A P P E A R A N C E S

COMMITTEE MEMBERS:
Ms. Theresa Taylor, Chairperson
Mr. Richard Costigan, Vice Chairperson
Mr. Rob Feckner
Ms. Adria Jenkins-Jones
Mr. Henry Jones
Mr. David Miller
Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:
Ms. Margaret Brown
Mr. John Chiang, represented by Mr. Matthew Saha

STAFF:
Ms. Marcie Frost, Chief Executive Officer
Mr. Doug Hoffner, Deputy Executive Officer
Mr. Matthew Jacobs, General Counsel
Ms. Marlene Timberlake D'Adamo, Interim Chief Financial Officer
Mr. Randy Dziubek, Deputy Chief Actuary
Ms. Arnita Paige, Chief, Pension Contract & Prefunding Programs
Ms. Nina Ramsey, Senior Actuarial Assistant
Mr. Julian Robinson, Senior Pension Actuary
Ms. LaRiesha Simmons, Committee Secretary
APPEARANCES CONTINUED

Mr. Anthony Suine, Chief, Benefit Services Division
Mr. Scott Terando, Chief Actuary

ALSO PRESENT:
Mr. Dane Hutchings, League of California Cities
Ms. Dorothy Johnson, California State Association of Counties
Ms. Tracy Rhine, Rural County Representatives of California
# INDEX

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Call to Order and Roll Call</td>
<td>1</td>
</tr>
<tr>
<td>2. Approval of the September 25, 2018 Finance and Administration Committee Timed Agenda</td>
<td>1</td>
</tr>
<tr>
<td>3. Executive Report – Marlene Timberlake D’Adamo</td>
<td>2</td>
</tr>
<tr>
<td>4. Action Consent Items – Marlene Timberlake D’Adamo</td>
<td>3</td>
</tr>
<tr>
<td>a. Approval of the May 15, 2018 Finance and Administration Committee Meeting Minutes</td>
<td>3</td>
</tr>
<tr>
<td>b. California Actuarial Advisory Panel Appointment</td>
<td>3</td>
</tr>
<tr>
<td>5. Information Consent Items – Marlene Timberlake D’Adamo</td>
<td>3</td>
</tr>
<tr>
<td>a. Annual Calendar Review</td>
<td>3</td>
</tr>
<tr>
<td>b. Draft Agenda for the November 14, 2018 Finance and Administration Committee Meeting</td>
<td>3</td>
</tr>
<tr>
<td>c. Treasury Analysis and Liquidity Status Report</td>
<td>3</td>
</tr>
<tr>
<td>d. Annual Contract and Procurement Activity Report</td>
<td>3</td>
</tr>
<tr>
<td>e. Annual Discharge of Accountability for Uncollectible Debt</td>
<td>38</td>
</tr>
<tr>
<td>f. Discharge from Accountability Policy Review</td>
<td>38</td>
</tr>
<tr>
<td>g. GFOA 2018-19 Budget Book Submission</td>
<td>38</td>
</tr>
<tr>
<td>h. Supplemental Income Plans Report</td>
<td>38</td>
</tr>
<tr>
<td>i. California Employers’ Retiree Benefit Trust Report</td>
<td>38</td>
</tr>
<tr>
<td>6. Action Agenda Items – Actuarial Reporting</td>
<td>5</td>
</tr>
<tr>
<td>a. Final Proposed Regulation for Employer Actuarial Liability Significant Increase – Randy Dziubek, Nina Ramsey</td>
<td>5</td>
</tr>
<tr>
<td>7. Information Agenda Items – Program Management</td>
<td>12</td>
</tr>
<tr>
<td>a. Reporting on Participating Employers – Arnita Paige, Andy Nguyen</td>
<td>12</td>
</tr>
<tr>
<td>8. Information Agenda Items – Actuarial Reporting</td>
<td>18</td>
</tr>
<tr>
<td>a. Annual Actuarial Valuation Terminated Agency Pool – Scott Terando, Julian Robinson</td>
<td>18</td>
</tr>
<tr>
<td>b. Proposed Revision to Amortization Policy Regarding a Financial Necessity (1st Reading) – Scott Terando, Randy Dziubek</td>
<td>22</td>
</tr>
<tr>
<td>INDEX CONTINUED</td>
<td>PAGE</td>
</tr>
<tr>
<td>----------------</td>
<td>------</td>
</tr>
<tr>
<td>9. Information Agenda Items</td>
<td></td>
</tr>
<tr>
<td>a. Summary of Committee Direction - Marlene Timberlake D’Adamo</td>
<td>41</td>
</tr>
<tr>
<td>b. Public Comment</td>
<td>42</td>
</tr>
<tr>
<td>Adjournment</td>
<td>42</td>
</tr>
<tr>
<td>Reporter's Certificate</td>
<td>43</td>
</tr>
</tbody>
</table>
PROCEEDINGS

CHAIRPERSON TAYLOR: All right. I'm calling the Finance and Administration Committee to order.

First order of business is to call the role.

COMMITTEE SECRETARY SIMMONS: Theresa Taylor?
CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY SIMMONS: Richard Costigan?
VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY SIMMONS: Rob Feckner?

Adria Jenkins-Jones?

COMMITTEE MEMBER JENKINS-JONES: Here.

COMMITTEE SECRETARY SIMMONS: Henry Jones?
COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY SIMMONS: David Miller?

Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON TAYLOR: So we do have a quorum. Next order of business approval of the timed agenda?

