

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, JUNE 20, 2018

10:32 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. Matthew Saha

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. Karen Greene-Ross

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Ms. Liana Bailey-Crimmins, Chief Health Director

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Christian Farland, Chief Information Officer

Mr. Douglas Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

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

STAFF:

Mr. Brad Pacheco, Deputy Executive Officer

Mr. Scott Terando, Chief Actuary

Ms. Cara Buchanan, Board Secretary

Ms. Karen Páles, Assistant Chief, Health Policy Research  
Division

ALSO PRESENT:

Mr. Terry Brennand, Service Employees International Union,  
California

Mr. Al Darby, Retired Public Employees Association

Ms. Kristi Foy, California Dialysis Council

Mr. Tom Hiltahck, Patients and Caregivers to Protect  
Dialysis Patients

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

Mr. David Miller, Service Employees International Union -  
United Healthcare Workers

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

2 PRESIDENT MATHUR: Good morning, everyone. I'm  
3 going to call the Board of Administration meeting to  
4 order. First order of business is roll call.

5 BOARD SECRETARY BUCHANAN: Good morning.

6 Priya Mathur?

7 BOARD MEMBER MATHUR: Good morning.

8 BOARD SECRETARY BUCHANAN: Rob Feckner?

9 VICE PRESIDENT FECKNER: Good morning.

10 BOARD SECRETARY BUCHANAN: Margaret Brown?

11 BOARD MEMBER BROWN: Good morning.

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

14 ACTING BOARD MEMBER JUAREZ: Here.

15 BOARD SECRETARY BUCHANAN: Richard Costigan?

16 BOARD MEMBER COSTIGAN: Here.

17 BOARD SECRETARY BUCHANAN: Richard Gillihan?

18 BOARD MEMBER GILLIHAN: Here.

19 BOARD SECRETARY BUCHANAN: Dana Hollinger?

20 BOARD MEMBER HOLLINGER: Here.

21 BOARD SECRETARY BUCHANAN: Henry Jones?

22 BOARD MEMBER JONES: Here.

23 BOARD SECRETARY BUCHANAN: David Miller?

24 BOARD MEMBER MILLER: Here.

25 BOARD SECRETARY BUCHANAN: Ramon Rubalcava?

1 BOARD MEMBER RUBALCAVA: Here.

2 BOARD SECRETARY BUCHANAN: Bill Slaton?

3 BOARD MEMBER SLATON: Here.

4 BOARD SECRETARY BUCHANAN: Theresa Taylor?

5 BOARD MEMBER TAYLOR: Here.

6 BOARD SECRETARY BUCHANAN: And Karen Greene-Ross  
7 for Betty Yee?

8 ACTING BOARD MEMBER GREENE-ROSS: Here.

9 PRESIDENT MATHUR: We have a full complement.

10 The next order of business is approval of the  
11 June 20th, 2018 Board of Administration timed agenda. I  
12 would like to -- we do need to modify the agenda to bring  
13 Agenda Item 9 before Agenda Item 12. So if someone would  
14 make a motion to adopt agenda with the -- the timed agenda  
15 with that change.

16 BOARD MEMBER JONES: Move it.

17 BOARD MEMBER TAYLOR: Second.

18 PRESIDENT MATHUR: Thank you. Mr. Jones made the  
19 motion and Ms. Taylor seconded.

20 Any discussion on the motion?

21 I'm sorry. Did I miss something?

22 Any discussion on the motion?

23 Seeing none.

24 All those in favor say?

25 (Ayes.)

1 PRESIDENT MATHUR: Any opposed?

2 Motion passes.

3 Agenda Item number 3 is the Pledge of Allegiance.  
4 And -- oh, I'm sorry.

5 CHIEF EXECUTIVE OFFICER FROST: I think the  
6 motion may have been misstated. I think the motion should  
7 have been Agenda Item 12 before Agenda Item 9.

8 PRESIDENT MATHUR: Oh, what I did say?

9 CHIEF EXECUTIVE OFFICER FROST: Agenda Item 9  
10 before 12.

11 PRESIDENT MATHUR: Oh, you're right. I did -- I  
12 did mix it up. Sorry. It should have been Agenda Item 12  
13 before 9. That was the intent of the maker of the motion?

14 BOARD MEMBER JONES: Yes.

15 CHAIRPERSON MATHUR: And the entire Board?

16 (Yeses,)

17 PRESIDENT MATHUR: Thank you very much for that  
18 correction.

19 Agenda Item 3, Pledge of Allegiance. For that  
20 I've asked Henry Jones to lead us in the Pledge.

21 (Thereupon the Pledge of Allegiance was  
22 Recited in unison.)

23 CHAIRPERSON MATHUR: Well, that brings us to the  
24 Board President's report. Welcome to our final meeting of  
25 the fiscal year. Let's hope that the markets remain



1 stable over the course of the next few weeks, so that we  
2 can deliver strong investment returns for our members and  
3 employers.

4           This has been an important week with the Pension  
5 and Health Benefits Committee approving a -- and asking  
6 the Board to approve a new 2019 reference pricing pilot  
7 for three therapeutic drug classes. And this continues  
8 CalPERS efforts to drive value for our members reducing  
9 costs while delivering high value care.

10           The Board -- the Pension and Health Benefits  
11 Committee also recommends to the board, and that will be  
12 coming before the Board in just a few moments that the  
13 Board adopt 2019 health care rates for our HMO, PPO, and  
14 association plans.

15           And while overall, these rates are low, we  
16 recognize that two plans are also seeing more significant  
17 increases. In making our decisions, the Committee and the  
18 Board must consider many factors: Cost, quality and  
19 access; and also many populations, active and retirees,  
20 State, local governments, and school districts,  
21 participants in different HMO and PPO plans to arrive at a  
22 decision that we believe strikes the right balance and  
23 delivers the greatest aggregate value.

24           I want to take this opportunity also to preview  
25 some of the topics that we'll be covering at our off-site

1 in July. As a reminder, we will meet July 16th to the  
2 18th at the Crowne Plaza Hotel in Concord, California. We  
3 will spend our first day together on the top of  
4 investments, specifically investment technology and  
5 sustainable investments.

6 If you had an opportunity to listen to our  
7 Investment Committee discussion on Monday, you heard Dr.  
8 Ashby Monk from Stanford tell our Board that the way we  
9 invest today will be completely different in 10 to 15  
10 years due to technology.

11 So it's appropriate that our first topic at the  
12 July off-site will focus on how advances in technology  
13 have the potential to disrupt and impact investments that  
14 we are making, and also the way we make them. We will  
15 spend the remainder of our day focused on our sustainable  
16 development goals, including a presentation from our new  
17 Managing Investment Director, Beth Richtman, on our  
18 Investment team's vision for our Sustainable Investment  
19 Programs.

20 The second day of our off-site will be dedicated  
21 to health care and enterprise management tools. We will  
22 cover a number of health topics, including the changing  
23 landscape around high deductible health plans, the  
24 challenge of managing opioids, and analysis from our  
25 health team on our current public agency regions that

1 we -- that we use in setting health rates, and strategies  
2 to better prevent and treat mental illness among our  
3 members.

4 We will also hear from members of our CalPERS  
5 team on how we are using the Lean Six Sigma Principles and  
6 cost effectiveness management to improve efficiencies  
7 across the organization.

8 Our final day of the off-site will be focused on  
9 the governance of our own Board, and our quest for board  
10 diversity in corporate America. I encourage all of our  
11 stakeholders to attend, if you can. We will be taping  
12 some of the sessions for later viewing on our website.

13 I want to close my report with a really inspiring  
14 story about the role and influence CalPERS plays in our  
15 world. In early June, CalPERS had the privilege and honor  
16 to be invited to a meeting at the Vatican with Pope  
17 Francis. And I believe we have a picture of the event.

18 You can see our very own Anne Simpson there in  
19 pink. The Pope was meeting with oil company executives  
20 from around the globe to discuss how these leaders can  
21 help address climate change. It's not every day that an  
22 organization gets invited to a meeting of this caliber. I  
23 believe it's the commitment and dedication of this Board  
24 and our Investment team in the area of sustainable  
25 investments that gave us a seat at this table.

1 Anne Simpson represented us at the meeting as  
2 pictured here, and I'll note she's one of only a few women  
3 in the room.

4 Now, that concludes my report, and I'll turn it  
5 over to our CEO Marcie Frost for her report.

6 Thanks very much.

7 CHIEF EXECUTIVE OFFICER FROST: Thank you. And  
8 good morning, President Mathur and members of the Board.  
9 It's been a really busy month since we last met, so I plan  
10 on giving you some highlights of activities.

11 It's also been a big month for health care, as  
12 President Mathur had indicated in her report. So I am  
13 going to start off with talking a little bit about health  
14 rates. Yesterday, the Pension and Health Benefits  
15 Committee was presented with the health premiums for 2019  
16 that was negotiated on behalf of our 1.4 million members,  
17 as well as for our employers. As the Committee saw, we  
18 have had another challenging year in negotiations. And  
19 the team has worked diligently, I believe, to get the best  
20 rates possible with working with our health plans, and  
21 something I think that the team should feel really good  
22 about, again that these rates came in at the level that  
23 they came in.

24 I think it's important to note that as health  
25 care rates are rising around the United States for many

1 across again the country, our members will see an overall  
2 increase of less than one percent. In fact, only three of  
3 the plans will see an increase. Most members who are part  
4 of the health program here will see a slight decrease, or  
5 no decrease -- or no increase at all.

6           These final premium rates represent the combined  
7 efforts of several of the teams in Health and our  
8 Actuarial Services Department, and our Legal Offices,  
9 who've worked really hard to improve upon the preliminary  
10 rates that were presented to you last month. I'm really  
11 proud of the work that they've done. And I know that you  
12 share in that as well.

13           With your approval later this morning of the 2019  
14 premiums, we'll begin preparing our members for open  
15 enrollment. Open enrollment runs from September 10th  
16 through October 5th. And as Liana Bailey-Crimmins  
17 indicated yesterday, something that the team is quite  
18 proud of is that we will -- excuse me, we'll have an open  
19 enrollment app available to our members this year.

20           And then of course, because this has become a  
21 year-round process for the team, we'll start the next  
22 round of health care negotiations for 2020, again because  
23 this is certainly a year-round effort.

24           Included in the health care changes for next year  
25 is the pharmaceutical reference pricing proposals that you

1 heard about in Pension & Health Benefits yesterday. The  
2 proposal to pilot this plan builds on our role as a health  
3 care leader in reference pricing. And again, the primary  
4 goal here is to increase transparency around medication  
5 costs to help make members more aware of the cost of the  
6 medications that they're taking, and to give them a more  
7 active role in choosing the appropriate medication suited  
8 to their own budgets.

9 Turning now briefly to investments, and I will  
10 close my report with investment performance. But in  
11 Monday's Investment Committee, we discussed the private  
12 equity models that are now under consideration by this  
13 Board. After nearly a year of looking at the models, we  
14 have landed on what we're calling the 4 Pillars.

15 They include in Pillar 1 an increased allocation  
16 to our Emerging Manager Program. Pillar 2, which would be  
17 to possibly work with a strategic partner for  
18 co-investments. And then Pillars 3 and 4, which we're  
19 calling CalPERS direct models, to support longer term  
20 investment needs.

21 You've asked several questions, and those  
22 questions have since been put into a checklist. So as we  
23 are bringing back information to this Board in addressing  
24 those questions, you can check those off of the list that  
25 we provided to you. And we will also refine this proposal

1 as additional information comes in with a go/no-go  
2 decision expected for later this fall.

3           As we continue to discuss the plan, I think it's  
4 also important that everyone in the auditorium, as well as  
5 all of our members and our employers again understand why  
6 we're considering these models. And the number reason, of  
7 course, is a combination of the numbers where we pay very  
8 close attention, that is the assumed rate of return being  
9 reduced to 7, as well as the current funded status of the  
10 plans, which is around 71 percent.

11           What we hear from our members, I say this  
12 frequently, out interacting with members, their number one  
13 concern is the safety of their benefit, when they see the  
14 funded status at less than 80/90 percent, it does cause  
15 them some concern about the viability of their benefit  
16 when they need it.

17           We also want to make sure that we're building an  
18 investment portfolio that drives the best possible returns  
19 over the long term.

20           Moving on, next month, we will also announce the  
21 fiscal year-end investment returns for 2017 and '18. As  
22 you know, our annual rate of return has a significant  
23 impact on employer contributions, and our overall funded  
24 status. The higher the return, the more pressure it takes  
25 off of our employers' budgets.

1 Today, we continue to be above our seven percent  
2 return target, but we'll just have to wait and see over  
3 the next couple of weeks what the markets will bring. And  
4 again, I'll end my report with actual investment  
5 performance.

6 Over the last two years, we've been working hard  
7 to improve the funded status, and get the fund on a solid  
8 path to long-term sustainability. As we strengthen the  
9 fund for the long term benefit of our members, who are  
10 serving California we're also mindful of the role our  
11 investments play in helping California to succeed.

12 Those investment strategies are detailed in both  
13 the CalPERS for California Report, and the CalPERS  
14 California Initiative 2017. You saw those reports again  
15 on Monday in the Investment Committee.

16 As of June 30th of 2017, we have invested more  
17 than 30 billion in California-based companies and  
18 projects, which is a 10 percent increase over last year.  
19 In addition to the revenue, CalPERS investments also  
20 provide ancillary support for residents in many  
21 communities around the state. For example, investments in  
22 private equity, and infrastructure, and real estate  
23 supported the creation of a over 266,000 jobs.

24 And as also shown in the California Initiative  
25 2017 report, CalPERS private equity investments in



1 traditional underserved markets, since 2001 have helped  
2 provide support for more than 176,000 workers, generated  
3 high quality jobs with employee benefits that surpass  
4 State and national levels, enhance job opportunities for  
5 economically disadvantaged persons in low to moderate  
6 income communities, and created opportunities for women  
7 and minority managers, which again exceeds the national  
8 benchmark.

9           And I said this many times, this is a very  
10 complex organization with a lot of activity happening, but  
11 it's particularly gratifying to know that we have an  
12 important role to play in the success of this state.

13           So another item that I've been spending quite a  
14 bit of time on in the last weeks are more outreach  
15 opportunities with our employers and our members. It's  
16 really important that not only I, but the rest of you are  
17 out talking about the significant decisions that have been  
18 made, as well as the accomplishments that we've had over  
19 this last year, and to share this story with the members  
20 and the stakeholders who have a very keen interest in us  
21 being successful.

22           So the solid foundation for the future report, we  
23 did create a PowerPoint template, where the Board can also  
24 use that as you're out talking with stakeholder groups,  
25 member groups, employer groups, the legislature,

1 what-have-you. I've been out doing that as well. It's  
2 also a great opportunity, what I call, doing a bit of myth  
3 busting about the facts of the system. And if we're not  
4 out telling the story, sometimes the facts get filled in  
5 in a non-factual way.

