MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

WEDNESDAY, NOVEMBER 14, 2018

1:00 P.M.

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

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, represented by Mr. Ralph Cobb

Mr. Henry Jones

Mr. David Miller

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. John Chiang, represented by Mr. Steve Juarez

Ms. Dana Hollinger

Mr. Ramon Rubalcava

Mr. Bill Slaton

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Michael Cohen, Chief Financial Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Mr. Scott Terando, Chief Actuary

Mr. Randy Dziubek, Deputy Chief Actuary

Ms. Jennifer Harris, Chief, Financial Planning, Policy and Budgeting Division

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

ALSO PRESENT:

Ms. Kimberly Malm, Chief, Operations Support Services Division

Ms. Michele Nix, Controller

Ms. LaRiesha Simmons, Committee Secretary

Ms. Emily Zhong, Health Actuary

I N D E X

I N D E X   C O N T I N U E D

P R O C E E D I N G S

CHAIRPERSON TAYLOR: Good afternoon. Calling the Finance and Administration Committee to order.

And the first order of business is to call the roll.

COMMITTEE SECRETARY SIMMONS: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY SIMMONS: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY SIMMONS: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good afternoon.

COMMITTEE SECRETARY SIMMONS: Ralph Cobb for Adria Jenkins-Jones

ACTING COMMITTEE MEMBER COBB: Here.

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY SIMMONS: Henry Jones?

David Miler?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY SIMMONS: Betty Yee for Lynn Paquin?

ACTING COMMITTEE MEMBER PAQUIN: It's Lynn Paquin for Betty.

COMMITTEE SECRETARY SIMMONS: I'm mean Lynn Paquin for Betty Yee.

(Laughter.)

CHAIRPERSON TAYLOR: All right. Thank you.

I'd like to have approval of the November 14th 2018 Finance and Administration --

VICE CHAIRPERSON COSTIGAN: I'll move the minutes.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: -- Committee timed agenda.

VICE CHAIRPERSON COSTIGAN: Timed agenda. I'm sorry.

CHAIRPERSON TAYLOR: Okay. Moved by Richard Costigan, seconded by Henry Jones.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries.

Okay. We have moved on to the Executive Report. Mr. Cohen.

CHIEF FINANCIAL OFFICER COHEN: All right Good afternoon, Madam Chair and Members. I'm Michael Cohen with CalPERS. It's very much an honor to be here with you. I'm also excited to let you know that my team is sort of fully staffed up senior level. I think you met Michelle Nix our new Controller at the last meeting. And you'll also hear from Jennifer Harris later this afternoon, who's our new Budget Chief.

So with that, just a quick summary of what's coming before you this afternoon. There's three action items: Last year's basic financial statements, the first reading of the proposed revision to the current year budget, and the second reading of the Amortization Policy regarding financial necessity that you heard in September.

In addition, I will finish up with three information items: The annual review of funding levels and risk report; the semi-annual health plan financial report, and then we'll end with an update on the recent CalPERS election.

So with that, Madam Chair, our next -- our next meeting is scheduled for December, and I'm happy to move on with the rest of the agenda.

CHAIRPERSON TAYLOR: All right. Thank you, Mr. Cohen and welcome. I'm glad to see you here.

I'd like to move Item number 4, our Action Consent Items.

VICE CHAIRPERSON COSTIGAN: I'll move the consent items.

CHAIRPERSON TAYLOR: All right. Did I have a second?

ACTING COMMITTEE MEMBER COBB: Second.

CHAIRPERSON TAYLOR: Second, Mr. Cobb.

So Mr. Costigan moved the consent items, Mr. Cobb second.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

Information -- number 5, Information Consent Items. I saw nothing being requested to be taken off.

So I'd like a motion.

Oh, I don't need a motion. I'm sorry. My bad.

Moving on to Item 6a, Basic Financial Statements. And are we moving back to Mr. Cohen?

CHIEF FINANCIAL OFFICER COHEN: We are just very briefly to introduce you, I think, to Michelle Nix, our new Controller, who's going to walk you through the presentation.

(Thereupon an overhead presentation was presented as follows.)

CONTROLLER NIX: Good afternoon, Madam Chair and members of the Finance and Administration Committee. My name is Michelle Nix, Controller for CalPERS.

I am pleased to present the basic financial statements that will be included in the CAFR upon your approval, covering the fiscal year ending June 30th, 2018.

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CONTROLLER NIX: Does this work?

Technical difficulties.

There we go. Okay. Financial highlights. The PERF total net assets increased 28.5 billion to end the year at 354 billion. Annual money weighted rate of return was 8.4 percent resulting from positive performance across most globally diversified asset classes. Drivers of this performance include strong performances from private equity and public equity investments.

As a result of implementing GASB 75, CalPERS reported its proportionate share of post-employment liabilities -- they also call these OPEB -- and stated -- restated the beginning net position for all funds, excluding the replacement benefit fund.

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CONTROLLER NIX: It's still not working.

Okay. Slide three, PERF total assets increased by approximately 28.5 billion, or 8.8 percent from the restated beginning balance of 325.5 billion to 354 billion as of June 30th, 2018.

Despite the significant drop in the fiscal year in 2009 and slight -- and slight decrease -- decreased in years 2016 and 2012, the net position overall has trended upward throughout the years. Over the 10-year period from 2009 to 2018, the net position increased $175.1 billion or 97.9 percent.