COMMITTEE MEMBER JONES: Move it.

VICE CHAIRPERSON COSTIGAN: Second.

CHAIRPERSON TAYLOR: It's been moved by Henry Jones and seconded by Richard Costigan. Sorry.

All those in favor?

(Ayes.)
CHAIRPERSON TAYLOR: All right.
Next is our executive report, Marlene.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Good morning. Marlene Timberlake -- Madam Chair and Committee members -- sorry --

(Ayes.)

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: -- Marlene Timberlake D'Adamo, CalPERS team member.

The agenda before you today has one action item for your consideration. This item seeks approval of the final proposed regulation establishing criteria to define a significant increase in actuarial liability due to increased compensation paid to non-represented employees as specified in Government Code section 209 -- 20791.

In addition, we have three information items. An update -- this is the quarterly update on participating employers, a presentation on the annual actuarial valuation for the Terminated Agency Pool. And as directed by the Committee in February, we have brought back proposed revisions to the Amortization Policy regarding a financial necessity. Tongue tied this morning.

The next Finance and Administration Committee meeting is scheduled for November 14th, 2018 here in Sacramento. The November agenda will include the 2018-19
basic financial statements, the first reading of the 2018-19 mid-year budget revisions, and the second reading of the proposed revisions to the Amortization Policy regarding financial necessity.

Thank you, Madam Chair. This concludes my report, and I would be happy to take any questions at this time.

CHAIRPERSON TAYLOR: Seeing no questions. We'll go ahead and move on to the action consent items. I don't see -- I'll move the action consent --

VICE CHAIRPERSON COSTIGAN: No, Mr. Jones.

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON TAYLOR: You moved it. All right.

VICE CHAIRPERSON COSTIGAN: Second.

CHAIRPERSON TAYLOR: Moved by Henry Jones and seconded by Richard Costigan. All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: Okay. Information consent items.

Mr. Costigan.

Woops.

VICE CHAIRPERSON COSTIGAN: Thank you, Madam Chair. I would like to take Item 5e off of consent and put that after 8a. So if we can hear that. Is that okay,
Marlene?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: That's fine. Put it where, did you say?

VICE CHAIRPERSON COSTIGAN: After 8a right before we close.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Okay. Oh, at the end. Okay.

CHAIRPERSON TAYLOR: Okay. 5e after 8a.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: May I make one clarification before you --

CHAIRPERSON TAYLOR: Sure.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: -- do the consent?

So on agenda Item 5d, there was a typo that was brought to my attention on the annual contract and procurement activity report. The total amount for the POs should be $364 more than what it currently shows.

CHAIRPERSON TAYLOR: Okay. And one more contract, so it should be from -- let me go -- if we go to 5, is it d or e?

CHAIRPERSON TAYLOR: 5d, attachment --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: 5d. It should be -- on the PO, it should be instead of -- total number of purchase orders the 20 -- it should be 2,886 instead of 2,885. So one more purchase
order. And then for the dollar amount, it should be --

CHAIRPERSON TAYLOR: Are you talking about on page two of two?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Attachment 2.

CHAIRPERSON TAYLOR: Attachment 2. Okay.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yeah, 5d. So agenda item 5d, attachment 2, page one of one. It should be where it says 2,885 purchase orders, it should be 2,886. And then for the dollar amount instead of 78,389,885, it should be 78,392,49, a difference of $364.

CHAIRPERSON TAYLOR: Got it.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I just wanted to bring that to your attention.

CHAIRPERSON TAYLOR: I think it's correct on the actual --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: It is correct on the agenda item. Thank you for that clarification.

CHAIRPERSON TAYLOR: Yeah. All right. Thank you. So seeing no other items pulled, we will move on to -- where are we -- Agenda Item 6a, and that's the final proposed regulation for employer -- yes, we are tongue tied at this time of the morning
(Laughter.)

CHAIRPERSON TAYLOR: -- actuarial liability, significant increase.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: In all fairness to us, it is a mouthful.

CHAIRPERSON TAYLOR: It is.

(Laughter.)

DEPUTY CHIEF ACTUARY DZIUBEK: Good morning. Randy Dziubek, CalPERS actuarial team.

Item 6a is an action item for which we are requesting approval by the Committee to proceed with some submission of final regulations in order to administer Government Code section 20791. The CalPERS team had previously recommended to this Committee that we develop regulations for this code section given the lack of detail in the section itself. That was approved by the committee. The proposed regulations were open for public comment as required. And we are ready at this time to ask for approval to submit the final regulations.

And with that I'm going to turn it over to Nina who will go into more detail with regard to this Government Code section and the regulation process.

SENIOR ACTUARIAL ASSISTANT RAMSEY: Thank you, Randy. Good morning, CalPERS Board. Nina Ramsey, CalPERS Actuarial team.
We are here to discuss the approval of the proposed regulations for employer actuarial liability significant increase, Government Code 20791 requires the CalPERS Board to define a significant increase in actuarial liability to a contracting agency due to increased compensation paid to a non-represented employee.

It also requires that we implement program changes to ensure that the contracting agency that creates the significant increase bears the increased liability.

Because it has been awhile since we last discussed this section code, please allow me to provide a quick refresher.

From a high level this code applies to members who have worked at multiple CalPERS public agencies and experience a large salary increase resulting in an excessive liability increase at a previous employer. This code requires that a portion of that increased liability be attributed to the agency that caused the large liability increase.