6           Again, a lot of people interested in that report.  
7 And since we last met, I've spoken with members of the  
8 California State Association of Counties, the California  
9 Special Districts Association. I think their members  
10 expressed strong appreciation for the work that CalPERS  
11 has been doing to strengthen the fund.

12           I also had some good discussions recently with  
13 the editorial boards for the Los Angeles Times, and  
14 Comstocks Magazine, a local business magazine here in  
15 Sacramento. We talked about many of the challenges that  
16 we face, and the pressure of public agencies. And I hope  
17 to do more of that kind of media outreach in the near  
18 future. And for Board members who would like to go along,  
19 just let me know if that would be something you would  
20 interested in doing along with me.

21           I also think it's important to talk directly with  
22 members - again, that's the reason we're here is to serve  
23 the members of this system - about the work we're doing.  
24 So last week, I was able to attend the CBEE, the Benefit  
25 Education Event, in Riverside. And I spoke to a hun -- a

1 couple hundred of attendees. And what was -- what was  
2 great is that there were a number of questions that had  
3 come in. And I think what it showed really is that there  
4 is a lot of confusion about what's happening here. And so  
5 over the next year, I'll be spending much more of my time  
6 talking directly with members.

7           Next week, I'll be participating on a panel for  
8 the California League of Cities. They're expecting about  
9 300 elected officials to be in attendance at their  
10 executive forum. And I look forward to helping them  
11 understand what we're doing to secure the retirement and  
12 health benefits for the employees of their cities.

13           In addition to external outreach, there are a  
14 number of internal events coming up that are important to  
15 mention. The next week the executive team is hosting a  
16 CalPERS Leadership Forum to share their stories of driving  
17 team engagement. And this is a second forum we've held  
18 this year with our managers and supervisors. And it's a  
19 follow-up to the employee engagement survey, where we  
20 received some feedback from the teams that they wanted  
21 more interaction, more of a relationship with the senior  
22 management team.

23           And each of the executives have been working with  
24 their own programs to identify the one item that they want  
25 to work on to improve employee engagement results for

1 their program. And so they executive team will be here  
2 with a number of our supervisors and managers sharing the  
3 one thing that they've worked on and their progress,  
4 whether that was a success, or maybe it was something that  
5 they intended to be successful that ended up not being so.  
6 And they'll talk about that as well.

7           The other item that we're working on internally  
8 to shore up our own team is a governance training that our  
9 executive team, and we've invited Anne Simpson to  
10 participate on that project as well. It's a project that  
11 will be led by Rick Funston who specializes in risk  
12 intelligent organizations and governance practices.

13           And the purpose of this training is to make sure  
14 we're working together as smoothly as possible in support  
15 of the Board. The other item we want to do is review our  
16 own processes that are created to put agenda items before  
17 the various committees and the Board, and make sure that  
18 these are effective, and that they are successful for all  
19 of you.

20           So I've interviewed a couple of you already. I  
21 will continue those interviews to talk with you about the  
22 expectations you have regarding agenda items, level of  
23 detail, the content, is it organized in a way that is of  
24 most value to you. You may know that we put together --  
25 or we prepared 1100 pages of material on a monthly basis.

1           So is that 1100 pages the appropriate level of  
2 detail for you, and should it be organized in a way that  
3 makes it simpler for you to get through? Because again,  
4 you're trying to get through this 1100 pages in about a  
5 week.

6           So next, I want to let you know that registration  
7 for our 19th annual educational forum has begun. This is  
8 our signature employer event, and so far we have nearly  
9 300 employers registered to attend the forum in October at  
10 the Renaissance in Indian Wells.

11           And this year, we're going to have a special set  
12 sessions designed just for elected officials, so they  
13 can -- excuse me, so they can discuss the key issues their  
14 cities or counties and districts are facing directly with  
15 CalPERS leaders. And more information about the  
16 Educational Forum is on our website.

17           And the final item I want to mention is the  
18 success of a recent webinar our teams produced about the  
19 unfunded actuarial liability. There's a lot of confusion  
20 between what is the UAL as it relates to the normal cost  
21 of a plan, and how do those factor into the employer  
22 contributions.

23           So we had a record number of participants at 723  
24 employers. That's quite large. In addition, I understand  
25 that since the initial broadcast, the YouTube video of the

1 webinar has been viewed over 200 times.

2           So that's about a quarter of our public employers  
3 likely who are accessing this material. So that is a  
4 great turnout, and it says again a lot about how eager our  
5 employer partners are to explore funding solutions for the  
6 UAL. So I'd like to extend my thanks for our teams in the  
7 Actuarial Office, and the Stakeholder Relations and Public  
8 Affairs for their work to produce such a successful  
9 webinar.

10           So now on to investment performance year to date.  
11 As I mentioned, the total fiscal year-to-date performance  
12 is above 7. It's around 8.3. The rolling one-year return  
13 of the fund is 10.2. The three-year return is 6.4. The  
14 five-year return is 7.7. The 10-year return is a 5.1.  
15 And the 20-year return is 6.2.

16           And that concludes my remarks and I'm happy to  
17 take questions.

18           PRESIDENT MATHUR: Thank you very much for a very  
19 substantive report.

20           Any comments, questions from the Board?

21           Okay. We will move on then to Agenda Item number  
22 5, which is the approval of the -- I'm sorry, Of Agenda  
23 Item 6, which is approval of the action consent items.  
24 That's the May meeting minutes and the Board travel  
25 approvals.

1           What's the pleasure of the Board.

2           VICE PRESIDENT FECKNER: Move approval.

3           BOARD MEMBER HOLLINGER: Second.

4           PRESIDENT MATHUR: Moved by Mr. Feckner, seconded  
5 Ms. Hollinger.

6           Any discussion on the motion?

7           Seeing none.

8           All in favor say aye?

9           All opposed?

10          Motion passes. Agenda item number 8 is the  
11 Committee reports and actions. First I will call on the  
12 Chair of the Investment Committee, Mr. Jones.

13          BOARD MEMBER JONES: Thank you, Madam President.  
14 The Investment Committee met on June 18, 2018.

15          The Committee approved Agenda Item 6a to approve  
16 the recommended strategic asset allocation for the Health  
17 Care Fund reserve and the Long-Term Care Fund; and Agenda  
18 Item 7a to adopt the revised Total Fund Policy.

19          The Committee received reports on the following  
20 topics:

21          The first reading of the revision of the Private  
22 Equity Program policy; CalPERS for California and  
23 California Initiative; update on private equity business  
24 model alternatives; and corporate board diversity updates.

25          The Chair directed staff to bring back follow-up

1 items at a future date:

2 An item to explore further policy revisions from  
3 the disclosure of sexual harassment settlements to the  
4 topic of aggression of settlements; an item on corporate  
5 quarterly reporting and the perspective of a long-term  
6 investor; and the SASB's approach with respect to  
7 diversity.

8 The Committee heard public comments on the  
9 following topics:

10 Revision of the Total Fund Policy, second  
11 reading; update private equity business model  
12 alternatives; and corporate board diversity update.

13 At this time, I would like to share some  
14 highlights of what to expect at the August Investment  
15 Committee meeting. Revision of the Private Equity Program  
16 Policy, second reading; CalPERS trust level review and  
17 consultant report; Iran/Sudan update; Opportunistic  
18 Strategies annual program review and consultant's review;  
19 Trust Level Portfolio Management Program review and  
20 consultant's review; and the review of the survey results  
21 of the Board investment consultants.

22 The next meeting of the Investment Committee is  
23 scheduled for August 13th, 2018 in Sacramento, California.

24 And that concludes my report, Madam President.

25 PRESIDENT MATHUR: Thank you very much.



1           Next I'll call on Mr. Feckner for the Pension and  
2 Health Benefits Committee meeting report.

3           VICE PRESIDENT FECKNER: Thank you, Madam  
4 President.

5           The Pension and Health Committee, PHBC, met on  
6 June 19th, 2018. The Committee recommends and I move the  
7 Board approve the following:

8           Agenda Item 6, approve the final proposed  
9 regulation defining full-time employment, attachment 1,  
10 with Board of Administration approval. Team members will  
11 submit the final rulemaking package to the Office of  
12 Administrative Law for adoption.

13           PRESIDENT MATHUR: On motion by Committee. Any  
14 discussion on the motion?

15           Seeing none. All those in favor say aye?

16           (Ayes.)

17           PRESIDENT MATHUR: All opposed?

18           Motion passes.

19           VICE PRESIDENT FECKNER: Agenda Item 7, approve  
20 the reference pricing pharmaceuticals by therapeutic class  
21 reference pricing. Program for basic health plans  
22 serviced by a vendor or vendors chosen by staff beginning  
23 plan year 2019.

24           PRESIDENT MATHUR: On motion by Committee.

25           Any discussion on the motion?

1           Seeing none.

2           All those in favor say aye?

3           (Ayes.)

4           PRESIDENT MATHUR: Any noes?

5           Motion passes.

6           VICE PRESIDENT FECKNER: Agenda Item 8a, approve  
7 the proposed 2019 Health Maintenance Organization premium  
8 rates for Anthem Blue Cross, Blue Shield of California,  
9 Health Net of California, Kaiser Permanente, Sharp Health  
10 Plan, UnitedHealthcare, and Western Health Advantage, and  
11 the Medicare Advantage rates for Anthem Blue Cross, Kaiser  
12 Permanente, and UnitedHealthcare as shown in attachment 2.

13           PRESIDENT MATHUR: On motion by Committee.

14           Mr. Costigan.

15           BOARD MEMBER COSTIGAN: Thank you, Madam Chair.  
16 Just note I'll be abstaining on this issue as I've done  
17 each year for the last seven years.

18           Thank you.

19           PRESIDENT MATHUR: Thank you very much.

20           Any discussion on the motion.

21           Seeing none.

22           All those in favor aye?

23           (Ayes.)

24           PRESIDENT MATHUR: All opposed?

25           BOARD MEMBER JONES: Abstain.

1           PRESIDENT MATHUR: Please note Mr. Jones  
2 abstention and also Mr. Costigan's abstention.

3           PRESIDENT MATHUR: Motion passes.

4           VICE PRESIDENT FECKNER: Agenda Item 8b approve  
5 the use of 35 to 50 million of -- dollars of excess  
6 reserves to buy down the proposed PERSCare basic plan  
7 premium for 2019.

8           PRESIDENT MATHUR: On motion by Committee.

9           Discussion on the motion?

10          Ms. Brown.

11          BOARD MEMBER BROWN: Thank you.

12          Were we also going to approve the PPO rates at  
13 the same time or no, is that a separate motion?

14          PRESIDENT MATHUR: That will be a separate  
15 motion.

16          BOARD MEMBER BROWN: I did want to talk a little  
17 bit about using the excess reserves. I know in talking  
18 with a lot of our constituents, they had thought we had  
19 \$120 million in reserves, and they found out on very short  
20 notice that there's really a lot less. And so I know we  
21 discussed this yesterday. It was discussed yesterday at  
22 the Committee that we do better communicating what the  
23 issues are early to our constituents, so they know exactly  
24 what we're dealing with.

25          Thank you.

1           PRESIDENT MATHUR: Thank you very much.

2           Any further discussion on the motion?

3           Seeing none.

4           All those in favor say aye?

5           (Ayes.)

6           PRESIDENT MATHUR: All opposed?

7           Motion passes.

8           VICE PRESIDENT FECKNER: Approve the proposed  
9 2019 Preferred Provider Organization rates for Anthem  
10 Exclusive Provider Organization, PERS Choice, PERS Select,  
11 and PERSCare as shown in attachment 3.

12           PRESIDENT MATHUR: On motion by Committee.

13           Discussion on the motion?

14           Ms. Brown.

15           BOARD MEMBER BROWN: This is the one I really  
16 wanted to talk about, which is the -- this Board back in  
17 December eliminated risk adjustment, which means that  
18 about 30,000 of our members who actually get their  
19 services through PERSCare are going to experience a 38  
20 percent increase over the next two years.

21           And it just -- it just doesn't seem right that  
22 we're telling our retirees, the people who have the most  
23 need for services, that their costs are going to go up  
24 that much. And I just think that implore this Board to  
25 take a look at how we can implement risk adjustment. It's

1 being done by other agencies, and I think that we can do  
2 it -- we can have a better shot at doing it correctly.  
3 And I'd hope we would do that in the future.

4 PRESIDENT MATHUR: Thank you, Ms. Brown.

5 Any further discussion on the motion.

6 Seeing none.

7 All those in favor say aye?

8 (Ayes.)

9 PRESIDENT MATHUR: All opposed?

10 (No.)

11 MEMBER JONES: Abstain.

12 PRESIDENT MATHUR: Please note Ms. Brown's No,  
13 and also Mr. Jones and Mr. Miller's abstentions.

14 PRESIDENT MATHUR: Motion passes.

15 VICE PRESIDENT FECKNER: The Committee received  
16 reports on the following topics:

17 The Committee accepted the 2019 association  
18 plan's rate, attachment 4; and reviewed the State  
19 annuitant contribution formulas, attachment 5.

20 The Chair directed staff to continue to research  
21 and implement ways of providing more transparency to our  
22 stakeholders on important decisions made by the PHBC; to  
23 provide an analysis regarding the increase in health plan  
24 contracts and how that impacts competition in CalPERS  
25 members.

1           At this time, I'd like to share some highlights  
2 of what to expect at the September PHBC meeting. The  
3 Committee will review the PPO Reserve Policy, and receive  
4 information on prescription drug utilization and cost  
5 trends, regional factors, and OptumRx.

6           The next meeting of the PHBC is scheduled for  
7 September 25th, 2018 in Sacramento, California.

8           That concludes my report, Madam Chair.

9           PRESIDENT MATHUR: Thank you very much Mr.  
10 Feckner. We did not have a Finance and Administration  
11 Committee meeting.

12           So the next report is from our Chair of  
13 Performance, Comp and Talent Management, Mr. Slaton.

14           BOARD MEMBER SLATON: Thank you, Madam President.  
15 The Performance, Compensation and Talent Management  
16 Committee met on June 19th, 2018.

17           The Committee recommends and I move the Board  
18 approve the following. This is on Agenda Item 6, revised  
19 salary ranges for the future Chief Investment Officer and  
20 Chief Financial Officer, and 2018-19 incentive design for  
21 the Chief Executive Officer.

22           For the Chief Investment Office position, adopt a  
23 revised salary range of \$424,500 to \$707,500, and a  
24 revised incentive range of 0 to 150 percent. The  
25 Committee also delegated the setting of an incentive

1 target to the Chief Executive Officer.

2 PRESIDENT MATHUR: On motion by Committee.

3 Any discussion on the motion?

4 Seeing none.

5 All those in favor say aye?

6 (Ayes.)

7 PRESIDENT MATHUR: All opposed?

8 (Noes.)