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CONTROLLER NIX: On slide four, we see additions to the PERF's net position, which include investment income, employer and member contributions. Investment income is comprised of investment, interest income, dividend income, and net appreciation or depreciation on fair value of investments. The net income in fiscal career 2018 was 27.4 billion compared to 33 billion in fiscal career 2017.

Employer contributions increased 61.6 percent from fiscal year 2017 due to additional payments made towards the unfunded liability. In addition, in July of 2018, contribution rates increased for the State, school employers, public agency and safety plans. Member contributions increased 4.8 percent as the number of active PEPRA members who contribute increased. As of June 30th, 2018, there were 41,541 more PEPRA members than there were in June 2017.

Deductions to the PERF are comprised of benefit payments and refund of contributions. Retirement and survivor benefits increased 1.4 billion, or 6.8 percent, as a number -- as the number of benefit recipients increased 26,511 recipients, or 4.0 percent, from 2017 to 2018.

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CONTROLLER NIX: This slide shows that global -- basically, that global equity securities was the largest contributor to the gain. Global equity has the largest investment percentage at 45 percent, which is in line with the 49 percent target asset allocation that was directed by the Board.

As previously stated, the investment income is made up of net appreciation or depreciation on investments, interest income, and dividend income. As the chart shows, global equity had the largest gain.

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CONTROLLER NIX: On the next slide, we see that the investment return is comparable between the time-weighted and money-weighted return. The time-weighted return is the standard for investment performance, and money-weighted return is the GASB requirement. The time-weighted return measures the compounded growth rate over the period being measured, and the money-weighted return expresses investment performance, net of investment expenses and adjusted for changing amounts invested.

For the fiscal year 2018, the annual money-weighted return was 8.4 percent, and the time-weighted return was 8.6 percent, so they were similar.

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CONTROLLER NIX: The unfunded actuarial liability is defined as how much the total actuarial accrued liability exceeds the market value of the assets. As of 2017 actuarial valuation date, this was 138.8 billion. The increase in unfunded actuarial liability over the last ten years is primarily due to the increase in the actuarial accrued liability, which has increased 57.9 billion from 2008 to 2017.

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CONTROLLER NIX: Now, I'd like to go over a few highlights from the programs.

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CONTROLLER NIX: This chart is a presentation of the ratio of active to retired members. There was a slight decrease in the 2018 fiscal year over the ratio of active members who contribute to the retired members, they are -- it has decreased -- decreasing. As of June 30th, 2009, there were 1.9 active members to each one retired member. At June 30th, 2018, there was only 1.4 active members to each retired member.

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CONTROLLER NIX: In fiscal year 2018, 24.3 billion was received in contributions, while 22.7 billion was paid in asset -- in benefits. Sorry. Contributions increased 47.3 percent from fiscal year 2017, primarily due to additional payments made by employers towards the unfunded liability.

This includes a large payment received from the State during the fiscal year. The cross-over in the graph is primarily due to that one-time $6 billion payment received from the state. And although contributions alone do not cover the benefit payments going out, the combination of the interest income and the increased contributions that CalPERS receives has put CalPERS in a positive cash flow position in the foreseeable future with respect to the benefits going out.

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CONTROLLER NIX: As mentioned previously, the basic financial statements will be included in the CAFR upon your approval. There are no significant GASB changes to implement in the upcoming fiscal year which will be 2019.

This concludes our presentation. I would be happy to try and answer any questions that you might have.

CHAIRPERSON TAYLOR: Seeing no questions from the Committee.

Let's move on to 6b, Mid-Year Budget Revisions, first reading.

CHIEF FINANCIAL OFFICER COHEN: So again, I will introduce you to Jennifer Harris, our new Budget Division Chief. She's coming to us from the Department of Developmental Services, and we're very lucky to have her. She'll be just walking through a couple technical adjustments that are being made.

Go ahead.

CHAIRPERSON TAYLOR: Michael, I'm sorry. 6a was an action item.

VICE CHAIRPERSON COSTIGAN: I'll move 6a.

CHAIRPERSON TAYLOR: You'll second?

COMMITTEE MEMBER JONES: I'll second.

CHAIRPERSON TAYLOR: Yeah. I heard you both moving at the same time. So we're moving 6a by Richard Costigan, seconded by Mr. Jones.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All right. All those opposed?

Motion carries.

Now, we move to 6b.

CHIEF FINANCIAL OFFICER COHEN: Great. Thanks for catching that. In terms of 6b, Jennifer is going to walk you through a couple of technical adjustments from the budget that you adopted last spring.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

CHIEF HARRIS: Good afternoon, Madam Chair and members of the Finance and Administration Committee. As Michael indicated, my name is Jennifer Harris, and I am the Division Chief for the Financial Planning, Policy, and Budgeting Division here at CalPERS.

It's my pleasure to walk you through Agenda Item 6b, the first reading of the mid-year revision for fiscal year 2018-19.

In short, CalPERS proposes an increase to the authorized budget $17.5 million, or one percent, for a total revised budget the of $1,698,000,000. The majority of this increase is $16.9 million and is related to third-party administrative fees. Of this amount, 16.5 million is for health program fees.

During the development of the annual budget this past spring, CalPERS was engaged in active contract negotiations for third-party contracts. As a result of these negotiations, we held health program fees budgeted to the amounts from '17-'18. Now, that those contracts have been finalized, we've updated enrollment projections, as well as the implications for the resulting final contracts.

In addition to health program fees, CalPERS projects a $358,000 increase in pharmacy benefit manager costs related to higher enrollments in PPO plans, and a slight $6,000 increase in California Employees Retirement Benefit Trust cost, or CERBT, related to revised enrollment projections.