When a significant increase has been identified, the liability for a member will be re-allocated, so the employer who gave the significant salary increase bears a larger portion of the member's total liability as compared to our normal practices.

This will provide relief to the impacted agency.
who employed the member at a significantly lower salary. This reallocation will have no impact on the benefit the member receives.

This code does not include the State and schools groups, meaning that they could not be held as impacted or causative in these scenarios. It only applies to public agencies. The significant salary increase must also occur while a member is in a non-represented position.

This code section became effective with PEPRA on January 1st, 2013. We proposed that regulations be created at the November 2017 meeting. The Board approved the recommendation to pursue the proposed regulations, which would assist in the implementation and administration of Government Code 20791.

We submitted these regulations for public comment, which closed on April 2nd, 2018. No comments were received. Because no comments were received, the proposed regulations are unmodified from the previous version that we presented to the Board in November. The proposed regulations are shown in attachment 1.

The proposed regulations define a significant increase in actuarial liability due to increased compensation paid to a non-represented employee, and clarify how the increased liability will be allocated between the impacted agency and the respective causative
agency or agencies.

A significant increase in actuarial liability due to increased compensation will be deemed to occur if the following conditions are met:

One, the actuarial liability of the impacted agency increases by $25,000 or more per year of service earned at the impacted agency;

Two, the member's highest compensation at retirement was at least $65,000 greater than the highest compensation paid at the impacted agency;

And three, the average growth rate between the highest annual compensation paid at the impacted employer and the highest annual compensation at retirement was at least 10 percent.

These threshold tests and corresponding benefit adjustments between agencies, if any, will occur at the earlier of the date of retirement or death of the member. Once the Board approves these regulations, we will submit them to the Office of Administrative Law. Once approved there, we will immediately begin implementation. And with that, I'd be happy to take any questions.

CHAIRPERSON TAYLOR: Certainly we do have a couple of questions here.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: I just want to thank
you for the report. And I just think you answered the question. When this went before the reg discussion, nobody showed up in opposition, no one showed up in support?

SENIOR ACTUARIAL ASSISTANT RAMSEY: I'm sorry?
VICE CHAIRPERSON COSTIGAN: I'm sorry, nobody showed up in opposition --

SENIOR ACTUARIAL ASSISTANT RAMSEY: Correct.
VICE CHAIRPERSON COSTIGAN: -- nobody showed up in support and no comments were made.

SENIOR ACTUARIAL ASSISTANT RAMSEY: That's correct.

VICE CHAIRPERSON COSTIGAN: Okay. Thank you.
CHAIRPERSON TAYLOR: All right. Mr. Jones.
COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. You mentioned that it does not -- excuse me -- impact the schools or the State. So what happens when an employee leaves the school district and start working for the State, and then that threshold that you mentioned occurs? So what -- how is that handled?

SENIOR ACTUARIAL ASSISTANT RAMSEY: No adjustments would be made in that scenario. The Government Code refers to contracting agencies, which we believe to mean public agencies only.

COMMITTEE MEMBER JONES: So that additional
liability would be split equally between the State and the school district, even though the school district did not participate in granting that higher salary?

SENIOR ACTUARIAL ASSISTANT RAMSEY: That's correct. That's how it works currently.

COMMITTEE MEMBER JONES: That doesn't seem right.

SENIOR ACTUARIAL ASSISTANT RAMSEY: Well, I don't believe the idea of the code was to throw out our reciprocity rules, meaning that when an employee goes through their career and receives a higher compensation, it would apply to all previous appointments. Because the code does not include the State and schools groups, we're unable to make any adjustments.

COMMITTEE MEMBER JONES: Yeah, I understand. Okay. It still doesn't seem right.

CHAIRPERSON TAYLOR: Yeah, that's the -- all right. Thank you, Mr. Jones.

Ms. Brown.

Oops, can you push the button?

VICE CHAIRPERSON COSTIGAN: She's on.

CHAIRPERSON TAYLOR: Oh, you are on.

You disappeared.

BOARD MEMBER BROWN: So tell me a little bit about implementation. So you have 45 days, then you'll start implementing it, so it will be for retirees in 45
days when you implement it or will it be only if they move
a job and then it starts. I'm curious how that's going to
work.

SENIOR ACTUARIAL ASSISTANT RAMSEY: Yeah. So the
plan is to review all retirements and deaths that resulted
in monthly benefits that started on January 1st or later.
All of those will be reviewed to see if adjustments are
necessary, but we're only going to review these at the
time when a monthly benefit begins.

BOARD MEMBER BROWN: Okay. Thank you.

SENIOR ACTUARIAL ASSISTANT RAMSEY: Okay.

CHAIRPERSON TAYLOR: Okay. Seeing no further
questions -- yeah, because you disappeared. There you go.
Seeing no further questions, this is an action
item. I'll entertain a motion.

COMMITTEE MEMBER JONES: Move approval.

VICE CHAIRPERSON COSTIGAN: I'll second.

CHAIRPERSON TAYLOR: Motion made by Mr. Henry
Jones, seconded by Richard Costigan. All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: Okay. All those opposed?

Great. Agenda item 7a passes.

We are moving on to Agenda Item 7 -- that was 6a,
I'm sorry. We are moving on to 7a right now,
participating -- I'm sorry Reporting on Participating
Employers.

(Thereupon an overhead presentation was
Presented as follows.)

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: Good morning. Madam Chair and Committee members,
Arnita Paige, CalPERS team member.