9 PRESIDENT MATHUR: Please note Ms. Brown -- and,  
10 I'm sorry, I thought heard another one -- Mr. Gillihan's  
11 no.

12 BOARD MEMBER SLATON: For the Chief Financial  
13 Officer position, adopt a revised salary range of \$217,500  
14 to \$362,500, and retain the current incentive range of 0  
15 to 40 percent.

16 PRESIDENT MATHUR: On motion by Committee.

17 Any discussion on the motion?

18 Seeing none.

19 All those in favor say aye?

20 (Ayes.)

21 PRESIDENT MATHUR: All opposed?

22 (Noes.)

23 PRESIDENT MATHUR: Please note Ms. Brown and Mr.  
24 Gillihan's no votes.

25 Motion passes.

1           BOARD MEMBER SLATON: The Committee deferred  
2 discussion on the 2018-19 incentive plan for the Chief  
3 Executive Officer to August 2018. And on Agenda Item 7,  
4 2018-19 incentive metric recommendations, the Committee  
5 also deferred this item to the August 2018 meeting.

6           The Committee heard public comments on the  
7 following topics:

8           Considerations for setting salary incentive  
9 ranges for the Chief Investment Officer and Chief  
10 Financial Officer positions.

11           At this time, I'd like to share some highlights  
12 of what to expect at the August Performance, Compensation  
13 and Talent Management Committee meeting. 2018-19  
14 incentive metric recommendations and incentive plan of the  
15 Chief Executive Officer.

16           The next meeting of the Performance, Compensation  
17 and Talent Management Committee is scheduled for August  
18 14th, 2018 in Sacramento, California.

19           That completes my report.

20           PRESIDENT MATHUR: Thank you very much.

21           The next item on the agenda is the report of the  
22 Risk and Audit Committee. And for that, I call on the  
23 Chair, Ms. Hollinger.

24           BOARD MEMBER HOLLINGER: Thank you, Madam  
25 Chair -- Madam President.



1           The Risk and Audit Committee met on June 20th,  
2 2018.

3           The Committee recommends and I move the Board  
4 approve the following:

5           Agenda Item 6a, approve the proposed 2018-2019  
6 Enterprise Compliance Plan.

7           PRESIDENT MATHUR: On motion by Committee.

8           Any discussion on the motion?

9           Seeing none.

10          All those in favor say aye?

11          (Ayes.)

12          PRESIDENT MATHUR: All opposed?

13          Motion passes.

14          BOARD MEMBER HOLLINGER: Agenda Item 6b, approve  
15 the proposed amendments to the Personal Trading Regulation  
16 for submission to the Office of Administrative Law.

17          PRESIDENT MATHUR: On motion by the Committee.

18          Any discussion on the motion

19          Seeing none.

20          All those in favor say aye?

21          (Ayes.)

22          PRESIDENT MATHUR: All opposed?

23          Motion passes.

24          BOARD MEMBER HOLLINGER: Agenda Item 7a, approve  
25 the proposed 2018-2019 Enterprise Risk Management Plan.

1 PRESIDENT MATHUR: On motion by Committee.

2 And discussion on the motion?

3 Seeing none.

4 All those in favor say aye?

5 (Ayes.)

6 PRESIDENT MATHUR: All opposed?

7 Motion passes.

8 BOARD MEMBER HOLLINGER: Agenda Item 8a, approve  
9 the proposed Office of Audit Services Plan for fiscal year  
10 2018-2019.

11 PRESIDENT MATHUR: On motion by Committee.

12 Any discussion on the motion?

13 Seeing none.

14 All those in favor say aye?

15 (Ayes.)

16 PRESIDENT MATHUR: All opposed?

17 Motion passes.

18 BOARD MEMBER HOLLINGER: Agenda Item 8b, approve  
19 the Board of Administration's independent financial  
20 statement auditor's annual service plan for the audits of  
21 CalPERS financial statements as of and for the fiscal  
22 year-ending June 30th, 2018.

23 PRESIDENT MATHUR: On motion by Committee.

24 Any discussion on the motion?

25 Seeing none.

1 All those in favor say aye?

2 (Ayes.)

3 PRESIDENT MATHUR: All opposed?

4 Motion passes.

5 BOARD MEMBER HOLLINGER: The Committee received  
6 reports on the following topic: Enterprise risk  
7 management framework review.

8 At this time, I would like to share some  
9 highlights of what to expect at the September Risk and  
10 Audit Committee meeting. External audit fees and the  
11 2017-2018 annual Compliance Report.

12 The next meeting of the Risk and Audit Committee  
13 is scheduled for September 25th, 2018 in Sacramento  
14 California.

15 PRESIDENT MATHUR: Thank you very much, Ms.  
16 Hollinger.

17 We did not have a Governance Committee this  
18 month, so we are going to move on to Agenda Item 12,  
19 Legislative updates State and federal.

20 DEPUTY EXECUTIVE OFFICER PACHECO: Good morning,  
21 Madam President and members of the Board. Brad Pacheco,  
22 CalPERS team.

23 This morning we'd like to start with a update on  
24 federal activities. And so on the phone we have Mr. Dan  
25 Crowley with K&L Gates, our federal representative. In

1 particular, we thought it would be good for Dan to give an  
2 overview on some guidance released in April by the  
3 Department of Labor that addresses fiduciary duty and  
4 shareholder rights as it relates to ESG investing.

5           So with that, I'd like to turn the table over to  
6 Dan.

7           MR. CROWLEY: Thank you, Brad. Madam President,  
8 can you hear me?

9           PRESIDENT MATHUR: Yes, we can hear you very  
10 well. Thank you. Welcome to the auditorium.

11           MR. CROWLEY: Thank you very much.

12           As Brad said, I've been asked to give a update on  
13 the DOL guidance on ESG issues, which I will do in just a  
14 minute. But I thought I'd take the opportunity to give  
15 the Board a very quick update on our progress since our  
16 off-site discussion in January of 2017. You will recall  
17 that the directive of the Board, at that time, was to work  
18 to position CalPERS in Washington D.C. as an opinion  
19 leader on financial services and economic policy issues  
20 that will impact returns to the fund.

21           And I'm pleased to say that over the last 18  
22 months we have worked very constructively with your team  
23 on D.C. engagement. We've had a series of California --  
24 CalPERS leaders come to D.C. For various stakeholder  
25 meetings, including Gretchen Zeagler, Gretchen, Don

1 Pontes, Kelly Fox, Henry Jones, James Andrus, Dan  
2 Bienvenue, Matt Jacobs, and undoubtedly others I might be  
3 missing.

4           And throughout that process I have to say  
5 Gretchen Zeagler has really done an outstanding job as  
6 sort of the hub on the wheel to coordinate all the  
7 available resources internally and externally. And as  
8 consequence as of today, knock on wood, we're batting a  
9 thousand in terms of the legislative items that we have  
10 either supported or opposed.

11           Those that we have affirmatively supported have  
12 been enacted into law. Those that have -- we have been  
13 actively opposing have not been. And I don't expect that  
14 they will be, because we will continue to engage in the  
15 balking and tackling necessary to make that happen.

16           I think the clearest example of the effectiveness  
17 we've seen over the last 18 months is in -- contained in  
18 Marcie's May 17th letter to the House Majority and  
19 Minority leaders, both of whom are from California. With  
20 respect to S 2155, the Dodd-Frank reform bill. I think  
21 this is a very good example of how far we've come.

22           CalPERS, I would say is now positioned as  
23 credible and authoritative on these issues. And that will  
24 allow you to continue to be effective going into the  
25 election and beyond, regardless of the election outcome.

1 And, of course, we're monitoring developments on possible  
2 further legislation with respect to Dodd-Frank. We do  
3 expect there to be some between now and the end of the  
4 year. And we will keep you posted on that.

5 Most recently, we submitted a letter to the  
6 Capital Markets Subcommittee with respect to capital  
7 formation issues. And so I'd be happy to take any  
8 questions.

9 But let me turn quickly to the DOL guidance. You  
10 know, I think it's safe to say that CalPERS has been a  
11 leader on ESG for more than a decade for two reasons, one  
12 is, of course, you're investing your own assets. But  
13 probably more importantly for purposes of this discussion  
14 is that you have a very long-term time horizon, really  
15 thinking about generating returns in order to meet  
16 intergenerational types of obligations.

17 And so we were very interested to see what the  
18 current DOL might be do in terms of reiterating or  
19 contradicting the DOL guidance that was issued under  
20 President Obama. And the DOL did issue an updated field  
21 bulletin on April 23rd that now -- it's important to  
22 remember it's not directly binding on CalPERS because you,  
23 as a State pension plan, and are not governed by ERISA,  
24 and therefore it's not technically binding. But the DOL  
25 guidance is nonetheless an important benchmark against

1 which to measure evolving notions about ESG considerations  
2 as they relate to the plan's fiduciary duty to  
3 stakeholders.

4           And now despite the current administration's  
5 philosophical views on climate change and ESG issues, in  
6 general, one might have assumed that they would have  
7 pulled back from the Obama Administration, when, in fact,  
8 they did not. If anything, they reiterated several of the  
9 points made by the Obama DOL in 2015.

10           In particular, DOL again acknowledged that there  
11 can be circumstances in which ESG issues present material  
12 business risks or opportunities that qualified investment  
13 professionals would treat as economic considerations under  
14 generally accepted investment theories. They did add some  
15 new language to the guidance, but nothing new in terms of  
16 substance.

17           So, for example, DOL observed that ERISA  
18 fiduciaries may not sacrifice investment returns or assume  
19 greater investment risks as a means of promoting  
20 collateral social policy goals. Well, of course, we knew  
21 that. And we've known that ERISA fiduciaries must always  
22 put the economic interests of the plan first.

23           So none of that is new, but it was added as a way  
24 to sort of put into context the previous guidance, while  
25 at the same time validating the approach that CalPERS has

1 now taken for more than a year. And I add that the  
2 bulletin was also helpful on an unrelated -- or a separate  
3 point, which is that it validates CalPERS' reliance on the  
4 use of proxy advisory firms as a cost savings measure, and  
5 thereby inadvertently supports our position in opposition  
6 to legislation that would impose costly new regulations on  
7 proxy advisors.

8           So I would say, as you consider these issues  
9 going forward, the amount that CalPERS spends on  
10 shareholder engagement, or for that matter on ensuring  
11 that financial markets remain well regulated, should be  
12 commensurate with the expected economic benefit over an  
13 appropriate investment horizon. And, of course, to  
14 reiterate your investment horizon is very long term.

15           Investment returns always have been and will  
16 remain paramount, but I think a fair reading of the DOL  
17 bulletin is that the Trump DOL has now reiterated that ESG  
18 issues can be legitimate considerations in that regard.

19           And then just to mention, because I know it's an  
20 issue of importance to CalPERS, the EPA has proposed  
21 changing the regulations with respect to CAFE standards.  
22 I know this is very important to Beth Richtman and others  
23 who are leading that effort. So Gretchen and I had a  
24 meeting in the White House two weeks ago with the top  
25 staff on those issues. And I think the takeaway from that



1 meeting is that they are open to negotiation to preserve  
2 the current flexibility that California has to set higher  
3 standards.

4           We are currently working with your team on EPA  
5 rulemaking with respect to cost-benefit analysis, and then  
6 we'll also be helping to provide comment on the revised  
7 CAFE standards, and we will be meeting with the Auto  
8 Alliance and others to coordinate efforts in that regard.

9           So that's a very quick overview of what we've  
10 been doing on your behalf. I'm pleased to say that we've  
11 have made significant progress, and I would be happy to  
12 answer any questions.

13           PRESIDENT MATHUR: Thank very much. We do have  
14 some questions.

15           Ms. Taylor.

16           BOARD MEMBER TAYLOR: Yes. Thank you for your  
17 report, and I appreciate the work you're doing.

18           I just wanted you to kind of give us a little  
19 more detail on you stated that it was an example of our --  
20 of your effectiveness on S 2155, the Dodd-Frank reform  
21 bill. As I understand it, quite a bit of that got  
22 reversed. So I'm not sure what our benefit was. So if  
23 you could go into that a little bit for me.

24           MR. CROWLEY: Sure. And I emphasized that the  
25 process is ongoing, and will be ongoing probably for many

1 years addressing some of the unintended consequences of  
2 Dodd-Frank.

3           It was a bill that was enacted in haste over a  
4 14-month period from the time it was proposed by Treasury  
5 until it was enacted into law. And both Chairman Frank  
6 and Chairman Dodd acknowledged at the time, and have  
7 repeated several times since, that there's no way to cover  
8 that much ground and get it all right. And so we have --  
9 knowing that there are going to be changes in Dodd-Frank,  
10 we have chosen to try to engage constructively in the  
11 process, both to advance things that we think will, you  
12 know, stimulate capital formation and create better  
13 investment returns and help generate the returns that we  
14 need to meet our fiduciary obligations to the  
15 stakeholders, but also to stop some of the bad proposals  
16 that are out there. A number of them sort of geared at  
17 curtailing the shareholder rights, particularly for  
18 institutional investors.

19           And so, for example, we have consistently opposed  
20 efforts to reform the proxy advisor regime. While we  
21 support more competition in that space, we think that the  
22 proposal that's on the table, the Duffy bill, has -- you  
23 know, it imposes a burdensome regulatory regime for --  
24 other than the intended purpose, let's just put it that  
25 way.

1           We've also consistently opposed efforts to tie  
2 the SEC up in knots with cost benefit analysis. We have  
3 opposed changes to the say-on-pay rules that we advocated  
4 so aggressively during consideration of Dodd-Frank. We  
5 have been consistently opposed to revisions to SEC rule  
6 14a-8 that would increase the thresholds required for  
7 shareholder proposals.

8           We have opposed efforts to roll-back transparency  
9 for private equity funds. And we will continue to oppose  
10 those measures. While at the same time, we have now  
11 identified specific broadly bipartisan bills geared at  
12 facilitating capital formation. And we are on record as  
13 supporting those. At least three of those were in the  
14 bill that passed Congress.

15           And there are four or five others that are  
16 currently being debated and that we expect will likely be  
17 picked up in bipartisan fashion, and enacted before the  
18 end of the year, perhaps in an omnibus appropriations  
19 bill.

20           But I emphasize that this is an ongoing process.  
21 And while I'm proud to say that we're batting a thousand  
22 now, I really don't want to waste much time on victory  
23 laps. We can do that after the Congress adjourns.

24           BOARD MEMBER TAYLOR: Okay. Thank you.

25           PRESIDENT MATHUR: Okay. Well, I see no further

1 requests. Thank you very much for your time, Mr. Crowley.  
2 And I think we can let you go now.

3 MR. CROWLEY: Thank you very much.

4 PRESIDENT MATHUR: Mr. Pacheco.

5 DEPUTY EXECUTIVE OFFICER PACHECO: All right.  
6 Thank you, Dan.

7 Madam President, I'll just continue with some  
8 activity on the State legislative side. I want to start  
9 with our sponsored bills and give you an update on the  
10 status. Assembly Bill 2196, which discontinues  
11 installment payments for service credit purchases into  
12 retirement will be heard by Senate Appropriations  
13 Committee next Monday.