The remainder of the mid-year increase is $558,000. And this due to statewide salary and benefit increases negotiated through the State's collective bargaining process. This difference that we're projecting here now is a result from our initial estimates in the spring and final projections based on direction from the Department of Finance.

If you have any questions, I'd be happy to answer them.

CHAIRPERSON TAYLOR: All right. Thank you. We do have one question from the committee.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Madam Chair. Thank you for your report. You were at Health Care Services or Public Health?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: I was at the Department of Developmental Services.

VICE CHAIRPERSON COSTIGAN: Oh, Developmental Services. Okay. Welcome

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Thank you.

VICE CHAIRPERSON COSTIGAN: You know, we can talk about Finance and their numbers. But I appreciate -- there are two questions I want. And I know I've talked to Michael about this going forward. What's our current vacancy rate?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Our Current adjusted vacancy rate is 5.7 percent.

VICE CHAIRPERSON COSTIGAN: Okay. And we've added no additional PYs.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Correct.

VICE CHAIRPERSON COSTIGAN: And then I'm sure you were prepped on this one. Where are we with the blanket positions as of today?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: I'm sorry, the what?

VICE CHAIRPERSON COSTIGAN: The blanket positions.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: We currently have 11 positions in the blanket.

VICE CHAIRPERSON COSTIGAN: Okay. So the PY -- the PYs that are listed on the document don't reflect those 11?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

CHIEF HARRIS: Correct.

VICE CHAIRPERSON COSTIGAN: So -- and by the time we see next year's budget, those 11 will be gone absorbed somewhere within our five percent vacancy rate?

CHIEF FINANCIAL OFFICER COHEN: That is certainly our expectation that we're moving ahead with a number of changes in terms of -- you can imagine kind of bringing our budget into -- into line with both our expectations. So I would suspect by the time we get to you in April that all of those positions will be in a permanent position, yes.

VICE CHAIRPERSON COSTIGAN: So I just want to see it reflected that -- and this has been one of my pet peeves for a number of years, is those PYs are not reflected when we put the document out with a total head count. So they either need to be reflected or the fact that you have a five percent vacancy is that they need to be -- they need to be absorbed. They need to be accurately reported, because 11 PYs is probably about $2 million in overall cost. Am I right?

CHIEF FINANCIAL OFFICER COHEN: I think -- my understanding is both of those things have been trending in the right direction --

VICE CHAIRPERSON COSTIGAN: Correct.

CHIEF FINANCIAL OFFICER COHEN: -- where our vacancy rate was at some point over ten percent. We're now just over give. And the blanket positions were over 300, and we're now down to just a dozen or so, so -- but we can -- we expect to continue that work and sort of accurately reflect all of the positions and expected savings.

VICE CHAIRPERSON COSTIGAN: No, they did great work. I just want to appreciate what the budget staff has done. But those are just typically the questions I raise is one is the vacancies because of salary savings, and I see that we're flat. Most of the costs are related to administrative costs. And just want to make sure that those positions are absorbed appropriately.

Thank you, Madam Chair.

CHAIRPERSON TAYLOR: Certainly.

Oh, I do have another. Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. I apologize, but my comment goes back to the previous item. I just wanted to note that the two awards that CalPERS has received, the Certificate of Achievement for Excellence in Financial Reporting for the last 22 years. And also the Public Pension Standards Award, CalPERS has received for the last 16 years.

And what that tells me is that there's a robust

Finance staff in this organization to continue to receive these awards, even though we've had changes over the years. And it also tells me that there are strong policies and procedures in place. So I just want to congratulate the staff on those awards.

CHIEF FINANCIAL OFFICER COHEN: Thank you, sir. They're certainly important to us. And we expect to continue to receive them going forward.

CHAIRPERSON TAYLOR: Thank you, Mr. Jones, for your recognition.

I have -- I see no further questions from the Committee. What's the pleasure of the Committee on this item? It's an action item.

VICE CHAIRPERSON COSTIGAN: Move adoption of Item 7a.

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: It's moved by --

VICE CHAIRPERSON COSTIGAN: I mean 6b.

CHAIRPERSON TAYLOR: 6b. It's been moved by Mr. Costigan, seconded by Mr. Feckner.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

We will be moving on to 7, action -- I'm sorry --

is an action eye item, proposed revision to Amortization Policy regarding financial necessity. It's the second reading. And that is Mr. Terando.

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

Item 7a is an action item. This is the second reading of the Actuarial Office's recommended changes to the Amortization Policy on the section concerning financial necessity.

The first reading was presented to this Committee in September. And we -- after feedback from both the Committee members and stakeholders, we are back today to -- with our proposed revisions and the final version.

With that, I'll pass it along to Randy to kind of highlight where the policy is and where we're at with it.

DEPUTY CHIEF ACTUARY DZIUBEK: Thanks, Scott.

Good afternoon. Randy Dziubek, CalPERS actuarial team.

As Scott said, this is the second reading of the Financial Necessity Policy, which is a policy embedded within our broader Amortization Policy. What I'd like to do today is just take a little step back, give you a little bit of high level overview of what this policy is intended to accomplish, how it fits in with the broader

Amortization Policy, and why we're proposing the modifications that we are, and then give you a chance to answer -- or ask any questions that you might have.

So first, let's tart with the broader Amortization Policy. As some of you may recall, back in February of this year, the staff recommended some changes to the Amortization Policy, which were approved by this Committee.

