENT MATHUR: All opposed?

6 Motion passes.

7 BOARD MEMBER SLATON: The Committee Chair gave  
8 direction to bring back information at future meetings on  
9 the following:

10 Analysis of the Committee's delegation resolution  
11 and proposed changes;

12 Analysis and information related to incentive  
13 compensation pay structure, including long-term incentive  
14 opportunities;

15 Options for the enterprise operational  
16 effectiveness metric, and information on the stakeholder  
17 engagement metric.

18 The Committee also directed staff to work with  
19 the Board's executive compensation consultant to explore  
20 the possibility of differentiating the CEO incentive plan  
21 from her direct reports.

22 The next meeting of the Performance, Compensation  
23 and Talent Management Committee is scheduled for March  
24 20th, 2018 in Sacramento, California.

25 That completes my report.

1           PRESIDENT MATHUR: Thank you.

2           That brings us to Agenda Item number 7e, the  
3 report from the Risk and Audit Committee. For that, I  
4 call on the Chair, Ms. Hollinger.

5           BOARD MEMBER HOLLINGER: Thank you, Madam Chair.

6           The Risk and Audit Committee met on February  
7 12th, 2018 and elected Dana Hollinger as Chair and Bill  
8 Slaton as Vice Chair.

9           The Committee recommends and I move the Board  
10 approve the following:

11           Agenda Item 6, the proposed Risk and Audit  
12 Committee delegation resolution be brought to the Board  
13 for approval along with the other committee delegations.

14           PRESIDENT MATHUR: On motion by Committee.

15           All those in favor say aye?

16           (Ayes.)

17           PRESIDENT MATHUR: All opposed?

18           Motion passes.

19           BOARD MEMBER HOLLINGER: The Committee received  
20 reports on the following topics:

21           The 2017/2018 mid-year plan update for the  
22 Enterprise Risk Management and Enterprise Compliance.

23           At this time, I would like to share some  
24 highlights of what to expect at the June Risk and Audit  
25 Committee meeting:

1           2018-2019 plans for Enterprise Risk Management,  
2 Enterprise Compliance, and the Office of Audit Services;  
3           The independent auditor's 2018 annual plan, and;  
4           The semiannual Enterprise Risk Management  
5 framework review.

6           The next meeting of the Risk and Audit Committee  
7 is scheduled for June 19th, 2018 in Sacramento. And that  
8 concludes my report.

9           PRESIDENT MATHUR: Thank you very much.

10          We have -- had no meeting of the Board Governance  
11 Committee, so we have no agenda -- no report under 7f.

12          That brings us to Agenda Item number 8, the  
13 proposed decisions of administrative law judges. And for  
14 that, I will call on the Vice President, Mr. Feckner.

15          VICE PRESIDENT FECKNER: Thank you, Madam  
16 President.

17          Is Mr. Shah with us today?

18          PRESIDENT MATHUR: Oh, I believe Mr. Shah is on  
19 the phone. Thank you.

20          VICE PRESIDENT FECKNER: Thank you.

21          I move to adopt the proposed decisions at Agenda  
22 Items 8a, 8c, and 8d, and 8f through 8v with the minor  
23 modifications argued by staff to Agenda Items 8a, 8d, 8p,  
24 through r and 8v;

25          Two, to remand Agenda Item 8b for the taking of

1 additional evidence as argued by staff;

2           And three to remand Agenda Item 8e for the taking  
3 of additional evidence regarding the member's  
4 psychological condition;

5           And F, remand Agenda Item 8w for the taking of  
6 additional evidence regarding the Board's duty to comply  
7 with the eligibility requirements of the PERL, as well as  
8 applicable eligibility requirement rules related to the  
9 tax qualification requirements of the Internal Revenue  
10 Code section 401(a).