14 As we've mentioned to the Board at the request of  
15 stakeholders, we did amend the bill to delay the  
16 implementation to January 1st, 2020, so they have time to  
17 prepare their membership for this change.

18 And then Assembly Bill 2415, which adds a Chief  
19 Health Director and a Chief Operating Officer to the  
20 executive positions under this Board's salary-setting  
21 authority will be heard in the Senate PERS Committee next  
22 Monday.

23 And then finally, Senate Bill 1022, which  
24 shortens a contracting agency's voluntary termination time  
25 frame, that's being heard this morning. There's an

1 Assembly PERS Committee that started at 9:00 a.m. this  
2 morning. I'm pleased to report that all three of these  
3 bills have received unanimous support so far. So we'll  
4 just keep you posted on our progress.

5 I did want to mention a couple other bills that  
6 we're following that we've talked to you about before.  
7 Senate Bill 1413, that would establish a pension  
8 prefunding trust here at CalPERS. We had some concerns  
9 around some language. And I'm pleased to report that we  
10 have given some amendments that have been accepted by the  
11 author. And generally, the language we provided is  
12 broader, and it gives more flexibility for this Board to  
13 decide a round the investment strategy of that trust. So  
14 we're happy about that.

15 And then just on the topic of divestment, because  
16 that continues to be a topic related to legislation.  
17 Senator pan introduced Senate Bill 783. This was  
18 originally proposed to be a separate process for  
19 divestment legislation to be reviewed as a Commission  
20 housed in the State Controller's office. It has since  
21 been amended. It's now a pension divestment review  
22 program housed in the UC system, and we're monitoring  
23 that. It would be a process where divestment legislation  
24 identified would be sent over to the UC system to do some  
25 analysis.

1           The one thing that we have added with the  
2 committee consultant is some fiduciary language to ensure  
3 that any analysis or decisions made through this program  
4 do not -- or I should say, the Board's final authority  
5 around the legislation is taken not before this program.

6           Two other bills that we're following -- I just  
7 heard from my colleague who's over at the Assembly PERS  
8 Committee that Senate Bill 459 sponsored by the State  
9 Treasurer related to weapons has been pulled.

10           And then, Assembly Bill 1597, which requires  
11 CalPERS and CalSTRS to divest from any investment vehicle  
12 controlled or issued by the Turkish government, that's  
13 scheduled to be heard in the Senate PERS Committee next  
14 Monday. Marcie and the Investment team have met with the  
15 Assemblyman Nazarian on a number of occasions. We've  
16 expressed some engagement that we can do related to some  
17 of this concerns, but this bill continues to move forward.

18           So I'll stop there before the other items that we  
19 have related to action, and see if there's any questions.

20           PRESIDENT MATHUR: Thank you.

21           Ms. Greene-Ross.

22           ACTING BOARD MEMBER GREENE-ROSS: Yes. I just  
23 wanted to let the Board know that the Controller's office  
24 didn't know about this bill when it was introduced. And  
25 we sent a letter of opposition. I also think that the

1 Board might want to take a position on the bill, because  
2 there were other issues. Even though the author intended  
3 that the functions within the Controller's office would be  
4 ministerial, and they did amend us out and put the program  
5 over at UC, that there are other issues that this Board  
6 might want to address and take a position against this  
7 bill, because it seems to be taking away your authority as  
8 Board members to decide, and the Investment staff to help  
9 determine what are the right investments for this fund.  
10 So I don't know that you want another entity to do that,  
11 and take that away from you. So just would love to -- if  
12 you need a motion to request. I don't know what the  
13 process is. Are you taking a position on this bill or  
14 asking the Board to take a position on it.

15 DEPUTY EXECUTIVE OFFICER PACHECO: So I should  
16 note that it is being heard this morning at the Assembly  
17 PERS Committee. I don't know the outcome as I sit here.  
18 We have not provided a recommendation for the Board, but  
19 certainly that would be up to the Board if they decided to  
20 take a position.

21 PRESIDENT MATHUR: And this is with respect to  
22 Senate Bill 783?

23 DEPUTY EXECUTIVE OFFICER PACHECO: 783 introduced  
24 by Senator Pan and it creates the separate process to  
25 review divestment legislation that's introduced within the

1 legislature.

2 PRESIDENT MATHUR: So what is the timing, what --  
3 would we have to act today in support or opposition in  
4 order to make an impact?

5 DEPUTY EXECUTIVE OFFICER PACHECO: I think that  
6 there would be more -- some more time available. We could  
7 always, if we had to, bring it to you in July at the  
8 off-site, so --

9 PRESIDENT MATHUR: Okay. I think it might be  
10 better to have a full staff analysis before taking a  
11 decision.

12 DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

13 PRESIDENT MATHUR: But -- anything else, Ms.  
14 Greene-Ross.

15 ACTING BOARD MEMBER GREENE-ROSS: I would make  
16 the motion. The Controller has actually retained -- put  
17 in a letter of opposition.

18 BOARD MEMBER MILLER: I'll second that.

19 BOARD MEMBER COSTIGAN: I'll second.

20 BOARD MEMBER JONES: I'll second.

21 PRESIDENT MATHUR: Okay. Motion made by  
22 Greene-Ross, seconded by Miller to oppose Senate Bill 783.

23 On the motion. Ms. -- Mr. Jones.

24 BOARD MEMBER JONES: Yeah. Thank you, Madam  
25 President. Yeah, I was just going to say I would second,



1 because any bill that usurps our authority to make  
2 decisions I think we should oppose. So, to me, it's an  
3 easy decision.

4 PRESIDENT MATHUR: Any further -- Marcie, did  
5 you --

6 CHIEF EXECUTIVE OFFICER FROST: Yes. We do have  
7 do have a little bit of time with this -- with this bill  
8 to come back with additional staff analysis. We have  
9 spoken with Senator Pan about our concerns. They have  
10 been open to our amendments about protecting the fiduciary  
11 duty of this board, as it relates to the language in the  
12 bill itself. So we think that there are currently some  
13 protections in there that are being considered.

14 Again, the bill is not in final form yet. You  
15 know, it would be my recommendation to wait until July to  
16 have the Board take an official position on it.

17 PRESIDENT MATHUR: Thank you.

18 Mr. Slaton.

19 BOARD MEMBER SLATON: Thank you, Madam President.  
20 I agree. I think we should wait. You know, while in --  
21 currently, as presented, we obviously have objections.  
22 But I think we'd -- it would either be appropriate to say  
23 oppose unless amended, or just wait until July. And let's  
24 have a fuller discussion on it, so we can make an informed  
25 decision. I'm hesitant to try to make a decision today to

1 send an opposed message when we're still in negotiation  
2 process.

3 PRESIDENT MATHUR: Is that a substitute motion?

4 BOARD MEMBER SLATON: I'd make that as a  
5 substitute motion to wait --

6 BOARD MEMBER TAYLOR: Second.

7 BOARD MEMBER SLATON: -- till July.

8 PRESIDENT MATHUR: Okay. Motion made by Slaton,  
9 seconded by Ms. Taylor.

10 On the motion.

11 Mr. Costigan.

12 BOARD MEMBER COSTIGAN: Thank you, Madam  
13 President. So the concern I have is I think you should  
14 deal from a position of strength. Waiting till July, the  
15 legislature is not in session. This bill is in Assembly  
16 Policy Committee. It will pass out of its fiscal House --  
17 or fiscal policy committee by the end of the month. And  
18 then it will be on third reading in August when we return.

19 Taking a position in July when they're on summer  
20 recess puts this bill on third reading on the floor, which  
21 is not enough time to go back and correct the bill. I'm  
22 just saying from -- I'm speaking to the motion. If you're  
23 looking to make amendments, it is better to get the  
24 author's attention with an oppose position. I think Mr.  
25 Jones accurately pointed out what the concerns would be,

1 and I do believe the Controller's office has done the same  
2 thing. I would respectfully -- I will vote against the  
3 motion and urge our other Board members to vote against  
4 Mr. Slaton's motion and take a position on the bill.

5 PRESIDENT MATHUR: Yes.

6 CHIEF EXECUTIVE OFFICER FROST: President Mathur,  
7 we may have a notice issue. General Counsel will speak to  
8 that.

9 PRESIDENT MATHUR: Okay. Please.

10 GENERAL COUNSEL JACOBS: Yes. I mean that kind  
11 of states it. We have identified three bills that -- on  
12 which we were going to take action. This is not one of  
13 them.

14 The mere fact that it was mentioned in an agenda  
15 item probably doesn't give us proper -- doesn't constitute  
16 proper notice. So that's an issue.

17 PRESIDENT MATHUR: Okay. Then I will ask the  
18 make -- so as -- well, we have a substitute motion on  
19 the -- so does that mean I -- so what procedurally should  
20 we do?

21 GENERAL COUNSEL JACOBS: Well, as I understand  
22 the substitute motion, it's to essentially have this  
23 brought forward in July for the Board to take a position  
24 on it then, which is a fine motion.

25 PRESIDENT MATHUR: That would be fine. Okay.

1 Thank you for that information. That's helpful.

2 Ms. Taylor.

3 BOARD MEMBER TAYLOR: So I was just going to echo  
4 Mr. Slaton, in that I think we don't have enough  
5 information. We're not sure, and -- whether or not our  
6 authority is going to be taken away, and amendments are  
7 still being talked about with our staff and the maker of  
8 the bill, so I think it's important that we go ahead and  
9 just kind of put this off until July.

10 PRESIDENT MATHUR: Thank you very much.

11 Mr. Jones.

12 BOARD MEMBER JONES: Yeah. Thank you, Madam  
13 President. A little process I guess question that I have  
14 is that every month we receive this -- all these bills  
15 that we've taken previous positions on. So are you saying  
16 that all these bills we can't change our position on them,  
17 until it's up for action?

18 PRESIDENT MATHUR: I don't believe all these  
19 bills are bills we've taken a position on.

20 BOARD MEMBER JONES: I mean, it says our -- it  
21 says what our position is on a number of them, and some of  
22 them say not applicable, but many of them do say what our  
23 positions was.

24 DEPUTY EXECUTIVE OFFICER PACHECO: It is a status  
25 report on legislation. But you've taken positions on

1 those, because we've brought action items to the Board or  
2 to the Finance Committee or Pension and Health Benefits  
3 Committee in previous months, so that's why the position  
4 is listed the way it is.

5 PRESIDENT MATHUR: Ms. Frost.

6 CHIEF EXECUTIVE OFFICER FROST: I can offer one  
7 more suggestion is that the Board could give direction on  
8 how to engage on this bill with the bill author, and we  
9 could take that direction into those conversations as  
10 Board direction. That would be another suggestion.

11 PRESIDENT MATHUR: Thank you.

12 Mr. Slaton.

13 BOARD MEMBER SLATON: Well, given what we've  
14 heard from counsel, and what our CEO just said, I think it  
15 might be more prudent, and I would be willing to -- if  
16 both sides will withdraw their motions, and just ask the  
17 Chair to direct staff to indicate that we have significant  
18 concerns with this bill, unless they're -- unless it's  
19 modified to fit our -- fit within our fiduciary framework.

20 PRESIDENT MATHUR: So that's -- so the question  
21 then goes to the --

22 BOARD MEMBER SLATON: And report back to us in  
23 July.

24 PRESIDENT MATHUR: It goes to the original -- the  
25 maker of the original motion and second if you're willing

1 to withdraw your original motion.

2 BOARD MEMBER SLATON: Well, I'm asking for a deal  
3 here. If we get them both withdrawn, then you can -- then  
4 you can direct staff.

5 PRESIDENT MATHUR: So then we would also withdraw  
6 the substitute motion. We would just give direction to  
7 the team to bring it back in July.

8 BOARD MEMBER SLATON: That's what I suggest, if  
9 the maker of the motion is willing to, given our counsel's  
10 opinion that we really can't.

11 PRESIDENT MATHUR: I'm still seeing some puzzled  
12 faces, so maybe we'll come back to that.

13 BOARD MEMBER SLATON: Okay. All right.

14 PRESIDENT MATHUR: I'll -- we've got some  
15 comment.

16 Mr. Costigan.

17 BOARD MEMBER COSTIGAN: Thank you. It's just a  
18 process question, Madam President. Since Mr. Jacobs has  
19 pointed out that the failure to notice by this is an  
20 action nullifies our ability to take positions on any  
21 bills, I would respectfully request that on all future  
22 issues related to legislation that they all be noticed as  
23 action items, whether the Board takes action on them or  
24 not, because of the timeliness.

25 PRESIDENT MATHUR: Okay. Thank you. We'll take

1 that on board as -- we'll consider that.

2 Ms. Greene-Ross.

3 ACTING BOARD MEMBER GREENE-ROSS: So sort of to  
4 follow up on both what Mr. Costigan and Mr. Jones said on  
5 the process on legislation. Is it the process that the  
6 Board has to ask for certain bills to be brought for a  
7 position, or is it that staff just brings us ones to our  
8 attention, because I noticed that on this list of  
9 summaries -- so not just this issue, where I do think it's  
10 fair that we have an actual analysis before the Board  
11 takes an action on any bill. So I don't have any problem  
12 with that. If we have time to analyze a bill, we should  
13 have an analysis to take a position.

14 But I note that we're talking about an initiative  
15 later on on the agenda, but there's a bill that also deals  
16 with the dialysis cost that isn't even on this list. And  
17 so how do -- how do bills get on this list, and do we --  
18 do we have to specifically ask like why wasn't the Senator  
19 Pan bill on here? I mean, it's so relevant to what we do?  
20 Like how is this list determined or do we have to ask and  
21 pay attention to what's going on in the legislature and  
22 ask for bills to be analyzed?

23 DEPUTY EXECUTIVE OFFICER PACHECO: So the list is  
24 prepared by staff of bills that we're either actively  
25 monitoring or bills that we've taken positions on, as Mr.

1 Jones has noted. Sometimes they do not get on that, just  
2 because of the timing of the agenda items, and when the  
3 bills are introduced.

4           And so, you know, we're preparing these items  
5 well in advance. But certainly, if there's a bill that is  
6 not on there that the Board would like us to monitor, we  
7 can add that, definitely going forward. Keep in mind that  
8 the delegation of State legislation is with this Board,  
9 and not the team. And so we look at legislation and bring  
10 it forward for action that we deem is important to, you  
11 know, the Board in alignment with our pension and  
12 investment and health beliefs.

13           ACTING BOARD MEMBER GREENE-ROSS: So just knowing  
14 a lot about the leg process that bills get gutted and  
15 amended pretty quickly, you know, got to be pretty nimble  
16 on -- I appreciate you're trying to monitor everything  
17 that's happening, but especially in the -- you know, as  
18 you get toward this phase in the leg session, things are  
19 happening fast and furious, and, you know, bills get  
20 gutted and amended into substantive things that we would  
21 have strong issues with. So how can the process be  
22 addressed to, you know, stay on top of that?