Without going into the details of those changes, one of the main impacts of these changes was somewhat faster amortization in certain situations of unfunded liability. Our maximum period of amortization previously was 30 years. Under the new policy, the maximum period is now 20 years. So, in general, going forward with this new policy we'll be amortizing unfunded liability somewhat faster than we had previously.

Now, in February, we did not suggest any changes to the Financial Necessity Policy within the Amortization Policy, but we have subsequently looked at that piece of Amortization Policy, and came to you in September with our first reading of proposed modification.

And the one -- one of the main things that we added to the policy was a bit more of a structured formalized financial evaluation of agencies that have applied for this extension of their amortization period.

Previously, the decision rested purely with the Actuarial Office. And the decision still would rest with the Actuarial Office, but we have partnered with the Pension Contracts and Prefunding Program within the Financial Office, based on the fact that they per -- already perform financial analysis of agencies wishing to join CalPERS. And they have the team members, and tools, and processes in place to perform this kind of financial evaluation. So it seemed a natural fit to add into our policy a review by this financial group prior to the decision coming to the Chief Actuary.

So that will now be part of the formal process going forward is a financial review by this PCPP group prior to consideration by the Chief Actuary.

And in your Board handouts, attachment 4 is a current version of the request form that this group uses to request the financial information from agencies to perform this review. So you can take a look at the types of things that will be asking for. Agencies can see what they're going to be asked for. And it gives plenty of opportunity for agencies to write in special factors that might be involved as well.

The other thing that we proposed back in September with regard to the Financial Necessity Policy was some changes to the period over time which UAL would be amortized if this extension is granted. Given that we are less comfortable with 30-year amortization of unfunded liability, we prefer that even in cases of financial necessity, the standard be that the period is extended out to 25 years, rather than 30, which was the previous extended period. So in sort of vanilla standard cases, we would like to extend the period out to 25, if we grant this extension.

Now, in severe cases, the policy still allows the Chef Actuary to go out to a maximum of 30 years, so that does exist in very extreme financial situations.

Another change we added and talked to you in September about was a restriction if you are granted an extension in your amortization period, that you cannot come back and request that again during the next five years. So that's now part of the proposed policy.

Now, since the September meeting, we have refined the policy just a little bit. We haven't really made very significant changes at all. There were questions about the timing of this process, how long would it take. And again if you refer to attachment 4, which has the documentation that the PCPP will use with agencies to collect information, there's also a bit of information on the process and the expected timeline. And we're estimating that to take anywhere from two to three months from the time of application.

I think with that, I will pause and take any questions that you might have.

CHAIRPERSON TAYLOR: So I'm not seeing any questions from the Committee.

Oh, there it is. It wasn't on my screen.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair. So in the cover letter, the last paragraph is the one I'd like you to expand on. And what this talks about is if you extend the amortization period to 25 years, and now let's fast forward another five years, if there's a termination, there is essentially money that went to -- would have gone to retirees that would not be available for future retirees, if you had not made the adjustment.

DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

BOARD MEMBER SLATON: Although one could make the case that you might have had an earlier termination --

DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

BOARD MEMBER SLATON: -- had you done that. So can you expand on that dilemma?

DEPUTY CHIEF ACTUARY DZIUBEK: Well, the Chief Actuary has a lot to consider in making this decision, as you can imagine, not only the financial condition of the agency, but exactly what you're referring to. Part of the financial analysis will be to convince ourselves that if granted this extension, the agency appears to be able to sustain ongoing required contributions going forward.

If that's not the case, even if they're facing, you know, a sure financial necessity, but don't seem to have the means to pull out of it based on this analysis, we would not grant the extension. So, yes, we do not want to see benefits allocated differently because of this extension, so the granting of the extension would be predicated on our belief that the agency will be able to sustain the plan going forward.

BOARD MEMBER SLATON: So it's a risk that is mitigated by the actuarial judgment, right?

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, that's correct.

BOARD MEMBER SLATON: Okay. Thank you. I -- you know, I think this is an important component to have to be able to use. And I would recommend the Committee approve it, because it's trying to balance an assessment of what's going to happen in the future with the best facts and judgments available at the time. And the fact is we -- I think we need for agencies that are in extreme stress to have an opportunity to see if they can fix it through this. So I would hope the Committee would pass this.

Thank you.

CHAIRPERSON TAYLOR: Okay. Thank you.

Oh. Ms. Paquin for Ms. Yee.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. I wanted to thank the Actuary team for working on this policy revision. I know that there was a lot of contention around it when it was first announced, but I think it makes for stronger employers. And I was just curious if you had any additional conversations with employers at the Education Conference last month about the proposed revisions?

DEPUTY CHIEF ACTUARY DZIUBEK: Nothing at the conference that jumps out at me. We've had a lot of interaction with stakeholders, either at their request or we've reached out to them. I think, in general, they were very happy to be part of the process of coming up with these modifications.

You know, this is not a panacea that's going to solve everybody's problems and they understand that. But I think, in general, we've gotten positive feedback on the policy.

ACTING COMMITTEE MEMBER PAQUIN: Okay. And when would this go into effect, if it's approved today? Or when would be the first time that an employer could take advantage of it.

DEPUTY CHIEF ACTUARY DZIUBEK: This would be immediate.

CHIEF ACTUARY TERANDO: Yes, because there's no delay right now on the Amortization Policy. I know when we talked and adopted the shortening of the amortization period, you know, we pushed that off until the '19 valuations. But there's no need for this section to be deferred. I mean we could have it effective immediately once it's approved.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON TAYLOR: Okay. Seeing no other questions from the Committee. 7a is an action item. What's the pleasure.