11           PRESIDENT MATHUR: Is there a second to the  
12 motion?

13           BOARD MEMBER TAYLOR: Second.

14           PRESIDENT MATHUR: Second -- made by Feckner,  
15 seconded by Taylor.

16           On the motion?

17           Mr. Miller.

18           BOARD MEMBER MILLER: Sure.

19           PRESIDENT MATHUR: Can you move the mic just a  
20 little bit closer.

21           BOARD MEMBER MILLER: Yeah.

22           PRESIDENT MATHUR: Thank you.

23           BOARD MEMBER MILLER: I haven't been through this  
24 particular process on these items, but I have some real  
25 concerns on Agenda Item 8h. And I don't know that I

1 support the recommendation on that particular item. So is  
2 that an item we could --

3 PRESIDENT MATHUR: So let's take 8h up  
4 separately.

5 BOARD MEMBER MILLER: Okay.

6 PRESIDENT MATHUR: We'll remove it.

7 VICE PRESIDENT FECKNER: Okay.

8 PRESIDENT MATHUR: Any other comments/discussion  
9 by the Committee on the motion?

10 Seeing none.

11 All those in favor of the motion say aye?

12 (Ayes.)

13 PRESIDENT MATHUR: All those opposed?

14 Motion passes.

15 Now, on 8h. Mr. Miller, if you could -- let's  
16 see, your mic is on.

17 BOARD MEMBER MILLER: Yeah. On 8h, in looking at  
18 the detailed material we had before us, particularly the  
19 respondent's kind of reply and rebuttal to the decision  
20 and the material that was presented, I really -- in this  
21 case with this Highway Patrol officer, the way these 14  
22 required capabilities were applied, and it just seemed  
23 like there was -- to me, it seemed like there was lack of  
24 recognition of what's really required to do that job.

25 And the idea that this officer would be able to

1 occasionally do some of these things in an isolated way  
2 and just the whole decision seemed to be predicated on  
3 this -- that kind of model versus could this officer do  
4 this job? Would this officer be able to be hired for this  
5 job? Would I be able to count on this officer to run 100  
6 yards, to go up embankments, to jump over a guardrail, to  
7 drag me out of a burning car?

8           And I just didn't find that to be compelling. I  
9 felt that their rebuttals to some of those arguments, and  
10 just seemed to lack the real recognition of what it takes  
11 for this job, and as a citizen, what I would expect a  
12 Highway Patrol officer to be capable of. And so I had  
13 serious concerns.

14           Just incidentally, I also felt that in another  
15 case that I approve of the decision, but it -- again, I  
16 saw this seeming lack of acknowledgement, recognition or  
17 full understanding of what a job requires in law  
18 enforcement or in an institutional environment, for  
19 example. So I wanted to bring that out.

20           PRESIDENT MATHUR: Sorry, point of -- pardon me,  
21 Mr. Miller. A point of order.

22           Mr. Costigan.

23           BOARD MEMBER COSTIGAN: Thank you, Madam  
24 President. I don't believe this is the proper place to  
25 debate the merits of it. I would support Mr. Miller's

1 motion should he make one that we would hear the case, and  
2 have his concerns, or that Mr. Miller would dissent. But  
3 as neither party is present, debating the merits of case  
4 probably isn't appropriate at this time.

5           So if you would make a motion that you'd like to  
6 hear the case, I would be happy to second that motion, if  
7 you would like.

8           PRESIDENT MATHUR: So the options are to -- for  
9 the Board to hear the case, to remand it to the ALJ for  
10 the taking of additional evidence, if there's a particular  
11 point where you would like more -- additional evidence to  
12 be considered. Those are the two options as I understand  
13 it.

14           BOARD MEMBER COSTIGAN: Or third one is just to  
15 adopt.

16           PRESIDENT MATHUR: Of the third one is to adopt  
17 the recommendation.

18           BOARD MEMBER COSTIGAN: And Mr. Miller could  
19 dissent voting no.

20           PRESIDENT MATHUR: Mr. Shah, is there -- are  
21 there -- well, are there any points that you heard in Mr.  
22 Miller's comments that you think would be -- require --  
23 would merit the taking of additional evidence?

24           MR. SHAH: Yeah. Thank you, Madam President.  
25 Good morning. Yeah, I think that, you know, those are the

1 options that you laid out. I've -- if the Board wishes,  
2 it could remand the case for additional evidence on the 14  
3 critical tasks. I'm not sure it's necessary to go  
4 directly to a full Board hearing, but of course that's an  
5 option that the Board has.

6 PRESIDENT MATHUR: Okay.

7 BOARD MEMBER MILLER: Yeah. Well, I certainly  
8 appreciate. Thank you for that, Mr. Costigan.

9 I would move that we hear this case.

10 BOARD MEMBER COSTIGAN: I'll second.

11 PRESIDENT MATHUR: Motion has been made for a  
12 full Board hearing on this case.

13 Any discussion on the motion?

14 Seeing none.

15 All those in favor say aye?

16 (Ayes.)