Today I will provide an update on our
participating employers report, our quarterly report. And
I'll focus on new voluntary terminations that we received,
and any employers experiencing hardship.

I'd like to move your attention to our power
pointed page two.

---o0o---

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: Page two provides an update on agencies with no
active members. Since we last reported in April, we had
two additional employers move to provide their intent to
terminate. So on the far left where you see eight, there
used to be four, now we have eight.

The two employers came from -- two of the
employers came from our employer engagement review column,
and then we had two come from our assessment and
monitoring column for that total of eight. And the status
of those two are service agreement issues and the two were
stop reporting payroll were the issues.
And so I'd like to move to the next slide --

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: -- and provide an update of total -- the total terminations that we have.

The four on slide three we added Janes -- Janesville Fire Protection District and Torrance City on the bottom. And then the next page shows the additional two that we provided, that provided their intent to terminate. That's Soledad Community Health Care District and Armona. We also -- the two that provided their intent to terminate last week that I -- we had two additional that aren't on this report that will be provided to you in December, it was Three Arch Bay Community Service District and College Town. So those are the two that we'll be adding to our report when we provide that to you in December.

In terms our collection activity, I'd like to move you to page I -- I mean, to slide five --

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: -- on the collection report. This provides data from March through June 30th, 2018. We're actually working with these agencies. What I'd like to bring your attention to is the terminated cost payment on the bottom
that represents Herald Fire who paid their termination costs. So right now, we don't have any employers delinquent on their termination cost.

In terms of the other areas, the normal cost contributions and unfunded liabilities, we're actively working with these employers. They're operational issues or payment we have and they're solvable. So we don't have -- currently have any employers at this point at risk of termination.

CHAIRPERSON TAYLOR: Great. That's great to know.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: Okay. And lastly, we plan --

--000--

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: -- to provide an update to the Board with our December data. We'll be back. And that pretty much concludes our presentation this morning.

CHAIRPERSON TAYLOR: Thank you very much. I appreciate the report. We asked for you to do this, so that we could keep abreast of it and you have, and we appreciate it.

We do have a question from the Committee.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: Sure.
CHAIRPERSON TAYLOR: Mr. Jones.

COMMITTEE MEMBER JONES: All right. Thank you, Madam Chair. Yeah, I want to also thank you for the report and this very, very timely report. And there's valuable information that's contained in it. And it also includes the information that was so critical on notifying the members about these issues.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: Yes.

COMMITTEE MEMBER JONES: I do have one question. Let me find the slide. On eight of 12, 192 of the iPad, total participants. And I was just trying to understand that number of 742,000. And as I recall, the public agencies are about 31 percent of our 1.9 million members. And I just did the calculations in my head when I was looking at that, and that doesn't get me to about 742,000. It's more like 590 or 560 thousand. So I was trying to -- and I do understand you have a footnote there that it includes members that may be in dual agencies.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: Yeah, they could be counted. So if a remember, right, was in one area and then another, they would --

COMMITTEE MEMBER JONES: So we've got that many there.
PAIGE: Yes. Yeah.

COMMITTEE MEMBER JONES: Okay. Okay. That’s what I —

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: So in total.

COMMITTEE MEMBER JONES: Okay. Thank you.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: Uh-huh.

COMMITTEE MEMBER JONES: Um-hmm.

CHAIRPERSON TAYLOR: Thank you.

Ms. Brown.

BOARD MEMBER BROWN: Thank you. Going back to page three of 12, where we have Herald Fire Protection District.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: Yes.

BOARD MEMBER BROWN: It says their payment was do about three weeks ago. Was that made?

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: Yes, they paid in full.

BOARD MEMBER BROWN: Excellent. Thank you.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: Yes. Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

I see no other questions from the Committee, so
we can move on to Item 8a --

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF

PAIGE: Thank you.

CHAIRPERSON TAYLOR: -- which is our annual
actuarial valuation Terminated Agency Pool. It looks like
Scott Terando.

Oh.

(Thereupon an overhead presentation was
presented as follows.)

CHIEF ACTUARY TERANDO: Good morning, Madam
Chair, members of the Committee. Scott Terando, CalPERS
Chief Actuary.

This is an information item. And this item
presents the terminated agency risk pool valuation for
June 30th, 2017. As a reminder of what the terminated
agency is, it is a -- when you think about it, it's a --
kind of like a pool -- a risk pool where when agencies
decide to terminate CalPERS, we put them in -- into the
pool and it provides benefits once the contract is
terminated.

We also require, since there are no recourse on
additional employer contributions, to have the employers
fully funded when they enter the pool.

With that, I'll pass along to Julian Robinson,
who will present the results for this year's valuation.
SENIOR PENSION ACTUARY ROBINSON: Thank you, Scott. Good morning, Committee members. Julian Robinson, CalPERS team member. I'm pleased to present the results of the June 30, 2017 Terminated Agency Pool. As you know, it's a well funded pool. And the funded status as of June 30, 2017 was just over 200 percent, 201.5 percent.

The ratio has -- the fund ratio has changed since the last valuation. It's decreased slightly. And the main reason for the decrease is the addition of five agencies to the pool in the June 30, 2017 valuation. And also there was a change in assumptions underlying the valuation.

The discount rate used in determining the actuarial liabilities in this past valuation was 2.93 percent. And this is the rate on the 30-year U.S. treasury Separate Trading of Registered Interest in Principal Securities, mostly known as STRIPS, as of the valuation date which was June 30, 2017.

We don't expect any new plans, while we know no new plans will be included in the next valuation which is June 30, 2018.