23           PRESIDENT MATHUR: Okay. So what I will commit  
24 to you is that we will have further discussions. The team  
25 will caucus, and we -- and I will talk -- discuss with



1 them how we can improve the reporting, and monitoring, and  
2 oversight of legislation, and -- so that the Board can  
3 effectively execute its duties.

4           ACTING BOARD MEMBER GREENE-ROSS: That would be  
5 great.

6           PRESIDENT MATHUR: Thank you.

7           Mr. Miller.

8           BOARD MEMBER MILLER: Yeah. I will look forward  
9 for the Board's opportunity to take a position on this.  
10 And I'm clearly opposed to it, unless it's amended, not  
11 just because of the change in the relationship potentially  
12 of our role and the authority of this Board, but I'm also  
13 concerned about moving that out of the Controller's office  
14 and putting that with UC, as well for a number of reasons.  
15 So I look forward to the discussion with the rest of my  
16 colleagues.

17           PRESIDENT MATHUR: Thank you. So I would ask the  
18 makers of the original motion and the substitute motion to  
19 withdraw your motions at this time, and I will give  
20 direction that we will bring this back with full analysis  
21 in July, and also that we will review the process by which  
22 bills come before this Board.

23           Okay. I see nods, so that means -- so the makers  
24 are in agreement, the motions are withdrawn, and that is  
25 the direction.

1 I note -- sorry, did you have anything else, Mr.  
2 Pacheco on legislation?

3 DEPUTY EXECUTIVE OFFICER PACHECO: Not on Item  
4 12. Yes.

5 PRESIDENT MATHUR: I had one other question on  
6 federal legislation.

7 DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

8 PRESIDENT MATHUR: PEPTA is rearing its head  
9 again. Nunes is talking about how to -- how to  
10 reintroduce that. And just wanted to get an update on  
11 where we are on that, what our process is for providing  
12 input, and et cetera.

13 DEPUTY EXECUTIVE OFFICER PACHECO: We are closely  
14 monitoring that. And Gretchen Zeagler who was mentioned  
15 here today, we're preparing a letter to express any of our  
16 concerns. And so we'll share that with the Board as soon  
17 as we have it ready.

18 PRESIDENT MATHUR: Okay.

19 DEPUTY EXECUTIVE OFFICER PACHECO: But yes, we  
20 are on top of that.

21 PRESIDENT MATHUR: Okay. And PEPTA just -- I  
22 should just say is the Public Employees Pension  
23 Transparency Act.

24 DEPUTY EXECUTIVE OFFICER PACHECO: Act, correct.

25 PRESIDENT MATHUR: So -- which we think -- which

1 we have thought in the past would be -- could be negative  
2 for CalPERS and other public pension funds.

3 DEPUTY EXECUTIVE OFFICER PACHECO: Exactly. And  
4 thank you for bringing that up. And we'll make sure to  
5 include our progress in the future.

6 PRESIDENT MATHUR: Thank you very much.

7 DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

8 PRESIDENT MATHUR: I note that -- I'm sorry, Mr.  
9 Johnson. I thought that you had to speak on 9b, but I  
10 note that -- now that it's 8b. You're also on for 14 --  
11 for the public comment, the last -- for 14. Can I just  
12 add some extra time for you for that one. Is that all  
13 right?

14 MR. JOHNSON: (Nods head.) (Hand raised.)

15 PRESIDENT MATHUR: Thank you very much for your  
16 consideration.

17 Okay. That will bring us -- thank you very much,  
18 Mr. Pacheco.

19 DEPUTY EXECUTIVE OFFICER PACHECO: Sure. And I  
20 think I'm up for the next one.

21 PRESIDENT MATHUR: And you are. Oh, yes, you're  
22 up for the next one, Agenda Item 9, Legislation. Thank  
23 you.

24 DEPUTY EXECUTIVE OFFICER PACHECO: No problem.  
25 Agenda Item 9a through c. So these are three

1 legislative items that we're bringing before you. Two  
2 bills and a ballot initiative that recently qualified for  
3 the November 2018 general election.

4           So as discussed here today, there have been some  
5 recent developments since preparing our agenda items. Our  
6 agenda items are out of date and I'd like to provide an  
7 update, and then also some alternative recommendations  
8 around these.

9           So first 9a is a Senate Bill 1124 sponsored by  
10 the California Professional Firefighters and authored by  
11 Senator Leyva. Among other things, it requires that a  
12 pension that would normally be reduced due to disallowed  
13 compensation being part of -- being factored into the  
14 calculation that that pension remain unchanged, and that  
15 CalPERS continue to pay the pension on a prospective  
16 basis. It also requires that any overpayment made to the  
17 member, that that reimbursement be made by the employer  
18 back to CalPERS.

19           The concern that we have here is that it limits  
20 our ability to correct errors. And that could impact the  
21 IRS guidelines for maintaining our tax qualified status.  
22 We've offered some amendments to the sponsor and the  
23 author's office as early as last week. We would like an  
24 opportunity to work with them before this body takes a  
25 position on the bill.

1           So at this time, our recommendation is that the  
2 bill -- or that the Board, excuse me, not act on the bill  
3 and we'll update you on our progress. So let just pause  
4 there before going on.

5           PRESIDENT MATHUR: Thank you.

6           So this is another one that we could potentially  
7 bring back in July for consideration if we've reached  
8 successful -- had successful negotiations with the author  
9 of the bill?

10          DEPUTY EXECUTIVE OFFICER PACHECO: Exactly. And  
11 we have a meeting with them on Friday --

12          PRESIDENT MATHUR: Terrific.

13          DEPUTY EXECUTIVE OFFICER PACHECO: -- to continue  
14 that work.

15          PRESIDENT MATHUR: Okay. Thank you. Mr.  
16 Costigan.

17          BOARD MEMBER COSTIGAN: So I just want to make  
18 sure. We are now going to have action items on the July  
19 agenda, at least two items now is what I'm hearing?

20          PRESIDENT MATHUR: Yes.

21          DEPUTY EXECUTIVE OFFICER PACHECO: Potentially.

22          PRESIDENT MATHUR: Yes, we will have  
23 potentially -- yes, we will certainly have at least one.  
24 This one, depending on how successful the negotiation --

25          BOARD MEMBER COSTIGAN: The Pan bill.

1           PRESIDENT MATHUR: The Pan bill certainly will  
2 be.

3           BOARD MEMBER COSTIGAN: And potentially this one.

4           PRESIDENT MATHUR: And potentially this one.

5           DEPUTY EXECUTIVE OFFICER PACHECO: Potentially  
6 this one.

7           BOARD MEMBER COSTIGAN: Thank you.

8           PRESIDENT MATHUR: That's right.

9           Any further questions on that?

10          Okay. Please continue, Mr. Pacheco.

11          DEPUTY EXECUTIVE OFFICER PACHECO: Okay. Thank  
12 you.

13          We'll move to Agenda Item 9b. So similarly,  
14 Assembly Bill 1912 sponsored by SEIU and authored by the  
15 Chair of the Assembly PERS Committee Freddie Rodriguez.  
16 This is the Bill around pension obligations related to  
17 JPA, or joint powers of authority. We discussed this last  
18 month in the Finance and Administration Committee. And as  
19 you may recall, the sponsor and several of our employer  
20 associations and employers spoke before you on the  
21 legislation.

22          At that time, there was general agreement to  
23 provide employers some additional time to explore  
24 alternative solutions to hold JPAs liable for retirement  
25 obligations. We received amendments last night. Our

1 program area and our Legal Office is looking at those. So  
2 again, with that in mind, we're asking the Board not to  
3 act on this bill today, and we'll keep you posted on our  
4 progress.

5 PRESIDENT MATHUR: Thank you. I see no requests  
6 from the Board, but we do have several members of the  
7 public who wish to speak on this item, so I'll ask them to  
8 come forward now. Terry Brennand and Al Darby.

9 If you could take one of these seats to my left.  
10 The mics will be turned on for you. Please identify  
11 yourself and your affiliation for the record, and you'll  
12 have three minutes in which to speak.

13 MR. DARBY: Good morning, Madam Chair and Board  
14 Members. Al Darby, Vice President, Retired Public  
15 Employees Association.

16 It appears that a legislative solution to the  
17 East San Gabriel JPA, or also known as L.A. Works,  
18 causing -- that would cause the sponsoring cities to pay  
19 up has failed. The retroactive provision in the bill has  
20 been amended out, at least that's our latest  
21 understanding.

22 AB 1912 will solve most future JPA defaults,  
23 unless there are those that are in the same condition  
24 as the L.A. Works one. But if they're still under  
25 contract, then there's some hope for them apparently for

1 the -- well, the retroactive provision is gone, so  
2 apparently that isn't going to work.

3           Since the TAP fund is greatly overfunded. It's  
4 alleged to be 280 percent funded, RPEA urges this Board to  
5 consider making the L.A. Works folks specifically whole or  
6 at least better off using TAP funds. They took a 63  
7 percent haircut in this experience that -- at the East San  
8 Gabriel JPA. So we would certainly urge you to take a  
9 look to see if you can somehow reduce the size of that  
10 haircut for those folks.

11           Thank you.

12           PRESIDENT MATHUR: Thank you very much, Mr.  
13 Darby.

14           Mr. Brennand.

15           MR. BRENNAND: Madam President and members, Terry  
16 Brennand on behalf of SEIU California. I guess I need to  
17 apologize for how late these amendments are, but that's a  
18 function of the legislative process and negotiations. I  
19 wanted to -- and I'm fine with this moving over to next  
20 month. It will probably be weeks from the Governor's desk  
21 by that point.

22           I want to talk a little bit about CalPERS  
23 concerns the last time we were here and what's happened,  
24 what the amendments do so you have a sense of a least our  
25 perspective. You'll get your analysis from your members.



1 But one of the concerns mentioned is not having a timeline  
2 for when a -- well, let me back up for a second. We have  
3 stopped the requirement that -- we've replaced the  
4 requirement that you have to assign liability for current  
5 JPAs on a regular basis to at the point at which you've  
6 noticed you're going to dissolve, end your contract with  
7 CalPERS, no longer be responsible for it. That's the  
8 point at which the member agencies then have to assign  
9 liability.

10 Or, if they can't assign liability, the Board has  
11 the authority to assign liability. Should the Board not  
12 reach agreement on that, it goes to joint and several  
13 liability. So you have a three-step process by which you  
14 assure there's going to be somebody to go after for these  
15 responsibilities.

16 Having said that, one of the first concerns of  
17 CalPERS, there's not a timeline on there. The reason we  
18 didn't put a timeline in there is there's a timeline in  
19 the other bill you talked about, the Pan bill, not the --  
20 not the one you objected to, but a bill that establishes  
21 notice requirements and timelines. We didn't want to  
22 interfere with that. We're happy to work around that and  
23 give something that provides enough notice, but I can tell  
24 you right now, the short timelines you have on that bill  
25 do not make the agencies feel comfortable that they could

1 come to agreement.

2           And then it requires -- prior to reducing the  
3 benefits, we change that you're no longer required to sue.  
4 I think they've asked for some fiduciary language. I  
5 presume we can work on that. I mean that's sort of  
6 inherent in everything we do at CalPERS that we don't  
7 interfere with your fiduciary duties.

8           And then thirdly was that it only -- our  
9 liability only extends to pension obligations. A long  
10 conversation about your counsel's interactions with the  
11 IRS. We've had both League attorneys and SEIU attorneys  
12 look at your communications with the IRS, and feel  
13 comfortable, but -- let me rephrase that. My question was  
14 are anything we're doing in this bill put CalPERS at risk  
15 with the IRS for their tax status? If so, I'm not doing  
16 it.

17           All the attorneys we've talked to said there is  
18 nothing in the communications with Cal -- between CalPERS  
19 and the IRS or any of their agreements to this point that  
20 this would impact to the point of putting it at risk. So  
21 I think we've answered most of the questions. But if you  
22 need more, I'm here.

23           PRESIDENT MATHUR: Thank you, Mr. Brennand.

24           Thank you.

25           Mr. Costigan.

1           BOARD MEMBER COSTIGAN: Thank you, Mr. Brennand  
2 for that presentation. I just want to make sure I  
3 understand our timeline. At least according to the file,  
4 the bill is currently set for a hearing on the 26th of  
5 June?

6           MR. BRENNAND: 25th and 26th.

7           BOARD MEMBER COSTIGAN: Okay. And the deadline  
8 to get this one out is June 29th.

9           MR. BRENNAND: Correct.

10          BOARD MEMBER COSTIGAN: No, I'm agreeing with  
11 you, because I'm not -- I'd rather go ahead and do  
12 something on this rather than put it over, because you've  
13 got the policy committee hearing that needs some  
14 direction.

15           And so I don't know, Madam President, if there's  
16 the ability to give staff direction, because the  
17 amendments will be analyzed, and you've got the Committee  
18 hearing, and since we don't have a position on it, who  
19 will be at Committee. I assume that's what you're looking  
20 for is something -- we're not going to meet again before  
21 the bill is heard.

22           And the next deadline will then be, if my dates  
23 are right, is August 17th, which would be the fiscal  
24 deadline?

25          MR. BRENNAND: Yes.

1 BOARD MEMBER COSTIGAN: Okay. I just wanted  
2 folks to note that we're bumping up, because this is a  
3 fiscal bill that's got to be out by the 29th.

4 Thank you, Mr. -- thank you, sir.

5 PRESIDENT MATHUR: Thank you.

6 Ms. Frost which -- what direction would satisfy  
7 that concern?

8 CHIEF EXECUTIVE OFFICER FROST: I appreciate Mr.  
9 Brennand's review of the amendments that came in to us  
10 last evening. And so as long as the Board is  
11 understanding of those amendments, I think you give us  
12 Board direction, and we continue to engage, and work  
13 through the final amendments to the bill before it moves  
14 to its final steps.

15 PRESIDENT MATHUR: Okay. Without taking a formal  
16 position?

17 CHIEF EXECUTIVE OFFICER FROST: Yeah, you can  
18 just do board direction.

19 PRESIDENT MATHUR: Okay. Well, that will be the  
20 direction then.

21 CHIEF EXECUTIVE OFFICER FROST: Okay.

22 PRESIDENT MATHUR: Thank you. Thank you very  
23 much, Mr. Brennand.

24 I see no further requests on 9B, so we can move  
25 on to 9c.

1           DEPUTY EXECUTIVE OFFICER PACHECO: Thank you,  
2 Madam President. Before I move on to 9c, I'll just  
3 mention that Senate Bill 783 that we talked about on the  
4 divestment process did pass out of the Assembly PERS  
5 Committee this morning. So we'll continue to monitor  
6 that.