17 PRESIDENT MATHUR: All opposed?

18 (Noes.)

19 PRESIDENT MATHUR: Please note Mr. Feckner as no  
20 and Mr. Slaton's no.

21 The motion passes.

22 That brings us to Agenda Item number 9, Petitions  
23 for Reconsideration. For that, I call on Mr. Feckner.

24 VICE PRESIDENT FECKNER: Thank you, Madam  
25 President.

1 I move to deny the petition for reconsideration  
2 at Agenda Item 9a.

3 PRESIDENT MATHUR: Motion -- is there a second to  
4 the motion?

5 BOARD MEMBER TAYLOR: Second

6 PRESIDENT MATHUR: Second. Motion made by  
7 Feckner, seconded by Taylor. Any discussion on the  
8 motion?

9 Seeing none.

10 All those in favor say aye?

11 (Ayes.)

12 PRESIDENT MATHUR: All opposed?

13 Motion passes.

14 That brings us to Agenda Item number 10, State  
15 and federal legislation update.

16 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good  
17 morning, Madam President and members of the Board. Mary  
18 Anne Ashley, CalPERS team member.

19 I will be presenting Agenda Item 10, the State  
20 and federal legislative update, which is an informational  
21 item. And then following Ms. Ostrander will be providing  
22 an update on two Executive Orders that were recently  
23 issued by the Governor.

24 The California legislature reconvened January 3rd  
25 to start the second year of this two-year cycle. And as

1 you can note in your updated legislative summary, most of  
2 the two-year bills that we have been tracking and  
3 monitoring failed to meet the specified deadline, so they  
4 will no longer be moving forward.

5           However, there are a couple of bills that I would  
6 like to highlight that are still active. AB 1597 by  
7 Assembly Member Nazarian having to do with divestment of  
8 specified Turkish investment vehicles. That bill is  
9 currently with the Senate PERS Committee, and we continue  
10 to engage and work with the author on potential  
11 amendments.

12           SB 656 by Senator Moorlach, having to do with the  
13 Judges' Retirement System II deferred retirement. CalPERS  
14 did provide an actuarial impact analysis to the member and  
15 we are working with the member on conforming amendments.

16           I'm happy to report that we have secured authors  
17 for all four of our sponsored bills for 2018. The annual  
18 housekeeping bill will be carried by the Assembly PERS  
19 Committee and is pending introduction.

20           The bill that seeks to provide Board authority to  
21 set the performance standards and compensation for the  
22 Chief Health Director and the Chief Operating Officer will  
23 be authored by the Majority floor leader Assembly Member  
24 Ian Calderon and that is pending introduction.

25           The bill relating to the terminating agency

1 process will be authored by Assembly Member -- or, excuse  
2 me, Senator Pan, who is chair of the Senate PERS  
3 Committee. And Senator Pan introduced that bill on  
4 February 7th and the bill number is SB 1022.

5 And then our sponsored bill relating to service  
6 credit purchase payments will be authored by Assembly  
7 Member Cooper, who is a member of the Assembly PERS  
8 Committee. Mr. Cooper introduced that bill on February  
9 12th, and the Bill number is AB 2196.

10 The deadline for bill introduction is this  
11 Friday, February 16th. And the Legislative Affairs team  
12 is continuing to review all bills as they are introduced  
13 to identify those that have potential impact to CalPERS.

14 We have identified a few bills that were  
15 introduced just this week and last that would potentially  
16 impact CalPERS that I'd like to highlight.

17 Senator Moorlach has introduced three bills that  
18 we are monitoring and working with program area to  
19 determine the impact to CalPERS. Senate Bill 1031 would  
20 suspend retirement allowance cost of living adjustments,  
21 if the unfunded liability of a pension system is greater  
22 than 20 percent.

23 SB 1032, which has to do with contracting agency  
24 termination provisions, and SB 1023, which has to do with  
25 the transfer of actuarial liability between employers. So

1 we are currently working with program areas to identify  
2 the impact of those three bills.

3           And then also Senator Mendoza introduced two  
4 bills relating to member notification for delinquent  
5 payments by CalPERS and CalSTRS employers. So we will  
6 continue reviewing all the bills as they're introduced,  
7 and we will keep the Board updated as to those that impact  
8 CalPERS.