With that, if there are any questions that the Board has on the valuation, I'd be happy to answer them. Thank you.

CHAIRPERSON TAYLOR: So, Julian and Scott. Thank
you very much for the report. Very thorough. So I had one quick question. With the discount rate at 2.93 percent and inflation at 1.96 percent, how does that impact that fund?

SENIOR PENSION ACTUARY ROBINSON: Well, the rates are set on an annual basis. And as Scott alluded to that when plans are put into the TAP, there's a separate investment policy which applies to the liabilities of the terminated agencies. So what happens is the agencies -- the assets in respect to these agencies are immunized, and the Investment sets up a catch -- cash matching portfolio to track the expected benefit payments and the future payouts of investments, which are mostly treasury bonds. So this rate gets reviewed every year and reflects what the current status is of the inflation of the discount rate as of the valuation date each year.

CHAIRPERSON TAYLOR: Okay. Great Thank you. One more question from the Committee.

Mr. Jones.

COMMITTEE MEMBER JONES: Thank you, Madam Chair. Yes, I was -- you mentioned that there were five additional agencies that were added. And you mentioned that the funded status went down a little bit because of the additional agencies. And I'm looking there at East San Gabriel I know about. But are the others
involuntarily added or are they voluntarily added.

SENIOR PENSION ACTUARY ROBINSON: No, I believe all of them were voluntarily added to these.

COMMITTEE MEMBER JONES: So if they're voluntarily, I thought that there was a requirement that they come in at 100 plus percent funded. So how did that decrease the --

SENIOR PENSION ACTUARY ROBINSON: That's true. The nature of the fund is that it has approximately -- as of the last valuation date, it had 140 million approximately of surplus. The previous valuation it had 130 million of surplus. So the actual dollar amount of surplus has increased.

However, the funded status will decrease each time the fund gets larger. For example, if you had a fund which was -- had $100 million of liabilities, and $200 million of assets, so you have $100 million surplus, if suddenly you added, you know, a large increase in both the assets and the liabilities, the absolute amount of the surplus would remain pretty much the same.

However, as a proportion of the entire fund, it would drop.

COMMITTEE MEMBER JONES: I see.

SENIOR PENSION ACTUARY ROBINSON: So that's what you're seeing here.
Thank you.

CHAIRPERSON TAYLOR: All right. Seeing no other questions from the Committee on this, we will move on to -- and I appreciate your report. Thank you very much again.

We'll move on to 8b the proposed revision to the Amortization Policy regarding financial necessity.

CHIEF ACTUARY TERANDO: Good morning. Madam Chair, members of the committee. Scott Terando, Chief Actuary.

Item 8b is an information item. This is the first reading of the Actuarial Office's recommendation on changes to the portion of the Amortization Policy that addresses possible extension of the amortization period due to financial necessity.

Back in February when the Board and this Committee adopted a new Amortization Policy, there was some concerns and questions about shortening the amortization period and the impact that particular employers might have with the new policy.

At that time, we were directed to review the wording and engage with stakeholders on the hardship policy, and come back with our recommendations. Today is the first reading of the those recommendations.
So with that, I'm going to have Randy Dziubek step through some of the changes and our recommendations on the policy.

CHAIRPERSON TAYLOR: Thank you.

DEPUTY CHIEF ACTUARY DZIUBEK: Thank you, Scott. Randy Dziubek, CalPERS Actuarial team.

As Scott mentioned, we've spent the last several months reviewing the existing policy and assessing how well it aligns with our modified Amortization Policy on the whole.

We've spent a lot of time within our office. We've reached out to our Financial Office and engaged them in this discussion. We've had a lot of discussion with various stakeholders, received their input and recommendations. And what we have for you today is a first draft of our proposed changes to the existing policy.

The changes cover a couple different aspects of the policy. The first is the determination of whether an agency is, in fact, experiencing a financial necessity that warrants reducing the UAL payment. And the second aspect of the policy is if the Chief Actuary determines an extension warranted, what will the amortization schedule look like after the extension?

So let's start with the process for performing
financial analysis of the agency to determine whether in fact a financial necessity exists. The Actuarial Office worked quite a bit with the Pension Contracts and Prefunding Program Division of CalPERS, the PCPP, looking at their existing process of financial analysis for agencies that are looking to enter CalPERS.

This group within CalPERS has a fairly standardized process for collecting financial information, performing analysis, and documenting results. And after reviewing that, the Actuarial Office felt this would be a fantastic tool to use for this process as well.

So now within the modified policy, the financial analysis will be conducted by this PCPP group initially with that analysis then being provided to the Chief Actuary.

At that point, the Chief Actuary has the financial decision as to whether an extension will be granted to the agency, and if so will then determine what the revised amortization schedule will look like.

Now, the existing policy has a standard approach of extending the amortization period out to 30 years and using what we call a level percent of pay amortization method. And that method is consistent with the old Amortization Policy prior to the changes made in February.

So the proposed policy now will have a standard
period of 25 years to be used for financial necessity, and
also use a level dollar method of amortization, again to
be consistent with the changes made to the broader
Amortization Policy.

Now, in cases of extreme financial necessity, and
when determined to be warranted by the Chief Actuary, we
may consider a period as long as 30 years for this
purpose, and also may consider using a level percent of
pay amortization method. However, both of those options,
30 years as well as a level percent of pay method, would
be expected to be used only in very rare instances.