COMMITTEE MEMBER FECKNER: Move approval.

CHAIRPERSON TAYLOR: Moved by Mr. Feckner.

COMMITTEE MEMBER MILLER: Second.

CHAIRPERSON TAYLOR: Seconded by Mr. Miller.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Okay. Agenda Item 7a motion carries.

(Thereupon an overhead presentation was presented as follows.)

CHAIRPERSON TAYLOR: And we are moving on to Agenda Item 8a, the Annual Review of Funding Levels and

Risk Report.

CHIEF ACTUARY TERANDO: Good afternoon.

CHAIRPERSON TAYLOR: And that's Scott as well.

CHIEF ACTUARY TERANDO: Yep. Thank you. Good afternoon. Scott Terando, Chief Actuary. Item 8a is a information item. This is the annual review of the funding levels and risk report. This generally is a annual report that we produce every year in terms of displaying the various system and actuarial information and results on a system-wide basis. This report wasn't presented last year, because we were -- it was the ALM year, and most of the information and a lot of the content that normally comes in this report was included in the ALM workshop that occurred in November. So it didn't make sense to kind of have a report with duplicative information that showed up in the workshop.

Overall, if you look at the report, the report shows that the system is improving, the funding levels are increased, and the chance of low levels have decreased, but we still see risk in the system. We see risk on the employer side. There's the continued pressure on high contribution rates are putting pressure on the employers.

We also see some pressure in terms of the maturity of the pension system in relation to the volatility of the system, as well as we see continued pressure on both the markets and corresponding and the discount rate.

So this afternoon what we're going to do is we're going to -- we've picked a couple items to kind of concentrate our discussion with. But if anyone has any questions about the report in general, feel free to bring them up.

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CHIEF ACTUARY TERANDO: You know, we're going to -- a quick overview. We're going to talk about a few trends, funded status, and the funding levels, and we're going to talk about some of the main drivers that we see in the risk for the system.

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CHIEF ACTUARY TERANDO: So if you look here at this graph, you can see the various funding levels. We have picked out six plans from the State and Schools as well as the overall for the PERF. And you can see we're hovering around the upper 60s to upper -- lower 70s on the percentage. And as a reminder, this is as of 6/30/17. And that's at 68 percent. If you think about what you've seen in the press recently about a 71 percent funded status, that's a reflection of taking these numbers, rolling them forward to 6/30/18 with the 8.4 to 8.6 return that we got recently.

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CHIEF ACTUARY TERANDO: If you look at the recent trends in the funded stats, you can see that we're well over 100 percent funded around 2008. Then we had the massive losses in the investments. And we dropped to well below 60 percent. And while we have improved somewhat over the years. We've gotten back up to around 70 percent. You can see it's gone back and forth. But we -- for the most part, it's kind of leveled off. We haven't really gotten back to that 100 percent that we used to have.

You can see we made improvements around 70 percent, and it's just kind of languished for the last 10 years or so.

Looking forward --

CHAIRPERSON TAYLOR: Can I ask -- I hate to interrupt --

CHIEF ACTUARY TERANDO Go ahead.

CHAIRPERSON TAYLOR: -- but because you're doing -- you're doing such a good description here --

CHIEF ACTUARY TERANDO: Yeah.

CHAIRPERSON TAYLOR: -- I thought it would be important for you to kind of explain how we go from sixty some odd percent funded with the crash and a hundred some odd billion dollars to $353 billion and we're still 71 percent funded?

CHIEF ACTUARY TERANDO: Sure. So while we have had a, as you said, over 100 plus billion --

CHAIRPERSON TAYLOR: Ninety-seven percent is what you guys said earlier or what Finance said earlier.

CHIEF ACTUARY TERANDO: Right, in terms of increased assets. You can see what's happening is the liabilities are just increasing at a faster rate. When you think about it, our discount rates around seven percent.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: So what's happening is you're having liabilities grow at a seven percent clip. In addition to that, we've -- while PEPRA has been put in place as of 2013, we -- those -- those decreases just haven't kicked in yet. We see them having longer term impacts on bringing rates down. But right now, you know, most plans are around 20 percent, 25 percent PEPRA members. And so we're just not seeing that.

So what you're seeing is while we've increased contributions substantially, and the assets have increased, the liabilities are just outpacing -- outpacing them.

CHAIRPERSON TAYLOR: And that's because of retirements, right?

CHIEF ACTUARY TERANDO: Just in general in terms of the amount of retirements you have. You have the Baby Boomers -- the Baby Boomer population working through. I think we're all -- we're close to that.

(Laughter.)

CHIEF ACTUARY TERANDO: And as we go through, you just have this large population working its way through.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: And it's been a struggle for not only I think CalPERS, but for a number of systems across the country, in terms of the -- their funded status remaining constant or not getting the large improvements.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: A lot of agencies, or funding systems, throughout the country have struggled after that big crash in 2008-2009. You know, we dropped, you know, well over 20, 40 percent in our funded status. And that's taking time to just recoup those losses.

DEPUTY CHIEF ACTUARY DZIUBEK: And I'd just like to add quickly, in addition to just the natural growth of the liability due to the passage of time, we've had some significant assumption changes that have increased the liability of the discount rate dropping. And a couple times we've changed the mortality assumptions to project --

CHAIRPERSON TAYLOR: Right.

DEPUTY CHIEF ACTUARY DZIUBEK: -- longer life expectancies so that's -- that's forced the liability to go up as well.