9           Things have been equally busy on the federal  
10 side. As you know, President Trump signed HR 195, which  
11 is the extension of the short-term appropriations for  
12 fiscal year 2018. As Liana noted yesterday, this resulted  
13 in the postponement of the excise, or Cadillac, Tax and  
14 the medical device tax, and also suspended the tax on  
15 health insurance companies.

16           And as previously reported, the UBIT provisions  
17 were ultimately not included in the tax reform bill signed  
18 by the President. So, in January, CalPERS team members,  
19 along with our federal pension and retirement  
20 representative, met with several Congressional member  
21 offices to thank them for their efforts on opposing the  
22 provision, and ultimately keeping it out of the tax reform  
23 bill, and also to discuss CalPERS concerns regarding  
24 potential PEPTA legislation, and other legislation of  
25 concern to CalPERS that would impact public sector defined

1 benefit plans.

2 And team members met with the staff members of  
3 Devin Nunes, Judy -- Linda -- excuse me, Judy Chu, Linda  
4 Sanchez, Kamala Harris, and Dianne Feinstein.

5 And then on February 7th, CalPERS submitted a  
6 letter to William Hinman Director of Corporation Finance  
7 of the SEC stating our opposition to forced shareholder  
8 arbitration provisions in public company government  
9 governing documents.

10 We are also currently reviewing proposed language  
11 that was referred to us from the Treasurer's office for  
12 potential California legislation to address this issue.

13 And then finally, team members will also be  
14 meeting with congressional members at the end of this  
15 month following the NASRA conference to further establish  
16 our relationships, and to discuss key topics of concern to  
17 CalPERS.

18 This concludes my update, and I am happy to  
19 answer any questions.

20 PRESIDENT MATHUR: Thank you.

21 Ms. Taylor.

22 BOARD MEMBER TAYLOR: Thank you.

23 Thank you, Ms. Ashley. We -- you always bring a  
24 very comprehensive report. And as I was going through  
25 everything and looking at it, I just wanted to make sure

1 moving forward that some of these state bills that impact  
2 the retirement system that we're very active in opposing,  
3 because a lot of it looks like it would negatively impact  
4 many factory tire member system. So as these go forward  
5 or don't get heard, I'd love to hear the updates on that.

6 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

7 Certainly.

8 BOARD MEMBER TAYLOR: Thank you.

9 PRESIDENT MATHUR: Thank you. I see no further  
10 requests to speak.

11 Thank you very much.

12 Ms. Ostrander.

13 EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF

14 OSTRANDER: Good morning. Renee Ostrander, CalPERS team  
15 member. As Mary Anne mentioned, Governor Brown recently  
16 signed two Executive Orders. Those orders were regarding  
17 the wildfire recovery that's currently happening both here  
18 in Northern and in Southern California.

19 Those Executive Orders be B4317 and B4618 lifted  
20 some of those restrictions on the hiring and utilization  
21 of retired annuitants. The two restrictions lifted are  
22 related to the 180-day wait period after retirement, and  
23 then the 960 hour fiscal year limit that a retiree can  
24 work.

25 All the other requirements regarding retired

1 annuitants still apply. And those temporary changes will  
2 be in effect until those Executive Orders are lifted.

3           The one thing the Executive Order does require is  
4 that all employers, not just State employers, but all  
5 employers are required to submit their information to  
6 CalHR.

7           So as a result, CalPERS has taken multiple steps  
8 to address this Executive Order. First, we've released a  
9 circular letter to provide our employers information on  
10 both which restrictions are lifted, and if the remaining  
11 ones remain in place. We've also identified the email  
12 address that CalHR is utilizing to ensure that our  
13 employers know where they need to provide the information.

14           Secondly, we've established a process in concert  
15 with CalHR to receive that information from them. So when  
16 our systems trigger alerts on the 180 day wait period and  
17 on the 960 work period, that when those come up for us, we  
18 will have that information from CalHR, so we will know  
19 that those restrictions are approved, and can be moved  
20 forward.

21           So far we haven'te seen a large number of  
22 retirees identified through this process, and we're not  
23 anticipating this to be a significant amount of workload,  
24 but we are continuing to monitor it throughout the  
25 process, as the recovery efforts continue.