And as well, the proposed policy now includes a
minimum requirement such that the payment in any year
towards unfunded liability has to be at least as great as
interest on that unfunded liability.

So, for example, if in one of those rare cases,
the Chief Actuary selected a 30-year period with level
percent of pay amortization, as most of you know, that
schedule in the early years would produce payments that
would not be great enough to pay the interest on the UAL,
something we call negative amortization.

And in order to avoid that, even in these cases
of financial necessity, there will be a minimum
requirement of a payment equal to at least the interest on
the UAL.
Another change in the policy that we're recommending is that after a period of about three to five years after being granted an extension, there will be a reassessment of the financial condition of the agency. And if it's determined that a financial necessity for a lower UAL payment no longer exists the Chief Actuary will have the option of reamortizing the existing unfunded liability over 20 years as a level dollar.

And lastly, as exists in the current policy, should the Chief Actuary grant an extension in these cases, he or she will bring those to the Board annually to inform the Board that this was done.

And with that, I will take any questions.

CHAIRPERSON TAYLOR: So thank you very much. We did ask for this. I appreciate that you guys brought this forward. We were very concerned about our public agencies, the employers, being able to afford this. I think I had one quick question. On -- you talked about after three to five years, you're going to reassess and have an option to change it re -- you know put it back to 20 years or keep it the same, I assume, is what you're talking about, right?

CHIEF ACTUARY TERANDO: Yeah. Yes, that's correct. It's not an automatic this will happen.

CHAIRPERSON TAYLOR: Yeah.
CHIEF ACTUARY TERANDO: There will be an engagement with the employer, where we'll have conversations, and we'll take a look at where they're at and where their financial situation is.

We just didn't want to be in a position of they ask for a hardship, set it and forget it. We want to, you know, keep track on where the employer is and make sure it's providing the support need -- that they need in the first place.

CHAIRPERSON TAYLOR: Right, absolutely. Especially, if they're only paying the interest. They're -- they will never pay down their unfunded liability.

CHIEF ACTUARY TERANDO: Right. So we definitely wanted to, you know, keep it on our radar screen and just -- and just, you know, kind of make it clear that we will be coming back and reviewing it, so that there's no surprises that when it happens, they're expecting it.

CHAIRPERSON TAYLOR: So -- and I -- I don't want us to turn into their babysitters by any means, or, you know, to be telling them what to do. But I would imagine this PC -- PCPP group that's going to do the extensions, right, review of the financials, et cetera, is there going to be working with them to ask them how they're going to get out of this, so that they can catch up with their
unfunded liability? I mean, I think that should be part of it.

CHIEF ACTUARY TERANDO: Yeah. I think during the initial phases when the financial information is submitted, there is a lot of back and forth between the Financial Office and the employer to make sure we have the situation assessed correctly. And there -- it's not a just a one-way here's the information and we do the -- our analysis. It's back and forth.

And, you know, while it's stated that, you know, we get the information and then a decision is made, there is a lot of interaction and back and forth within this process. It's not -- it's not as I think one-sided as it's illustrated in the policy. But we anticipate a lot of back and forth and engagement with the employers to make sure we have the correct information from them, and where we are going with our decision. So there's -- there will be no surprises in this process.

CHAIRPERSON TAYLOR: Okay. Great. I do have one more question from the Committee. Lynn Paquin for Betty Yee.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. I wanted to thank you, Scott, and your team for the work on this policy. I know that this was -- had a lot of discussion around the changes to the policy back in
February. And although we were concerned about those agencies that were truly fiscally distressed, I think that you've struck a good balance between trying to help meet them where they are and get them back on the road to addressing their unfunded liabilities. So I do appreciate that.

I did have one question, and I was curious to know if there's any agencies out there that are on your radar right now that you think would want to start using this policy when it's enacted?

CHIEF ACTUARY TERANDO: We haven't heard anything specifically. I mean, we do get calls and some concerns about there could be some financial challenges in meeting the payments maybe not this year, but they -- based on our projected -- and projections, they see difficulty in meeting some of those payments. And we encourage them to call us. Just because we've presented the policy today doesn't mean they have to wait for this policy to kick in.

There's a hardship policy now, and we always have the ability to work with them to kind of make adjustments in their unfunded liability payment stream to kind of work with them right now as well. So there's an ongoing process, but we haven't heard someone come to us right now saying, it's -- we are in a hardship policy. There's a need right now.
ACTING COMMITTEE MEMBER PAQUIN: Okay. Great.

Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

Before we move on, I'd like to acknowledge that Mr.
Feckner and Mr. Miller are here.

And we have requests for speaking on this item,
8b. And if -- I'll call you up two at a time. If you'll
come over here to my left. Dorothy Johnson and Tracy
Rhine. Dane, you might as well come up and at least get
up front. You're my last one.

Oh, hey, they cleared out for you, so you can all
sit up here.

You will have three minutes for your comments.
And it's up to you who wants to go first.

MS. JOHNSON: Great. Thank you, Madam Chair and
members. Dorothy Johnson with the California State
Association of Counties. I want to first start of course
by expressing our great gratitude to Scott and Randy and
the staff. Thinking of where we were back in February
when we first started. There's really been just a great
foundation of dialogue, meetings, webinars, conference
calls. And I feel like this whole exchange has its own
hash tag TTYA, talk to your actuary.

(Laughter.)

MS. JOHNSON: Because what we be found out from
this experience is really there are so many other options available to our county employers beyond seeking a hardship exemption or a financial necessity. And I think that was one of the great outcomes of this process.