CHAIRPERSON TAYLOR: All right. Thank you very much. I just didn't want to interrupt but you were in a area I thought that gets kind of confusing.

CHIEF ACTUARY TERANDO: No, that's okay. And I encourage anyone feel free to interrupt with questions. It will be -- it will make the conversation a bit easier trying to come back later on in the middle of the presentation.

CHAIRPERSON TAYLOR: Oh, hold on. I do have a question.

Dana.

BOARD MEMBER HOLLINGER: Okay. Thank you. Thank you, Mr. Terando.

Could you please help us understand, because I think it's important, the difference in the trajectory of our liabilities going forward --

CHIEF ACTUARY TERANDO: Sure.

BOARD MEMBER HOLLINGER: -- and the drivers? Do you know what I'm -- because I think it's -- I think that's something that's valuable for us to understand.

CHIEF ACTUARY TERANDO: Okay. So we can kind of talk about that. This graph kind of shows where we'd see the funded status projected, eight percent, seven percent, and six percent. We can -- you can see here is, you know, over the next few years, depending on where returns are, you can see an improvement in the up -- to the upper 70 percent if we get a return. But you can see the difference between a six percent and an eight percent has a big impact on the funded status.

When we look at these types of projections, we're not -- not only are we looking at returns on the assets, but when we project our liabilities, we look at -- we look at, you know, where we are with the discount rate, we look at inflation, we also look at where mortality trends are going.

BOARD MEMBER HOLLINGER: Right.

CHIEF ACTUARY TERANDO: Since we did an experience study just last year, we've updated our morality, we've updated a lot of the tables we use in our projections. We do include all those, and we take account of all those changes when we do our projections. Since we just updated our results last year, in terms of our assumptions, we feel pretty comfortable with where our liabilities are projected right now.

We do try to incorporate some of the PEPRA changes, in that we know -- we anticipate the PEPRA percentage of the population is going to increase on a yearly basis, which should bring down the normal cost, and should bring down some of those liabilities. And so what we do is when we look at our projections, we try and incorporate some kind of adjustment for PEPRA, in terms of kind of bringing those liabilities down.

In terms of is there -- you know, there is a sensitivity, there's a volatility associated with all these projections, not only on the investment side, but the liability side, in terms of where the morality truly ends up, where inflation goes, and we do do some sensitivity analysis. Specifically, if you look at all our valuation reports, we do have that specific information available, and we can drill down into a lot more specifics in each of those reports, in terms of how sensitive the assets and the returns are, and how sensitive the liabilities are for each of the plans looking at various different scenarios.

In addition, we'll be looking at various risk measures. Right now, we look at the asset liability -- or asset and liability to payroll ratios in terms of how volatile some kind of -- how changes impact plans and their contributions. We'll also be looking at maturity levels as well and trying to incorporate those as well and provide plans -- some kind of additional measures on terms of risk.

I hope -- I'm not sure if that answers your question.

BOARD MEMBER HOLLINGER: I think it does. I think also -- I think one of the things that's important to understand when we look at this is that there's no margin for error. We're dealing with exact numbers. It's not like in a typical insurance carrier, where I may have some reserves, where -- and that's why also things are subject to change.

CHIEF ACTUARY TERANDO: Yeah, I agree. You know, these are numbers -- these are projections.

BOARD MEMBER HOLLINGER: Right.

CHIEF ACTUARY TERANDO: And while it's a single number, there is a lot of variability associated with these numbers.

BOARD MEMBER HOLLINGER: Correct.

CHIEF ACTUARY TERANDO: There's a --

BOARD MEMBER HOLLINGER: Just so our stakeholders understand, you know, this is not an exact science. It's far from it.

CHIEF ACTUARY TERANDO: No, it's not. You know, we try and do our best effort, and make our best choices on what we think the rates are going to be. But there are a lot of things out of our control both in the marketplace, as well as demographic, and experience that the agencies have directly themselves.

BOARD MEMBER HOLLINGER: Right. Okay. Thank you.

CHAIRPERSON TAYLOR: All right. Scott, go ahead. Sorry about that.

--o0o--

CHIEF ACTUARY TERANDO: Okay. No, that's -- we're -- that's all good.

On this slide right here, what you can see is we talk about the probability of falling below a certain funded level status. We have 40, 50, and 60 percent. As you can see, those numbers all are trending downward. Just between '17 and '18, I think that's the reflection of both the recent returns that we've had, which have been both over the discount rate of seven percent, as well as the increased contributions that are coming into the system.

And you can see the chance of falling below 50 percent has dropped dramatically. And you can see even at the 60 percent level, there are substantial gains in terms of a lot of the plans listed there, the chance of going below 60 percent have decreased substantially. CHP is still at 100 percent, and that's because their funded status is in the 50s. So, you know, they're below 60.

So, you know, that's 100 percent certainty. Their funded status is improving, and we'll see it -- and we expect it to continue to improve. I mean, but as you can see that's more of an outlier.

But if you look at all the other plans, you can see that it's definitely the trending -- it's trending in the right direction in terms of stability.

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CHIEF ACTUARY TERANDO: Some quick comments on our discount rate. You know, we're scheduled to reduce the discount rate for the June 30th, 2018 valuation. So the valuations we just released just this year are based on the '17 valuation, and they're based on a seven and a quarter discount rate for the State and the public agencies. And we'll be finally moving to a seven percent in our next valuations released next year.

However, what we see is while we have just moved down seven percent, we just need to be aware of some things going on. During the ALM process, we talked about the asset allocation, and whether we want to go towards a lower risk on the asset allocation side.