1           PRESIDENT MATHUR: Thank you very much, Ms.  
2 Ostrander. As we are expecting fire seasons to expand,  
3 maybe the full year -- all year round, do we expect this  
4 moving forward to continue to be an issue, and is there  
5 some systemic resolution that we should be considering?

6           EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF

7 OSTRANDER: So right now I have had some discussions with  
8 the Governor's office and with the Office of  
9 Administrative -- Emergency Services. And they do expect  
10 that these will remain in place. I would assume that as  
11 we see -- it was very clear, I should say, as we see  
12 additional catastrophic effects from fires or from other  
13 events that occur, that we would continue to watch this.

14           They are expecting these executive orders to stay  
15 in place for a while. So this isn't a short-term effort.  
16 You know, it is long-term recovery, and so we will be  
17 working with CalHR for probably a few years to come in  
18 monitoring this process.

19           PRESIDENT MATHUR: All right. Terrific. Thank  
20 you very much.

21           I see no further requests on this item. We do  
22 have one member of the public who wishes to speak, Mr.  
23 Hutchings, if you could please take a seat to my left,  
24 identify yourself and your affiliation for the record.

25           VICE PRESIDENT FECKNER: Left.

1           PRESIDENT MATHUR: And you'll have three minutes  
2 to speak.

3           MR. HUTCHINGS: Thank you. Good morning, Chair  
4 and members. Dane Hutchings, the League of California  
5 Cities. This was a little bit extemporaneous. I just --  
6 I heard Ms. Ostrander's comments regarding the Executive  
7 Order, and I had a few comments from my members.

8           So as you well know, specifically more in the  
9 North Bay Area, some of our cities have really been  
10 decimated by these wildfires. And so we very much  
11 appreciate working with Ms. Ostrander's department to  
12 solidify some language.

13           I think one of the big challenges for our members  
14 was, even though we had the Executive Order from the  
15 Governor, there -- with regards to reinstating retired  
16 annuitants, it really is a challenge to -- you know, to  
17 try and navigate some of the specific language. So the  
18 circular letter certainly helps.

19           However, there is one comment I wanted to make on  
20 behalf of a few of my cities when looking at the circular  
21 letter. And if -- permit me from reading it.

22           It just says, the circular states any hours  
23 worked as a retired annuitant in an impacted county to  
24 expedite disaster recovery efforts during the State of  
25 emergency will not be counted towards 960 hour fiscal

1 year.

2           So one of the challenges that we're having is it  
3 says so now do we have to go an track every hour of  
4 disaster recovery since it started in moving forward. I  
5 think one of the big misnomers for the use of retired  
6 annuitants in these situations is that we're pulling folks  
7 off the street to -- you know, to shovel, you know,  
8 wreckage.

9           I think what -- a lot of what our cities are  
10 facing is that there are -- to qualify for FEMA dollars  
11 and to be able to get some of the federal grant funding  
12 to -- or the federal funding to help expedite this  
13 process, you need experienced folks working on that side.

14           So disaster recovery is a little bit narrowly --  
15 you know, is a little bit, you know, narrowly defined. We  
16 would like to continue to work with this -- with the Board  
17 and the department to ensure that our cities who are going  
18 to be most impacted by these wildfires have as much  
19 flexibility as needed to ensure that they're -- that  
20 they're back-up on their feet.

21           And so I just wanted to make those comments, and  
22 again thank staff for being so flexible in working with us  
23 on this. Appreciate it.

24           PRESIDENT MATHUR: Thank you.

25           Okay. Well, that -- I see no further requests to

1 speak on this item. That brings us to Agenda Item number  
2 11, Summary of Board Direction. I don't think there was  
3 any.

4 CHIEF EXECUTIVE OFFICER FROST: I recorded no  
5 direction.

6 PRESIDENT MATHUR: And then that brings us to  
7 Agenda Item number 12, Public Comment. I have two members  
8 of the public who've expressed a wish to comment.

9 Mr. Leonard and Mr. Paul De La Hoya. If you  
10 could please come up to my left, the mics will be turned  
11 on for you, and you can please identify yourself and your  
12 affiliation for the record. You'll have three minutes in  
13 which to speak.

14 MR. LEONARD: Good morning.

15 PRESIDENT MATHUR: Good morning.

16 MR. LEONARD: Russ Leonard City of Corona General  
17 Employees Association President.

18 I just wanted to address the Board, I saw an  
19 article yesterday in the Sacramento Bee that finally  
20 sounds like some good news. The article was titled  
21 *Pension Fund Hits Milestone: It's earning more money than*  
22 *it's paying out.*

23 And it states, "For the first time in years,  
24 CalPERS is stable enough that it no longer expects to run  
25 deficits into the middle of the century".