And I will say, the proposal on the table today is a massive improvement. And our agencies have looked at it as an improvement over the existing policy for hardship. But, of course, there's always room for ideas, suggestions, improvements from there.

And the two of note that I want to bring up today quickly is concern about proving the point that there is a need for the financial necessity exemption. Striking the right balance between showing the severity of their financial situation without creating so much panic and concern that really these folks might be moving into a terminated agency or a dissolved agency.

So some concern about striking the right balance, but I do understand, of course, there will be dialogue and exchange of data not a sort of dump of here's our financial situation and then close door conversation with the CalPERS team.

And then the other idea that had come up of concern is the reassessment process that the Chair did mention. Our counties, of course, are looking at long long-term financial planning. And there would be concern
that a reassessment within, you know, three to five years
could disrupt that long-term financial goal and planning.

And then the final addition that had come up in
some of our conversation was possibly including an
employer appeal process. Of course, the final decision
lies with the Chief Actuary, but it may be appropriate
that again as part of that ongoing dialogue and exchange
of information that the employer agency would have one
more sort of bite at the apple to make sure that all the
information was available and the clear picture of their
financial necessity for this exemption was displayed.

And I'll just close by saying this is not an easy
decision for an agency. That isn't something that
everyone is going to rush to the door. To answer Ms.
Paquin's question, so far two to three counties that I'm
aware of have mentioned that this might be the option they
want to go down. Again, but not taking it lightly,
because they are aware that this would create additional
costs and liability for their agency. And they want to
ensure, of course, that the full benefits and offerings
that they gave to their current employees and their
retirees can be sustainable today, and, of course, long
term into the future.

Thank you.

CHAIRPERSON TAYLOR: Thank you.
Ms. Rhine.

MS. RHINE: Good morning, Tracy Rhine with the Rural County Representatives of California. We represent 30 -- over 30 counties as part of the PERS stakeholders. I want to echo some of my colleague's points. We do appreciate all the collaborative stakeholder meetings that have occurred. And we do believe that this is a significant step in the right direction. However, we do have a couple things that we want to note.

Again, we ask that the Committee consider separating the Hardship Policy from the Amortization Policy, as the important issue of hardship could easily get lost in the amortization conversation. The second point in Section 10 -- Section 10(a)(1) of Item 8b, we believe the draft policy as written is unclear on whether or actuary is relying on guidelines or a formula in determining financial necessity.

In discussions with CalPERS actuaries, we understood the intent was to work with stakeholders to collectively draft a document that would paint a picture if an agency -- a member agency needed to seek relief.

However, the statement that the PCPP will review if the employer provides sufficient evidence that payment of all future required contributions under an extended amortization period is financially sustainable does not
define or elaborate on that evidence causing some concern for our members.

The reassessment criteria after three to five years also causes some concern. A decision by CalPERS to accelerate the amortization period after this period of time could upset long-term financial planning for an agency who is potentially struggling to come out of a hardship period. There does not appear to be any employer appeal provision as previously stated, and we believe that should be added.

While we recognize the specific turnaround time cannot be stated, we note that there is no estimated time frame that will be needed for the PCPP to make their assessment. And we would like to see some sort of process put in place, so that we can make sure that it actually meets the needs of the employers.

Again, thank you for allowing me to make comment, and we appreciate all the work that the Actuarial and Stakeholder Relations Team put into this.

Thank you.

CHAIRPERSON TAYLOR: Certainly.

Dane.

MR. HUTCHINGS: Good morning. Dane Hutchings with the League of California Cities echoing the comments of -- made by my county colleagues. I have a few
additions I'd like to address. But I do want to
specifically thank the actuary and Department of Finance
Team. We've worked actually nearly a year on this going
back and forth. And I've got to tell you, it's one of the
more highly technical issues that we have to deal with
on -- you know, with -- specific to CalPERS policy.

You know, cities -- I think we align our comments
with the counties as far as having an appeal process, and
continuing engagement with -- with the Actuarial Office.
I think something that was specific to cities in the
meetings that we've had, that may actually be different
than what my county or special district folks may want,
you know, we understand that, you know, fiduciary
responsibility rings key with you guys.

However, we do think there needs to be a more --
more of a balance in looking at your employers and looking
at their specific factors, not simply just looking at your
specific factors. So, for example, my members have been
pretty loud and clear in saying when you assess a
financial hardship, you know, are you looking at the
potential number of employees that would have to be
reduced over a certain period of time? Are you looking at
the percentages of payroll or percentage of general fund
budget that's needed?

As you guys know, the League of Cities released a
study back in January that essentially states that by fiscal years '24, '25 about 10 percent of cities are going to be spending about 21 percent of general fund budget directly on PERS contributions for employer contributions only. I want to make sure that that's actually a factor.

While the policy itself is very broad which we appreciate, because it does allow flexibility, we'd like to see some tweaking in the language that specifically cites some of those specific factors just so -- especially for my smaller cities who quite frankly aren't -- may not have as -- the staff or the expertise in this area, you know, help them sort of paint a roadmap or a guideline to help them try to provide all of the information needed to your Actuarial and Department of Finance staff.

So with that, just again want to say thank you so much for the collaboration of working with us. This really is sort of a new time where we can really work together, employers, employees and CalPERS.

And so we really appreciate your time and your collaboration.

CHAIRPERSON TAYLOR: Certainly. So thank you all. I imagine since this is the first reading, we can have our Actuarial Office work with you guys on these concerns.