As well as we talked about whether the Board would want to consider lowering the discount rate to reflect the margin for adverse deviation.

We don't really -- currently, we do not have a margin on the discount rate for any type of deviation. Several years ago, we did have a margin of around 25 basis points. And at some point when we were talking about dropping the discount rate, the decision was made to drop the margin instead of reducing the discount rate.

The drawback to that happening is now we don't have that much leeway in terms of discount rate versus investment return. And so it becomes somewhat a little bit more volatile because we don't have that much wiggle room. So these are some of the things we just need to be aware of and keep in the back of our mind as we go forward, and as we work towards the next ALM model in the next three years.

Again, you know, we just looked at the discount rate and the ALM process last year. And, you know, this is something just to be aware of. Keep in mind, as we forward in the next couple years, some of the things we might have to have discussions about going forward.

CHAIRPERSON TAYLOR: We're not due for an ALM, right?

CHIEF ACTUARY TERANDO: Not for three more years.

CHAIRPERSON TAYLOR: Okay. So --

CHIEF ACTUARY TERANDO: No, we just had this last year.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: We're just kind of bringing this up in terms of the discount rate is a high -- is a very important driver in terms of contributions for the employers. And I think this is a key driver for -- to keep in mind when we have the ALM process coming up in the future. So it's kind of a reminder that this is a main driver. It's not something we need to talk about or look at changing right now.

CHAIRPERSON TAYLOR: Right. And I beg to remind everybody that discount rate does change employer contributions.

CHIEF ACTUARY TERANDO: Right, because we just -- if you think about it, we just -- we just actually went to the -- we dropped down to the seven percent --

CHAIRPERSON TAYLOR: Exactly.

CHIEF ACTUARY TERANDO: -- just a couple months ago --

CHAIRPERSON TAYLOR: This would be a killer.

CHIEF ACTUARY TERANDO: -- and it will be reflected next year. So we just finalized the three-year smoothing in to the seven percent. That just happened. So, you know, we kind of thought we'd mentioned it as we were at that point right now.

CHAIRPERSON TAYLOR: Okay. And I do have a couple more questions from the committee.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yeah, I was looking -- it's back on the chart page five of 14. I was looking at the CHP at the 100 percent, as you mentioned, because they're already below that level. So my question is, given that similar types of trends are occurring there, I'm sure as they are everywhere else in retirement funds in terms of active to retirees, people living longer, so that doesn't look very good. So what strategies have been discussed about addressing this problem, and what lessons we can learn from this small fund in the event that it happens in a larger fund?

CHIEF ACTUARY TERANDO: I would say since CHP is -- you know, it is one of our lower funded plans. We don't have as much concern for CHP as we would for a public agency, in that, you know, it's kind of back by the State, and it's actually one of the smaller plans compared to the rest of the state.

So while we do -- are concerned about the lower level, we are following a -- our Amortization Policy, and contributions have been ramping. To put things in perspective, the contribution rate is well over 50 percent for this plan as well.

So in terms of trying to get it funded, there is a -- you know, there is a goal and a process to get it back up to fully funded, as fast as everyone else. Because they're so low funded, the contribution rates are extremely high.

We feel confident the State can make those contributions, because they're a small percent, especially compared to you if look at tier 1 miscellaneous plans and the bigger plans, the contributions for the CHP are relatively small.

If it was a existing public agency, I think we'd have a bit more concern in terms of lower funded status and the higher contribution rates. But we -- we are the plan to get this funded at the same -- at a rate as everyone else. It's just going to -- it's going to take a little bit to get up there, but they are improving in terms of their funded status.

COMMITTEE MEMBER JONES: Okay. Thanks.

CHIEF ACTUARY TERANDO: Sure.

CHAIRPERSON TAYLOR: Okay. Mr. Juarez for Mr. Chiang.

ACTING BOARD MEMBER JUAREZ: Yes. Thank you, Madam Chair. I just -- I guess it's maybe a word of caution, Scott, that a lot of times our discussions, both in this Committee and on this Board, will sometimes be either taken out of context, misconstrued. I want to be very clear that this Board is not currently considering taking down the discount rate anything below the seven percent that we agreed to last year?

CHIEF ACTUARY TERANDO: Oh, no. No, I just brought it up as we just recently dropped. I mean, when you think about the process, we just dropped right now to seven percent, and we haven't -- it's listed here as a reminder that we just did that. And it's a key driver in terms of the contributions. But we would not be looking at the discount rate until our normal ALM process several years out.

And we normally -- our preference is to follow-up with the ALM process. The discount rate is something, you know, we don't make changes based on the one-year return, two-year returns or something like that. It's something we want to take a longer term look at, and make a judgment on where we're at, where the market is at. And there's a lot of other factors going into that as well.

One of the key drivers is the asset allocation. And what the Board determines in asset allocation is a key driver. We're having those -- I think that's also why we're having those discussions on the private equity, in terms that will actually have an impact on asset allocation return as well.

So it's all interrelated. And I think the point here was just kind of to bring it up and drive home the point that everything is kind of interrelated, the assets, the returns, the contributions and so forth.

ACTING BOARD MEMBER JUAREZ: Yeah. And again, just to be crystal clear to, I think, both the media and to our stakeholders that until the next ALM, there wouldn't be any discussion about doing anything with the discount rate at this point. And just again, because it's -- what happens is conversations take place and people will take those portions of conversation and choose to put whatever spin they want on it. And I would hope that that doesn't happen.