1           It appears that things are starting to take a  
2 turn for the better. However, I can't help but wonder  
3 what our financials would look like if PERS had not  
4 divested in industries that it found distasteful or not  
5 for the social good.

6           I recall a piece that was written in the public  
7 retirement journal a few years ago. And it said something  
8 that we had lost about around \$10 billion in investments  
9 because of divestment.

10           So while I understand that we need to support  
11 environmentally friendly businesses -- I myself have solar  
12 panels on my house, and I carpool to work, so it's a good  
13 thing. Nevertheless, before we can be instruments of  
14 social change, we need to get our financial affairs in  
15 order.

16           When investments are made, the priority needs to  
17 be potent -- the potential for good returns. My  
18 membership and employees across the State are depending on  
19 it. My membership was imposed on this past November. And  
20 some of us are taking upwards of 25 percent reductions in  
21 compensation.

22           Our city management continually cites CalPERS,  
23 and its inability to make returns on investments as the  
24 main problem, and the main driver for these reductions.

25           So needless to say, we are in dire need for

1 CalPERS to stay on track. And I'd like to take this  
2 opportunity to thank you for doing better, but I think --  
3 I think there's always room for improvement, and I just  
4 want to make sure we stay on track with that.

5 Thank you.

6 PRESIDENT MATHUR: Thank you for sharing your  
7 comments with us this morning.

8 Mr. De La Hoya.

9 MR. DE LA HOYA: Good morning, CalPERS Board. My  
10 name is Paul De La Hoya. I work for the City of Corona,  
11 and I am a board member for the Corona General Employees  
12 Association. In my 20 years of public service, I never  
13 thought I'd have to be here to speak to the Board. But I  
14 am here today to encourage this Board to do what is right  
15 for the 1.9 million CalPERS members, either working or  
16 retired, and the roughly 230 general employees for Corona.

17 I appreciate and respect each of your personal,  
18 social, and professional views. However, when these views  
19 inhibit your ability to make decisions that's in the best  
20 interests of the members, that's a problem, okay.

21 We have to be able to make decisions without bias  
22 and without conflict of interest. As CalPERS motto says  
23 just outside, it says you're here to serve those who serve  
24 California, and your main function is to pay promised  
25 benefits to its members.

1           And as my co-worker said, you know, Corona this  
2 is a serious, serious issue. It's not a joke to us. The  
3 members that we represent, we've lost nearly 50 percent of  
4 our workforce in the past decade. Twenty years ago to  
5 today, I work with half the people I did, and our city is  
6 larger than ever. And this is common in Southern  
7 California.

8           Corona is in a financial crisis. And according  
9 to our city management, they're saying -- we can only go  
10 off of what they tell us, and they're selling us that it's  
11 mainly CalPERS cost issue, which is why we're here today.

12           I admit that I am a layman in CalPERS functions,  
13 but I ask myself why did my personal 457 account have over  
14 a 15 percent return last year, but yet CalPERS cannot.

15           I don't believe for a minute that my retirement  
16 financial advisors are smarter than CalPERS. That's not  
17 true. What I believe the problem is, is that our  
18 investors here at CalPERS have their hands tied in what  
19 they can invest in DUE to the bureaucracy, conflicts of  
20 interest, and the decisions, quite frankly, made by this  
21 Board. I don't mean to be harsh, but it's the reality.

22           In closing, I just want to remind this Board that  
23 what your function is, and it's to pay our members. And  
24 those decisions need to be unbiased and it needs to be for  
25 the members.

1           And at the end of the day, we need to increase  
2 revenues, however that needs to be done.

3           Thank you.

4           PRESIDENT MATHUR: Thank you very much for  
5 sharing your views.

6           We do have two more members of the public who've  
7 expressed a wish to speak: Mr. Gibbons and Mr. Hutchings,  
8 if you could sit in one of these two seats to my left,  
9 identified yourself and your affiliation for the record.  
10 You'll have three minutes with which to speak.

11           MR. GIBBONS: Good morning, chair, members of the  
12 Board. Dillon Gibbons with the California Special  
13 Districts Association.