7           Before you is an action item on -- related to a  
8 ballot initiative that relates to establishing State  
9 regulations on kidney dialysis clinics. Last month, at  
10 the Pension and Health Benefits Committee, our CalPERS  
11 health team members presented an overview of dialysis  
12 treatment utilization and cost by members enrolled in  
13 CalPERS basic and Medicare plans.

14           And as a reminder in 2017, CalPERS spent \$62  
15 million on dialysis treatment. So if voters approve this  
16 ballot initiative, which is titled the Fair Pricing for  
17 Dialysis Act, it does a number of things. It limits  
18 amounts of dialysis clinics may change -- excuse me,  
19 charge for patient care. It requires dialysis clinics to  
20 issue rebates to patients or ensures if they go over the  
21 limit. It imposes penalties for excessive charges. It  
22 requires annual reporting regarding clinic costs, patient  
23 charges, and revenue. And it prohibits dialysis clinics  
24 from discriminating against patients based on the source  
25 or -- source of payment for their care.

1           So while the initiative has the potential to  
2 lower costs for receiving dialysis, there is some concern  
3 that it could have a negative impact on our members'  
4 access to dialysis services. So I believe we have here in  
5 the auditorium individuals on both sides of this  
6 initiative. We've brought this forward for the Board to  
7 consider taking a position, given the nature of the  
8 initiative and the work that we do in the Health Care  
9 Program. I'd recommend that we hear from those  
10 individuals and then go from there, Madam President.

11           PRESIDENT MATHUR: Okay. Sounds good.

12           Ms. Taylor, are you -- should I -- can we hear  
13 public comment?

14           BOARD MEMBER TAYLOR: Just a quick question

15           PRESIDENT MATHUR: Okay. One moment.

16           Ms. Taylor.

17           BOARD MEMBER TAYLOR: So I was concerned that  
18 there didn't seem to be a lot of analysis on this on  
19 whether or not for sure. So is it because the initiative  
20 isn't plain languaged enough, whether or not it will  
21 impact our members negatively, and whether or not we -- it  
22 will save us revenue, or cost us revenue? It didn't seem  
23 like that was in our analysis.

24           DEPUTY EXECUTIVE OFFICER PACHECO: So I know  
25 that -- I'm going to turn to Karen Páles who's here who's

1 been working on this issue that might be able to answer  
2 that.

3 BOARD MEMBER TAYLOR: Thank you.

4 PRESIDENT MATHUR: Good morning, Ms. Páles.

5 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF

6 PÁLES: Karen Páles, CalPERS team member.

7 The ballot initiative indicates some information  
8 that's not terribly clear for CalPERS programs. So the  
9 rebates are not for federally funded or State, local,  
10 city, or county funded or paid programs. So we're not  
11 sure that our program would be eligible under the HMO side  
12 of the House. Because we contract with commercial health  
13 plans, their -- if we are considered to be eligible of the  
14 rebates, the rebate would go to the plan.

15 BOARD MEMBER TAYLOR: Right.

16 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF

17 PÁLES: And then the Act does not require them to pass  
18 that through. So that's unclear if we would actually see  
19 any savings there.

20 BOARD MEMBER TAYLOR: Right.

21 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF

22 PÁLES: On the PPO side, the State payer piece kicks in,  
23 because we are the direct payer, so we probably would not  
24 be eligible for the rebates. So we're not entirely sure.

25 BOARD MEMBER TAYLOR: So even though -- I'm

1 sorry. Even though it's provided as a private insurance  
2 it's not a Medi-Cal or ACA plan. It's still --

3 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF  
4 PÁLES: The regulation will tell.

5 BOARD MEMBER TAYLOR: It's not really clear.

6 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF  
7 PÁLES: The way that it's stated in the Act, it says that  
8 State payer is not eligible. The LAO has indicated in  
9 their analysis that in the CalPERS HMO side of the house,  
10 we are not considered the payer. The plan is considered  
11 the payer. The regulation that Public Health would do  
12 would clarify all of that. So it's not terribly clear at  
13 the point.

14 On the PPO side, it's much clearer, because we  
15 are the direct payer, and we are a State payer. So we  
16 would most likely not be eligible for rebates there.

17 BOARD MEMBER TAYLOR: Okay. And then do we know  
18 how many of our members -- because as I understand it,  
19 we -- once they've been on dialysis for, I forget, two  
20 years, then we move them off -- or one year, we move them  
21 into Medicare. So then it mitigates some of that.

22 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF  
23 PÁLES: Right. So if you're in the end-stage renal  
24 disease, the first three months is a waiting period where  
25 CalPERS is the insurer. Then there's a 30-month



1 coordination period where CalPERS is the primary payer and  
2 Medicare is the secondary payer. And after the 33-month  
3 period combined, Medicare is the primary payer. So  
4 regardless of age, people move into the Medicare  
5 eventually, but we do have a portion of time where we're  
6 the primary payer.

7 BOARD MEMBER TAYLOR: And do we have any idea  
8 what population that is?

9 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF  
10 PÁLES: Yeah. Excuse me.

11 Ms. Bailey-Crimmins provided some information  
12 last month about the numbers. And I believe that we have  
13 about 1500 or so members receiving dialysis, and almost a  
14 thousand of them were Medicare with about 550 enrolled in  
15 basic.

16 BOARD MEMBER TAYLOR: Okay. All right. Those  
17 are some of the questions I needed for clarification.

18 Thank you.

19 HEALTH POLICY RESEARCH DIVISION ASSISTANT CHIEF  
20 PÁLES: You're welcome.

21 PRESIDENT MATHUR: Thank you. We do have several  
22 members of the public who wish to speak on this item.  
23 Please would Mr. Miller -- David Miller and Mr. Brennand  
24 come forward. You could take these seats to my left,  
25 identify yourself and your affiliation for the record, and

1 you'll have three minutes with which to speak.

2           And then following them will be Tom Hiltahck and  
3 Kristi Foy.

4           MR. MILLER: Thank you for this, Madam President  
5 and Board members.

6           So just going directly to the issue that was just  
7 raised. I think both sides of the ballot measure agree  
8 that this will save hundreds of millions of dollars in  
9 costs. That the LAO has suggested this will save millions  
10 of dollars for State and local payers. The rebates are  
11 only one part of this. The caps that are put into place  
12 will actually reduce health care costs across the entire  
13 industry. And if dialysis providers exceed that cap,  
14 there will be a 10 percent penalty that hits across the  
15 board.

16           So we think that your plans in general will  
17 benefit from the cap that is going to be placed on top of  
18 the entire industry. We think 68 percent of your business  
19 is absolutely covered. It's our intent that the other 32  
20 percent is covered. I'd also note that the rebates do not  
21 go back to the provider.

22           So if the re -- if the providers attempted to not  
23 give CalPERS the rebate, we think that that doesn't go  
24 into their profits, so we don't think they have a  
25 financial incentive to anger one of the most sophisticated

1 purchasers in the health care market by deferring the  
2 rebates into somebody else's pot. So we think that that's  
3 an unlikely solution.

4           So I just -- and then the rebates and fines are  
5 sort of the last defense if somebody continues to gouge  
6 after the ballot measure is passed. So I just wanted to  
7 take that on.

8           And then on this question of access in that the  
9 prices might be set too low, that we might be too  
10 effective in cost savings, I would just like to say that  
11 we actually thought about this when we developed the  
12 measure, and that there's a number of safeguards for  
13 CalPERS members as well as all dialysis members in the  
14 ballot.

15           So it allows the Department to adjust the cost  
16 categories. So we think when we -- when we cost this out  
17 currently think, we think we got it right. But also the  
18 Department can adjust the cost categories in the ballot  
19 measure, so that there's another safety valve in it. It  
20 allows a court review for individual clinics to review  
21 their financial situation.

22           So if we got it wrong and the Department of  
23 Health got it wrong, there's a court review in there. And  
24 then also the legislature can amend the Act to further  
25 accomplish the goals. Our goal is to save money and not

1 reduce access.

2           So, you know, we think that we have that covered.  
3 There's at least three sets of protections. And then also  
4 just as a side note, people have raised this question  
5 about whether physicians and nursing services are covered  
6 by the Act. And they actually -- they are 100 percent  
7 covered.

8           Any physician activity under his scope or her  
9 scope of practice, and a nurse, his or her scope of  
10 practice, is completely reimbursed. So nursing, physician  
11 services are reimbursed by the Act as well. So I just  
12 wanted to address those two points.

13           PRESIDENT MATHUR: Thank you, Mr. Miller. When  
14 you were talking earlier about providers having to -- or  
15 providers passing through the rebates, you meant insurance  
16 carriers.

17           MR. MILLER: Yes. Yeah, no on your -- yeah, on  
18 your -- on the -- yeah.

19           PRESIDENT MATHUR: Thank you.

20           Mr. Brennand.

21           MR. BRENNAND: Terry Brennand on behalf of SEIU  
22 California. We worked with staff on this quite a bit  
23 prior to this, and I think the last agenda item probably  
24 in more staff detail than this one -- excuse me -- that I  
25 think there's agreement that it saves tens of millions of

1 dollars to CalPERS.

2 Part of the reason it's not more is you have a  
3 relatively small population that is in this. However, it  
4 is one of the fastest growing populations in the health  
5 care world. It may not be a huge thing today. It's going  
6 to be a huge thing for you down the road with your aging  
7 population.

8 Having said that, this is like one of the most  
9 predatory business practices in the entire health care  
10 industry. If you can't take these guys on and tell them  
11 no, how are you going to take on the monopolistic, you  
12 know, provider industry, the medical groups, and the folks  
13 we're fighting about to get health care for our members in  
14 much more subtle ways than this, which is clearly just the  
15 most egregious business practice in health care we have  
16 right now.

17 So I'm hoping this is the one action item you  
18 actually take action on today.

19 Thank you.

20 PRESIDENT MATHUR: Thank you, Mr. Brennand.  
21 Next, if Mr. Hiltahck and Ms. Foy could come forward  
22 please. Please take one of these two seats to my left,  
23 identify yourself and your affiliation for the record, and  
24 you'll have two -- three minutes, rather in which to  
25 speak.

1 MS. FOY: Thank you and good morning. I'm Kristi  
2 Foy here representing the California Dialysis Council.  
3 And our members proudly provide care to 66,000  
4 Californians who depend on dialysis to stay alive,  
5 including the 1500 CalPERS members that were mentioned.

6 I'm also here representing the official ballot  
7 committee that is opposed to this ballot measure. More  
8 than 75 organizations are also opposed to this measure,  
9 including the California Medical Association, the  
10 California Chapter of American College of Emergency  
11 Physicians, the American Nurses Association of California,  
12 and many other health leaders.

13 This measure is dangerous for patients and it's  
14 costly for CalPERS. For starters, CalPERS is exempt from  
15 the initiative's rebate and price cap provisions. I know  
16 there was a discussion about that earlier, but the  
17 addition of text specifically states, and I quote,  
18 "Medicare or other federal, State, county, city, or local  
19 government payers". So there is no question really that  
20 CalPERS is a government payer.

21 We believe it's pretty cut and dry that as a  
22 government payer, CalPERS is excluded from any of the  
23 rebates. Further, there is no requirement in the  
24 initiative that the private health plans pass any of the  
25 savings along to CalPERS, which was also mentioned

1 earlier. So while CalPERS would not benefit at all from  
2 the initiative's price cap provisions, CalPERS would be on  
3 the hook for the higher cost your members who are  
4 currently on dialysis.

5           Simply put, this initiative would make the  
6 business of operating outpatient dialysis clinics in  
7 California economically unviable.

8           It will force the clinics to reduce operations or  
9 even close. Our industry hired former legislative analyst  
10 Bill Hamm and his team of economic consultants at the  
11 Berkeley Research Group to conduct an independent  
12 analysis. What they found was that if this initiative  
13 were to pass, 83 percent of clinics would have a negative  
14 operating margins. If even some of these clinics were  
15 first -- forced to close or reduce operations, it would be  
16 a public health crisis.

17           Dialysis patients would lose access to care and  
18 would be forced to dialyze in the hospital or be pushed  
19 into emergency rooms due to complications from missing  
20 treatment. Dialysis patients are very ill and missing  
21 even one treatment can lead to serious complications and  
22 even death.

23           As the CalPERS staff analysis points out, this  
24 will raise costs for CalPERS. But most concerning is it  
25 would be dangerous for patients who need this treatment

1 three days a week four hours at a time to survive. This  
2 measure is costly and dangerous. And for those reasons,  
3 we urge CalPERS to oppose.

4 I also have Tom Hiltahck with me to answer any  
5 technical questions, and we want to thank for your  
6 attention to this matter.

7 PRESIDENT MATHUR: Thank you, Ms. Foy. Mr.  
8 Hiltahck.

9 MR. HILTAHCK: I thought maybe I'd just talk  
10 about the Legislative Analyst, because there's been a lot  
11 of discussion about what the Legislative Analyst has said  
12 or concluded. And I would start by saying the Legislative  
13 Analyst hasn't concluded anything yet. The legislative  
14 analyst has been engaged in a process of analyzing this  
15 initiative since last fall. And that work is not yet  
16 completed. In fact, none of us will see what the  
17 Legislative Analyst actually says about this initiative  
18 until it releases its final report at the end of July.

19 But what we do know is what the Legislative  
20 Analyst told the legislature in May of this year, just a  
21 couple weeks ago or about a month ago. And what it said  
22 there was at that point in time, it had concluded that it  
23 was completely and totally unclear as to whether the  
24 initiative even applies to CalPERS. That you're a  
25 government payer, and that as a government payer, the



1 initiative does not apply and no rebates would be awarded.

2 More importantly, what the Legislative Analyst  
3 told the legislature is is that the initiative causes a  
4 number of potential reactions by the industry, some of  
5 which, if taken, and more likely we would argue, would  
6 result in higher costs to health insurers, and that would  
7 include CalPERS when you contract with health insurers.  
8 And that is because you're changing the dynamic of the  
9 marketplace where people obtain dialysis treatment.

10 And if access is reduced or access is denied to  
11 outpatient services, those patients have no place to go  
12 other than a hospital. And in most cast an emergency  
13 room. And as I'm sure you're all well aware, that's the  
14 least -- the most expensive place that you can obtain  
15 health care, health care that could be delivered in an  
16 outpatient setting.

17 And so in that regard, no one's claims about what  
18 legislative analyst has concluded are accurate. The  
19 Legislative Analyst has is still doing that work. And I  
20 would certainly urge you to do nothing until the  
21 legislative analyst has concluded that work at the end of  
22 July. But nonetheless, we believe, based on the economics  
23 of this initiative and what it does to dialysis clinics,  
24 that you are ready, willing, and able to oppose the  
25 measure today.