One of the concerns I will acknowledge that maybe
an employer appeal might be something that we look at. And turnaround time, yeah, there was no definition for turnaround time. I think that's important.

I'm not sure the concern about the reassessment. That's kind of what my question involved, Scott, if you want to come up. I'm sorry. My question earlier, are we going to work with these folks to make sure that they are looking for a way so they're not just paying on the interest, so that when we do contact them in five years, we're not trying to disrupt them, but that we are telling them, hey, maybe -- you know, however you're going to do this, you need to come out of this.

CHIEF ACTUARY TERANDO: Okay. So, yes, we'll take a look. We'll take the comments made by everyone here, and by the members of the Committee, and go back and look the -- what we have have. We'll take a look at the reassessment and see whether it needs to be in the policy or whether we can take it out, whether it's a necessity to be in the policy. We also try and look at some time frames and add some specifics to kind of what employers know what we're looking for in terms of financial information. We can kind of try and get a process mapped out as well.

So we'll try and bring all that back. Since we have it -- don't have a meeting in October, it will be
back in November. So we'll have some time to talk with various stakeholders about this.

CHAIRPERSON TAYLOR: Great. Yeah, I would love that you definitely engage with our stakeholders. And I think I had one other question. I don't know. I mean, it sort of outlines a process you guys are going to go through in this in terms of --

CHIEF ACTUARY TERANDO: We can probably create a --

CHAIRPERSON TAYLOR: Like a --

CHIEF ACTUARY TERANDO: -- a flowchart --

CHAIRPERSON TAYLOR: Yeah, like --

CHIEF ACTUARY TERANDO: -- or a process chart, just so --

CHAIRPERSON TAYLOR: -- something that they have to provide.

CHIEF ACTUARY TERANDO: A vision chart. Yeah, we'll get that -- we'll bring that back in November also.

CHAIRPERSON TAYLOR: Yeah, that's probably a good idea.

All right. Thank you, Scott.

CHIEF ACTUARY TERANDO: Sure.

CHAIRPERSON TAYLOR: So we're going to move on -- we are -- that's the end of 8b. And we're going to move back to 5e.
Marlene.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes.

CHAIRPERSON TAYLOR: I'm looking for it right now myself. There we go. Okay.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay. So this is 5d. This is the item that was on --

CHAIRPERSON TAYLOR: 5e.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Oh, I'm sorry. 5e, you're right. 5e. So that was the item that was on consent.

CHAIRPERSON TAYLOR: Yes, ma'am.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: This is the annual report on uncollectible debt. It comes to you every year, and it's basically a report of the debt that had -- that CalPERS had not been able to collect during the year.

So I'm going to ask Anthony Suine to come up, and we're going to talk about the process. I presume that there's questions around the possess --

CHAIRPERSON TAYLOR: I imagine, yes.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: -- for this -- for this item.

BENEFIT SERVICES DIVISION CHIEF SUINE: Good
morning, Madam Chair, members of the Committee. Anthony Suine, CalPERS team.

This item contains write-offs of our overpayment receivables that we have. We do pursue these receivables. We send letters to the bank. We pursue collection activities. And as you see, the groupings on the agenda item, typically they're -- no source to collect from. There's no remaining beneficiary or survivor to collect that overpayment from. Another large bucket, or the largest bucket, is our statute of limitation write-offs that are per the Government Code that we must write-off. Any balances that can exceed three years or 10 years in the case of death overpayments.

And many of these are death overpayments. The member passes away. They had an outstanding receivable, and they need to be written off.

The average write-offs over the last five years have been approximately $1.2 million. This is in comparison to about 22 billion we pay out every year. So that's about 0.01 percent in relation to the amount of benefits we pay.

And I'm happy to answer any questions specifically you may have about the write-offs.

CHAIRPERSON TAYLOR: Great. Thank you.

So I do have a question from the Committee. Mr.
VICE CHAIRPERSON COSTIGAN: So again, I just want to reiterate for the bulk of these, I think, over 1,400 of them, were $5 or less.

BENEFIT SERVICES DIVISION CHIEF SUINE: Correct.

VICE CHAIRPERSON COSTIGAN: So I mean one is that an allocation of staff resources. The other is just a prohibition on the statute of limitations are really the two bulks of it, correct?

BENEFIT SERVICES DIVISION CHIEF SUINE: That's correct.

VICE CHAIRPERSON COSTIGAN: All right. That's what I wanted to know. I just wanted to make sure we knew what we were talking about.

Thank you.

CHAIRPERSON TAYLOR: Okay. I don't have any other questions from the Committee on that particular item.

So thank you very much --

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

CHAIRPERSON TAYLOR: -- for taking that up.

So I guess we are at summary of committee direction. Ms. D'Adamo.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

J&K COURT REPORTING, LLC  916.476.3171
D'ADAMO: Yes. So I didn't take down specific direction other than the conversation around the Hardship Policy or financial necessity as it's called now. And I think that that was fairly stated. But I did take down a couple of notes around the turnaround time frames, creating a visual chart, and reassessment concerns. And that will be brought back at the November meeting.

CHAIRPERSON TAYLOR: Okay. Great.

And then we are at public comment. So anybody in the public that would like to speak now, you can.

I'm not seeing anybody. So I'm going to adjourn the Finance and Administration Committee at 8:47. Thank you. And the next Committee 9:00 o'clock.

Thank you.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Thank you.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 8:48 a.m.)
CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 30th day of September, 2018.

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