14           I wanted to follow up on a bit of a conversation  
15 that we had yesterday in the Finance Committee where we  
16 were talking about prefunding trust fund that -- the 115  
17 accounts, and asking CalPERS to establish one for our  
18 agencies to use.

19           One of the issues that was raised was that this  
20 would require legislation in order to be accomplished.  
21 And that with the upcoming legislative deadline, it just  
22 wouldn't be possible this year.

23           So we've decided to offer some assistance to you.  
24 We're going to be introducing a spot bill in the  
25 legislature that would -- that you can use as a vehicle.

1 So we plan on working with you to develop some language  
2 that we can hopefully drop into that spot bill. So I  
3 wanted to let you know that that shouldn't be an  
4 impediment for you.

5 Thank you for your time.

6 PRESIDENT MATHUR: Thank you.

7 Mr. Hutchings.

8 MR. HUTCHINGS: Dane Hutchings with the League of  
9 California Cities. I'm here to --

10 GENERAL COUNSEL JACOBS: I'm sorry to interrupt  
11 Chair Mathur.

12 PRESIDENT MATHUR: Mr. Jacobs.

13 GENERAL COUNSEL JACOBS: But if Mr. Hutchings has  
14 already had his three minutes, then it's not appropriate  
15 to have an additional three minutes or additional time  
16 under the rule that we have.

17 PRESIDENT MATHUR: So he -- is that for the  
18 entire meeting or --

19 GENERAL COUNSEL JACOBS: No, that's for Item 12.

20 PRESIDENT MATHUR: He spoke on Item 10.

21 MR. HUTCHINGS: I spoke on Item 10.

22 GENERAL COUNSEL JACOBS: I thought he spoke on 12  
23 before?

24 PRESIDENT MATHUR: He spoke on Item 10.

25 GENERAL COUNSEL JACOBS: Okay. My deep apologies

1 then.

2 PRESIDENT MATHUR: Thank you.

3 MR. HUTCHINGS: Can I get my time restarted,  
4 please?

5 (Laughter.)

6 MR. HUTCHINGS: No, I'm kidding.

7 Yeah. Dane Hutchings with the League of  
8 California Cities speaking on Item 12.

9 And again, thank you for giving me the time  
10 today. I want to echo my comments -- or echo Dillon  
11 Gibbons comments from the special districts association.  
12 This is certainly something that we're interested in. I  
13 think it's important to note that as we discussed  
14 yesterday, cities have the ability to do this already  
15 locally, but through a private company.

16 Now, the challenges with that is that those  
17 private companies do, you know, by nature, have to build  
18 in some sort of profit center for themselves to remain  
19 afloat. And so from our perspective, having a vehicle  
20 that is housed by this body to cut down on administrative  
21 fees is only a benefit to our cities.

22 And further, you know, while I know that for the  
23 private 115 trust, they cannot be reflected in our GASB  
24 reports, we can, however, I believe in working with  
25 CalPERS be able to use contributions made to CalPERS

1 directly in a trust and have them be reflected in our GASB  
2 reports, which would put us in new a better public  
3 financial position.

4           So again, we are certainly -- we are here, and we  
5 are eager to try to get something done on this this year.  
6 Any tool that we have to ensure that we can either prepay  
7 our unfunded liabilities or -- and ensure that we can save  
8 money either or the short-term or the long end, the  
9 ultimate goal is to continue to retain public employees  
10 and provide public services to our residents.

11           And so with that goal in mind, we certainly  
12 support this effort, and we hope that we can be a help to  
13 this Board as we develop the policy this year.

14           Thank you.

15           PRESIDENT MATHUR: Thank you very much, Mr.  
16 Hutchings.

17           That exhausts my requests to speak.

18           Are there any other members of the public who  
19 wish to speak at this time?

20           Seeing none.

21           That brings us to the end of this meeting. We  
22 are adjourned.

23           (Thereupon the California Public Employees'  
24 Retirement System, Board of Administration  
25 open session meeting adjourned at 10:16 a.m.)

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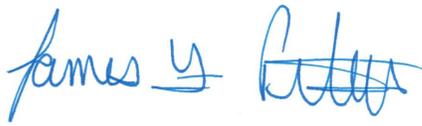
I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California.

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of February, 2018.



JAMES F. PETERS, CSR  
Certified Shorthand Reporter  
License No. 10063