1 Thank you.

2 PRESIDENT MATHUR: Thank you very much.

3 Mr. Slaton.

4 BOARD MEMBER SLATON: Thank you, Madam President.

5 I have a question for either one of you. So we  
6 have a problem, and, you know, some may define it as  
7 predatory pricing. Some may define it as too much market  
8 control concentrated in two companies. And so the market  
9 dynamics of that are that when you just look at the  
10 pricing differential, and the inability for others to  
11 enter the market, you've got a problem. I don't like  
12 initiatives. I think the initiative process is fraught  
13 with problems starting with you can't change it, other  
14 than through another initiative. I mean, it's just a --  
15 it's such a blunt instrument to try to do public policy.

16 On the other hand, what are your organizations,  
17 if this does not pass or doesn't go forward, what's the  
18 solution? What are you and the companies you represent  
19 going to do to fix this problem?

20 MS. FOY: Thank you. That's a very good  
21 question. And when you talk about the market, there's  
22 several regulatory issues that have been a problem with  
23 locating a dialysis clinic in California. Every single  
24 dialysis clinic has to be licensed by the State of  
25 California, and because, as was mentioned before, the

1 majority of patients are actually being reimbursed through  
2 the Medicare system that they transition into after that  
3 33-month period. They also have to be regulated by CMS  
4 for their Medicare reimbursement.

5           And so both of those things have to take place.  
6 So when you want to open a new clinic in California,  
7 unfortunately there is a very long waiting timing in order  
8 to get that initial licensure by the State. And then  
9 after that, you have to apply for a regulation by CMS.  
10 And there's about a 12-month waiting period that you have  
11 to wait to get that certification by CMS. So you have to  
12 come into California, build a clinic, put all the  
13 equipment, hire all of your staff, and pay for everyone,  
14 and then wait a minimum of 12 months until you can  
15 actually start treating the patient.

16           So because of that, it takes a lot -- a bigger  
17 company in order to set something up. So what we're doing  
18 is we're working with both the State of California and  
19 with the federal government in order to make that window  
20 of time that you have to wait become a lot shorter. And  
21 so we have made progress. Just two months ago, CMS now  
22 has a new system in place where you can get certification  
23 through an accrediting organization.

24           And so the hope is to make that waiting time go  
25 down from 12 months to three months. And we really do

1 think that that will open up the market in California, so  
2 that we'll start to see a lot more companies coming in and  
3 open up dialysis clinics in California. And that's  
4 something that we've worked on.

5 BOARD MEMBER SLATON: I appreciate what you're  
6 saying, but that's not going to change the dynamics.  
7 That's only one of the problems. The market  
8 concentration, and the cost of the equipment, and the  
9 ability to have clinics all over the State, the barriers  
10 to entry are not just regulatory. They are market forces.  
11 So I understand for-profit companies. And, you know, you  
12 have your shareholders and you're trying to maximize  
13 return to shareholders, but what you're doing is putting  
14 an unbelievable burden on people in California.

15 So that answer is not sufficient in my book just  
16 to pass it off as a regulatory problem. It's a market  
17 concentration problem of the size of the two companies  
18 that have 70 percent of the business in California. And I  
19 just -- I don't -- you know, at some point in time, you've  
20 got to get the prices down.

21 MS. FOY: Well, and I do think that by addressing  
22 some of these issues, you asked what we're working  
23 towards. We will be able to open up the market, so that  
24 more -- for example, we do have several nonprofit dialysis  
25 providers that are members of our organization. And so

1 hopefully this will allow them to expand and to be able to  
2 be bigger players in the market.

3 BOARD MEMBER SLATON: Thank you.

4 PRESIDENT MATHUR: Thank you, Mr. Slaton.

5 Mr. Jones.

6 BOARD MEMBER JONES: Yeah. Thank you, Madam  
7 President. Yeah, Mr. Hiltahck.

8 MR. HILTAHCK: Yes.

9 BOARD MEMBER JONES: Yeah. This question is for  
10 you. You made reference to the LAO's position, and you  
11 said that they haven't done anything. But, however, they  
12 did release a letter to the attorneys -- State Attorney  
13 General's --

14 MR. HILTAHCK: That's correct.

15 BOARD MEMBER JONES: -- Back in 2017. And while  
16 he -- in any type of analysis trying to predict, you're  
17 uncertain as to exact numbers. However, the LAO goes on  
18 to say that CalPERS spent about \$70 million for this  
19 purpose. And he goes further to say that there should be  
20 substantial savings. So how do you reconcile that when  
21 we're -- you realize that the LAO hasn't done anything.

22 MR. HILTAHCK: So when the LAO did that analysis,  
23 they made the first assumption which was an error, that  
24 the initiative applies to CalPERS. So when asked that  
25 question to the legislature one month ago, this is what

1 the LAO said, quote, "It is unclear whether private  
2 insurers that contract with government agencies or  
3 programs, such as the private health insurers that  
4 contract with CalPERS or Medi-Cal would be eligible for  
5 rebates under the measure.

6 So when the LAO wrote that back in the fall, that  
7 was when the initiative process immediately commenced.  
8 And so the Legislative Analyst is given about 30 days to  
9 analyze what is a very complicated measure by anyone's  
10 analysis. And so it's not surprising to me that the LAO,  
11 back in the fall, would write an analysis that didn't  
12 really come to any sort of legal conclusion, but just  
13 said, you know, if this, then that; if this, then that,  
14 you know, and provide a bunch of different examples.

15 By the time we got to May and the presentation to  
16 legislature, the LAO was much less clear about whether the  
17 initiative would even apply to CalPERS. And more  
18 importantly, by that time, the Legislative Analyst had  
19 considered what the initiative might do to the marketplace  
20 and what it might do to health plans contracting with  
21 dialysis providers, and concluded that because of the  
22 dramatic financial effect on clinics, that it is as likely  
23 as anything that costs will go up.

24 The other thing, I'd point out to you is that the  
25 union that's sponsoring this initiative does not argue

1 that this initiative its purpose is to limit prices at  
2 all. In fact, their stated purpose is to increase the  
3 cost of health care. What they would like the dialysis  
4 clinics to do is spend more money on allowable services.  
5 Patient -- direct patient care costs.

6 And I see one of the Commissioners wrinkling her  
7 nose at me. There are many public statements where the  
8 union has said just that, that it's -- that the objective  
9 here is for clinics --

10 PRESIDENT MATHUR: I'm sorry. I can't allow you  
11 to continue to testify, because we've -- you asked --

12 MR. HILTAHCK: Understood.

13 PRESIDENT MATHUR: -- the question has been asked  
14 within.

15 BOARD MEMBER JONES: And just one final question,  
16 what is the date of this latest ALA -- LAO's --

17 MR. HILTAHCK: It's May 15th, 2018. I believe it  
18 was copy of -- in your staff report.

19 PRESIDENT MATHUR: Okay. Thank you.

20 Ms. Taylor.

21 BOARD MEMBER TAYLOR: So I just wanted to ask  
22 sort of what Henry was asking, because we do have an  
23 analysis here. But also, I will say that it appears to me  
24 based on our analysis, that there's a cap that we're --  
25 that this initiative is asking for. Based on

1 information -- just public information of the two  
2 companies that control a majority of the market, we  
3 understand that prices are out of control. There's been  
4 no effort for these companies to make any concession to  
5 pricing for -- when in negotiations with insurers or  
6 anything, as well as you're -- you have a staffing issue.

7           So I think that for you to give an analysis of  
8 what -- first of all, we do have access to the LAO. Okay.  
9 We are another State agency. So that may be a quote, but  
10 we also have access if this passes, we have access to the  
11 Department's that would enforce this, which can also  
12 interpret the law.

13           So I think for -- my question is what would you  
14 do to control these costs and protect our patients with  
15 staffing, if this weren't able to pass?

16           MS. FOY: I think that's a good question. And I  
17 think one of the problems is that in the initiative  
18 itself, it mentions the allowable costs. And the  
19 difficulty is how that's defined. And there are many  
20 costs that go with a dialysis clinic that are not a part  
21 of that allowable cost, such as the medical directors, the  
22 nurse manager, and the facility administrator, and those  
23 are all required by CMS, in addition to HR, legal,  
24 compliance, taxes, insurance. So that's part of the  
25 problem with the way the initiative is drafted, is that



1 the actual cost to run a dialysis clinic are not a part of  
2 that calculation.

3 And so I think that's something that really needs  
4 to be looked at, when you're discussing the initiative  
5 itself, and how it will truly impact, because the real --

6 BOARD MEMBER TAYLOR: That's not the question I'm  
7 asking you.

8 MS. FOY: Oh, I know. I'm sorry. I'm trying to  
9 get to that. But the issue is how you look at those  
10 different costs. And that's something that, of course, I  
11 think everyone in health care is looking at, at having to  
12 control costs, but still providing access and quality  
13 care.

14 And the key with the dialysis clinics in  
15 California is that we consistently have more four and five  
16 star ratings from CMS, from the federal government than  
17 any other state. So I think the services that we're  
18 providing in California are excellent, and above and  
19 beyond anything that's being provided in any other state,  
20 in addition to our access. I mean, that is something that  
21 we can look at.

22 PRESIDENT MATHUR: Okay. You're not -- I'm  
23 sorry. You're not answering the question. You're just  
24 giving a long preamble. I have to get you to the point,  
25 please.

1 MS. FOY: No problem. I apologize.

2 PRESIDENT MATHUR: Thank you.

3 MS. FOY: And so again, these are all just part  
4 of the cost issues that we would address, if this does not  
5 pass.

6 BOARD MEMBER TAYLOR: So ultimately, you're  
7 saying you don't have a way to control costs, is that what  
8 you're telling me?

9 MS. FOY: No, the way to control costs is to look  
10 at all these items, such as, you know, HR, legal,  
11 compliance, taxes, insurance, all the other things that go  
12 about and increase the cost.

13 BOARD MEMBER TAYLOR: What's your profit margin?

14 MS. FOY: I represent the entire dialysis  
15 council, so I don't know individual company profit  
16 margins.

17 BOARD MEMBER TAYLOR: That's fine. What's the  
18 general profit margin?

19 MS. FOY: I don't know in -- I don't even know  
20 the general profit margin for individual companies,  
21 because it's different. Like I said, we have nonprofit  
22 members of our association. So, of course, that's going  
23 to be different than for-profit members.

24 BOARD MEMBER TAYLOR: Okay. Thank you.

25 PRESIDENT MATHUR: Okay. Mr. Costigan

1           BOARD MEMBER COSTIGAN: Thank you, Madam  
2 President.

3           I mean, given this debate, the discussion about  
4 the LAO, and actually this is not an urgent matter. It's  
5 on the November ballot. I'd at least, just as we did with  
6 the two other pieces of legislation, put it over.

7           Because here are the concerns that I have that  
8 I'd like staff to address on the next one. If you look  
9 through the support and opposition, what I don't see is  
10 any local government. So LAO makes the indication. This  
11 saves tens of millions of dollars, potentially. It could  
12 save up to tens of millions of dollars on the initiatives.  
13 Yet, at least in the materials in front of me, I see no  
14 local government support or opposition, so people that are  
15 directly impacted.

16           In our own analysis, we're not sure whether it  
17 applies to us or not. The indications are it doesn't  
18 apply to us. And then when you look at the opposition --  
19 again, I'm not a health expert on either side. But when  
20 you have the California Medical Association and the  
21 American Nurses Association of California, the Renal  
22 Physicians Association, just sort of going through, I  
23 would like more information to come back to us.

24           I mean, again, this is a November issue. Similar  
25 to the two pieces of legislation. I actually think we're

1 more timely than this. July or August would still leave  
2 the proponents or the opponents plenty of time to deal  
3 with this in November. So I don't know if you need a  
4 motion for that or Committee direction.

5 PRESIDENT MATHUR: This is an action item. It's  
6 fine for you to make a motion, if you'd like.

7 BOARD MEMBER COSTIGAN: But if there's no motion,  
8 then there's no action. But I'll -- all right. I'll make  
9 a motion that we take no position, at this time, and  
10 direct staff to come back with additional information  
11 related to the fiscal cost.

12 PRESIDENT MATHUR: Bring it back.

13 BOARD MEMBER HOLLINGER: Second.

14 PRESIDENT MATHUR: Motion made by Costigan, and  
15 seconded by Hollinger.

16 On the motion.

17 Mr. Rubalcava.

18 BOARD MEMBER RUBALCAVA: Yes. I would speak  
19 against the motion. I think staff brought this to us for  
20 a reason. As CalPERS, we are a big purchaser of health  
21 care. And we deal with insurance companies. And  
22 insurance companies have -- they have to report the loss  
23 ratio.

24 I was disappointed that the association wasn't  
25 able to speak to the profit margin. We do have an

1 interest in having quality of care. The debate has been  
2 talked about whether we get a rebate or not, and how local  
3 government is impacted. But we do represent our  
4 constituents, which are patients. They're looking forward  
5 to a pension. They're looking forward to quality health  
6 care through our contracted health insurance carriers. So  
7 I think taking a position is a reasonable thing.

8           And if the initiative is trying to set some sort  
9 of -- ensure that the quality is there, I don't think -- I  
10 mean, it's been framed as somehow it's going to become --  
11 I like the market concentration term my colleague here  
12 said. Is the market going to respond by saying -- I see  
13 it like a scare tactic, you know, that, oh, we're going to  
14 limit access.

15           But, you know, I know that sometimes as CalPERS  
16 we've seen what isn't appropriate as part of our ESG.  
17 What isn't appropriate goes, exorbitant profits or is it  
18 excessive. So I would say we should take a position in  
19 support of the initiative.

20           PRESIDENT MATHUR: Is that a motion -- is that a  
21 substitute motion?

22           BOARD MEMBER RUBALCAVA: That is a substitute  
23 motion, yes.

24           BOARD MEMBER MILLER: I'll second.

25           PRESIDENT MATHUR: Motion made by Rubalcava --

1 substitute motion made by Rubalcava, seconded by Mr.  
2 Miller. On the motion that's before us.

3 Ms. Greene-Ross.

4 ACTING BOARD MEMBER GREENE-ROSS: So I haven't  
5 heard anybody mention there's a Leyva Bill SB 1156 that  
6 also deals with some issues with dialysis. And we don't  
7 have it on our leg thing, so I don't know if this relates  
8 to this initiative or not. I wonder if anybody could  
9 speak to that.

10 But I would support Mr. Costigan's motion to have  
11 additional information brought back to us, so that we  
12 could have more -- a more informed decision, because I  
13 don't -- I just felt like the CalPERS staff analysis  
14 wasn't really clear. And maybe we can include information  
15 about Leyva's bill to see if it relates or not. I mean,  
16 we're all for, you know, keeping costs down, but I don't  
17 think we have enough information about the impact to  
18 CalPERS.

19 PRESIDENT MATHUR: Does the team have any  
20 information on 1156 at this time that they can share, and  
21 how it might relate to this initiative?

22 DEPUTY EXECUTIVE OFFICER PACHECO: Not at this  
23 time, Ms. -- Madam President, but we could certainly bring  
24 that back as part of the additional information that Mr.  
25 Costigan is asking for.

1           PRESIDENT MATHUR:   Okay.   Thank you.

2           Mr. Miller on the motion.

3           BOARD MEMBER MILLER:   Yeah, just -- I've spent  
4 most of my adult life as a regulator.   So, you know, I  
5 cannot even count the number of times when I've heard  
6 industry folks come in on so many topics and say, oh, this  
7 will be a disaster if you regulate us this way.   This will  
8 put us all out of business.   It will drive cost -- this  
9 will just be terrible.   And most of the time, in my  
10 experience, that has been quite an exaggeration in  
11 reality, and that the market addresses whatever  
12 constraints, internal/external that are at play.

13           And if those constraints move the market in a  
14 good direction, they become normalized.   And so I really  
15 take some issue with that idea that this increased  
16 regulation would drive this industry to the brink.   And  
17 that there's a real problem that this industry needs to  
18 address regardless of what happens with this piece of  
19 legislation or this initiative.   And hopefully, the  
20 industry will have much more compelling responses on those  
21 issues of the problems that -- that we're experiencing  
22 with this industry.

23           PRESIDENT MATHUR:   Thank you, Mr. Miller.

24           Mr. Costigan, on the motion.

25           BOARD MEMBER COSTIGAN:   I just wanted to be

1 clear. The motion, because it's said you made a motion as  
2 to take a position. But your motion is actually to take a  
3 support position.

4 BOARD MEMBER RUBALCAVA: Yes.

5 PRESIDENT MATHUR: A support position

6 BOARD MEMBER COSTIGAN: I wanted to make sure.

7 PRESIDENT MATHUR: He said to make motion --  
8 yeah, to take a position in support of the initiative.

9 BOARD MEMBER COSTIGAN: Okay. I didn't hear  
10 that. I just wanted to clarify.

11 Thank you.

12 PRESIDENT MATHUR: Yes. Thank you.

13 Ms. Taylor.

14 BOARD MEMBER TAYLOR: Sure. I just wanted to say  
15 a couple of things. First, I think if we take a support  
16 position, we can still get our information back to us. I  
17 think that's not -- that's a no-brainer. Staff can do  
18 some more analysis, compare it to the piece of legislation  
19 that Ms. Greene-Ross was talking about.

20 But secondarily, I think it's important that we  
21 remember. I don't know about anybody else, but any time I  
22 watch TV, I see the anti-commercials on this. So all I  
23 can think about is how much money you guys have spent on  
24 that already, and how much that could go into lowering the  
25 cost of care.



1           So I'm in support of the substitute motion, of an  
2 approval on this -- or a support on this.

3           Thank you.

4           PRESIDENT MATHUR: Thank you.

5           I see no further requests to speak from the  
6 Board. The motion before you is to adopt a support  
7 position on the initiative.

8           All those -- any further discussion on the  
9 motion?

10          Mr. Jones.

11          BOARD MEMBER JONES: Yeah, just one  
12 clarification. We're adopting a support, provided that  
13 the additional information --

14          PRESIDENT MATHUR: The motion was to adopt a  
15 support position on the initiative.

16          BOARD MEMBER JONES: Okay. But Mrs. Taylor said  
17 that we can get the information.

18          PRESIDENT MATHUR: We could still -- we can still  
19 -- we can -- I'm happy to still direct --

20          BOARD MEMBER JONES: Okay. Okay. Okay.

21          PRESIDENT MATHUR: -- the team to bring us back  
22 additional information.

23          Okay. Motion is before you.

24          All those in favor say aye?

25          (Ayes.)

1 PRESIDENT MATHUR: All those opposed?

2 (Noes.)

3 PRESIDENT MATHUR: Okay. I think we need to take  
4 a roll call vote.

5 BOARD MEMBER TAYLOR: I think we do.

6 PRESIDENT MATHUR: Is it easier to do it by  
7 the -- we may as well do it by the mon -- by the system.

8 Please record your vote.

9 (Thereupon an electronic vote was taken.)

10 PRESIDENT MATHUR: The motion passes.

11 The final vote was 6 yes, 3 abstentions, and 4  
12 noes. So it not -- does -- no, only Investment Committee  
13 would that be...

14 GENERAL COUNSEL JACOBS: (Nods head.)

15 PRESIDENT MATHUR: It can pass -- could you  
16 please clarify. But I think only in Investment Committee  
17 is it required to be a vote of 7 to pass.

18 GENERAL COUNSEL JACOBS: That's correct, Chair  
19 Mathur.

20 PRESIDENT MATHUR: Yes. So this -- it says not  
21 pass, but it actually does pass.

22 GENERAL COUNSEL JACOBS: It passes.

23 PRESIDENT MATHUR: There's 13.

24 BOARD MEMBER COSTIGAN: But a majority is 7.

25 PRESIDENT MATHUR: But three abstained.

1           So -- okay. That brings us -- that brings us now  
2 to Agenda Item number -- sorry, you have nothing else on  
3 9, correct?

4           DEPUTY EXECUTIVE OFFICER PACHECO: No. No,  
5 that's it.

6           PRESIDENT MATHUR: Okay. Thank you.

7           That brings us to Agenda Item number 10, Proposed  
8 Decisions of Administrative Law Judges. And I'll call on  
9 the Vice President, Mr. Feckner.

10          VICE PRESIDENT FECKNER: Thank you, Madam  
11 President.

12          I move the Board adopts the proposed decisions at  
13 Agenda items 10a through 10m as the Board's own decision  
14 with the minor modifications argued by staff, and a minor  
15 modification to correct the citation to section 2120 on  
16 page six of the proposed decision at Agenda Item 10a.

17          PRESIDENT MATHUR: On motion -- is there a second  
18 to the motion?

19          BOARD MEMBER GILLIHAN: Second.

20          PRESIDENT MATHUR: Seconded by Mr. Gillihan.

21          Any items that any Board member wishes to take up  
22 separately?

23          I see none.

24          So on the motion. All those in favor say aye?

25          (Ayes.)

1 PRESIDENT MATHUR: All opposed?

2 Motion passes.

3 On Agenda Item number 11, Petitions for  
4 Reconsideration. I'll again call on Mr. Feckner.

5 VICE PRESIDENT FECKNER: Thank you. I move that  
6 the Board deny the petitions for reconsideration at agenda  
7 Items 11a and 11b.

8 PRESIDENT MATHUR: On --

9 BOARD MEMBER TAYLOR: Second.

10 PRESIDENT MATHUR: Seconded by Ms. Taylor.

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 We've already taken up Agenda Item 12. So that  
18 brings us to Agenda Item number 13, Summary of Board  
19 Direction. Ms. Frost.

20 CHIEF EXECUTIVE OFFICER FROST: Okay. I recorded  
21 four. So the first would be to bring back the analysis on  
22 Senate Bill 783 authored by Senator Pan to the July  
23 off-site, and to put that as a part of the agenda. I want  
24 to give a little more background, just so you understand  
25 the intent of this bill. We did meet with Senator Pan on

1 a couple of occasions.

2           And in the bill itself, just so you understand  
3 what they're trying to accomplish. In section 1B it  
4 actually says and acknowledges that the Board has retained  
5 exclusive and plenary authority over the decision, the  
6 final decision. And in conversations with Senator Pan,  
7 this is a way for the legislature to get more information  
8 before they pass bills out of their respective Assembly  
9 and Senate.

10           Okay. And then two is to review the process by  
11 which bills come before the Board. And what we tried to  
12 balance is we engage early. We did receive a lot of  
13 feedback from legislative staff that we needed to engage  
14 earlier if there was a problem with the way that the bill  
15 was written, or that we had problems with administering  
16 the bill as it was written.

17           So we weigh in very early as these bills are  
18 emerging, but we also want to be very careful that we only  
19 bring you the bill once it's set for policy, so that you  
20 can make a policy decision, and that you're not weighing  
21 in too early before the bill even gets a hearing.

22           Number three is, as far as the JPA bill, 1912,  
23 Board direction is to support the amendments that were  
24 articulated by Terry Brennand during his public comment,  
25 and to articulate that through further discussions with

1 the bill's sponsor and the bill author.

2 And if I might add, we could also update your  
3 legislative report to reflect this direction on both of  
4 those bills, so that you have it.

5 And then finally on Item 9c that we bring back  
6 additional analysis on the impacts to CalPERS, but we also  
7 engage with local government to see if we can get their  
8 analysis. And what we might be able to find on why the  
9 medical industry is opposing the ballot initiative as  
10 well, but to bring that analysis back in July.

11 PRESIDENT MATHUR: Thank you.

12 Mr. Jones, you have a question.

13 BOARD MEMBER JONES: Yeah. Thank you, Madam  
14 President. Just a thought. And I don't -- I know you're  
15 going to -- you've directed staff to bring back a response  
16 to Mr. Costigan's concern about having bills that we could  
17 take action on.

18 PRESIDENT MATHUR: Yes.

19 BOARD MEMBER JONES: And just a thought that, you  
20 know, like in our regular agenda we have consent items.  
21 And so all these bills could be under the consent, and  
22 then anyone a member wants to pull out, then they would be  
23 able to just pull out that bill, rather than have an  
24 action.

25 Just a thought, you know.

1           PRESIDENT MATHUR: Yeah. I think the question is  
2 whether the -- how do you convert them to an action item.

3 We can't just convert any bill to an action item --

4           BOARD MEMBER JONES: But if you --

5           PRESIDENT MATHUR: -- if it's an information  
6 item. So if we put it on the consent information --

7           BOARD MEMBER JONES: I mean consent.

8           PRESIDENT MATHUR: An action. Okay. Well,  
9 we'll --

10           BOARD MEMBER JONES: In other words, the consent  
11 will be whatever staff is doing --

12           PRESIDENT MATHUR: Okay

13           BOARD MEMBER JONES: -- and then any Board member  
14 can pull one out if they want to act on it.

15           PRESIDENT MATHUR: Okay. We'll consider -- thank  
16 you for the suggestion. We'll consider various  
17 strategies.

18           CHIEF EXECUTIVE OFFICER FROST: And then General  
19 Counsel wanted me to validate that the Board direction on  
20 1912 was, as I indicated, that it would be to support the  
21 amendments articulated by Mr. Brennand during his public  
22 comment, as we engage in further discussions with the bill  
23 author and sponsor.

24           Was that --

25           PRESIDENT MATHUR: So I think --

1 CHIEF EXECUTIVE OFFICER FROST: -- did I record  
2 that direction appropriately?

3 PRESIDENT MATHUR: So it wasn't -- so I think it  
4 was to continue to engage in discussions to advance  
5 CalPERS --

6 CHIEF EXECUTIVE OFFICER FROST: Position.

7 PRESIDENT MATHUR: -- position.

8 CHIEF EXECUTIVE OFFICER FROST: Okay

9 PRESIDENT MATHUR: Just because you hadn't had a  
10 chance to analyze the amendments.

11 CHIEF EXECUTIVE OFFICER FROST: Correct.

12 PRESIDENT MATHUR: And while we certainly have --  
13 you know -- you know, have good faith from -- with Mr.  
14 Brennand, we want to make sure that we do our own  
15 analysis.

16 CHIEF EXECUTIVE OFFICER FROST: Right.

17 PRESIDENT MATHUR: Thank you for that Mr. Jacobs.  
18 That brings us to Agenda Item 14. And I have  
19 Neal Johnson. Neal, I -- thank you for your consideration  
20 earlier. I will allot you five minutes, and if you could  
21 identify yourself and your affiliation for the record.

22 MR. JOHNSON: Neal Johnson, SEIU Local 1000.

23 Although I could say the one that -- Priya about  
24 every four or five months somehow misses my request for a  
25 comment, but thank for your consideration.



1           PRESIDENT MATHUR: I'm sorry.

2           MR. JOHNSON: One of the -- one of the things I  
3 wanted to do was to thank Mr. McCollum who's departing the  
4 system for his excellent service during his time. While  
5 he frustrated some of my colleagues who were of the  
6 actuaries here, because he was the one person in the unit  
7 that refused to actually become a full member of SEIU.  
8 But Gary did good work, and I congratulate him for his --  
9 I thank him for his work and congratulate him on his  
10 retirement.

11           The other issue which is what I put in the  
12 initial request for, yesterday, you adopted the State  
13 contribution for annuitants. Traditionally, you've done  
14 the 100/90 formula. This time you expanded that.

15           Give you a little history. In 2003, we  
16 negotiated with Mr. Gillihan's predecessor, Mr.  
17 Morgenstern, a 80/80 formula, which is now codified as  
18 Government Code section 22871.9. It was .3. We got it  
19 moved to .9 a couple of years ago, because of MOU  
20 ratifications in 2016 and '17 that in -- that provided  
21 provisions that annuitants would be paid on an 80/80  
22 formula basis.

23           Both the old section and the new sections used  
24 the term largest state civil service enrollment. So  
25 yesterday I figured, when -- after the meeting went and

1 entered into the computer the various premiums.

2           And -- maybe backing up. Every year, I get from  
3 CalHR a -- enrollment data for State and active civil  
4 servants to be able to figure out the 80/80 formula, and  
5 that get confirmation later on that my numbers are, in  
6 fact, correct.

7           So on May 2nd this year, I'd gotten the  
8 enrollment data from CalHR that was actually originally  
9 compiled by the Controller's office. And yesterday, I was  
10 surprised when I ran through the analysis and got  
11 different numbers, because I thought I should have the  
12 same numbers. While in this case, the numbers are  
13 slightly higher than that which I would have expected.  
14 And I'm not sure that it's a small victory for the civil  
15 service employees, because I'm not sure CalHR is not going  
16 to have a different set of numbers than PERS has when they  
17 do the calculation.

18           But it really troubles me that we apparently have  
19 two different enrollment data sets leading to different  
20 results. And I don't know quite where to start in trying  
21 to resolve that issue, but that's the problem.

22           PRESIDENT MATHUR: Thank you -- thank you for  
23 raising that. We'll make sure that our teams get together  
24 and compare the data sets, and see if there's a -- if  
25 there's a problem mismatch and where the problem is.

1 MR. JOHNSON: Thank you.

2 PRESIDENT MATHUR: Thank you very much.

3 Okay. That brings us -- is there anyone else  
4 from the public who wishes so speak at this time?

5 Okay. Then we are adjourned. Thank you,  
6 everyone.

7 (Thereupon the California Public Employees'  
8 Retirement System, Board of Administration  
9 open session meeting adjourned at 12:30 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 open session meeting was reported  
7 in shorthand by me, James F. Peters, a Certified Shorthand  
8 Reporter of the State of California.

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

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

15 IN WITNESS WHEREOF, I have hereunto set my hand  
16 this 26th day of June, 2018.

17  
18  
19  
20 

21  
22  
23 JAMES F. PETERS, CSR  
24 Certified Shorthand Reporter  
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