CHIEF ACTUARY TERANDO: Right. And as a reminder, we do have the Risk Mitigation Policy that is out there. It's been suspended. That possibly would have a impact on the discount rate and asset allocation if it were to actually get kicked in. That's something we will have to have a further discussion on at some point. When that -- on later -- I think possibly after Ben gets here, and we can have a cleaner discussion on the Funding and Risk Mitigation Policy.

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CHAIRPERSON TAYLOR: All right. Scott, move ahead.

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CHIEF ACTUARY TERANDO: And then at this point, I'm going to pass it over to Randy. He's going to talk about some maturity measures, as well as some of the stresses that the employers are seeing in the contribution raise.

DEPUTY CHIEF ACTUARY DZIUBEK: Thanks, Scott.

As you can tell by the name of the report, one of the primary purposes of this report is for us to look at trends with regard to some of the important risk measures of the system that indicate how much risk we have. And there's not always obvious solutions when we exceed certain risk thresholds, but we try to just gather as much of this as possible, show you the trends, show you where things are projected to go. It's just more information for you to take into account when you're making decisions such as investment allocations and amortization policies. So maturity factors are certainly important risk factors that we look at.

Slide 7 I think Michelle our new Controller already showed you a similar chart in her presentation. So I won't spend a lot of time on this. But this is just a simple active to retiree count ratio over time. And it just indicates the maturing of the system. In 2001, we had two active members for each retiree. And now the ratio is down to about 1.25.

So it's just an indication of more members in the system, which leads to higher liabilities, higher asset values. All meaning that when an unfavorable event occurs that may affect assets or liabilities, it can create a larger change in an employer's contribution rate. So that's the importance of these measures.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. Another good maturity measure is something we call the Asset Volatility Ratio. And this is simply the ratio of the market value of assets to the payroll. And we're showing you that ratio going back a few years, and then projected out to 2023 and also by the various employer groups.

The average -- oh, let me mention also, there's a rogue 71 percent on the chart. If you have a pen, you can cross that off. I'm not sure how that ended up there. It has no meaning.

The average today of all of these lines is about a ratio of six, meaning the market value of assets is about six times payroll for active members. Now, why this is important is that many in instances we think of the cost of the system relative to active member payroll. And so the higher this ratio gets, the more subject we are to higher volatility in contribution results.

For example, if you have a ratio of 10, which looks about like the average public safety agency. So a ratio of ten here would mean that if there was a ten percent investment loss, for example, in a given year, because of that ratio, that would -- that would translate to a 100 percent of payroll impact for an employer.

So it just gives you a sense of the risk of certain events, and how they might translate to higher contributions going forward. It's a funny measure. I have some of our team who thinks it sends the wrong message because it's almost indicating you want that ratio to go down to decrease your risk, but that, of course, means your assets go down.

We do not want the assets to go down. We want the assets to go up, but we all have to be aware that as they do, we add that extra risk.

CHAIRPERSON TAYLOR: So hold on one second.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair. Can you go back to the prior chart, the maturity chart? That one there. Yes.

So going forward from 2017, do we reach a point where that -- even though it shows a mature plan, where it flattens, that ratio flattens?

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. Great question. And you can see it's flattened a little bit in the recent past. And we would expect it to continue to trend downward slowly. I don't where it will kind of even out and maybe stay there for awhile. But you would expect it to go down to one, maybe a little bit below one, I think, before it kind of stabilizes for a period of time.

BOARD MEMBER SLATON: What level degree do you attribute this to automation in the workforce, as opposed to just pure demographics?

DEPUTY CHIEF ACTUARY DZIUBEK: I don't know, because the active count hasn't declined. It's more the increase in the retirees. I mean, you can look at the dark blue parts of the bar indicate the active counts, and we've -- you know, in 2001, it was 739,000, and now we're at 835,000. So there are periods of dips, you know, where the economy is bad, and people lean their teams. But I guess overall I don't think we've seen a significant reduction in the active workforce.

Now, will we going forward, that's another question and we may.

BOARD MEMBER SLATON: And this is over the entire system?

DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

BOARD MEMBER SLATON: So this is not by agency. So I assume again you have a dispersion on some kind of bell curve on how agencies fall?

DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

BOARD MEMBER SLATON: Do you have any feel for us for how broad that bell curve is?

DEPUTY CHIEF ACTUARY DZIUBEK: I know I looked at the schools in particular, because they're on the higher side of that, and they are currently at 1.4 versus the 1.25. They're the highest. I don't know who the Lowest is.

BOARD MEMBER SLATON: So that's even higher than most local government agencies, for example, is that what you're saying, or by class?

DEPUTY CHIEF ACTUARY DZIUBEK: In California.

BOARD MEMBER SLATON: By class?

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, the --

BOARD MEMBER SLATON: So in other words, is there a city that is -- I assume there are jurisdictions that are -- have a higher ratio?

DEPUTY CHIEF ACTUARY DZIUBEK: Oh, city by city, I don't know the answer to that.

BOARD MEMBER SLATON: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: Scott, do you have any --

CHIEF ACTUARY TERANDO: No. We don't have that information, but --

DEPUTY CHIEF ACTUARY DZIUBEK: Well, we do, just not at the tip of our fingers.

CHIEF ACTUARY TERANDO: Yeah. If you'd want that information, we could actually create that bell curve, if you're really interested in seeing that.

BOARD MEMBER SLATON: You know, you have a lot of work on your plate. I don't need to add to it.

Thank you.

CHAIRPERSON TAYLOR: So go ahead.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. In addition to the maturity measures, we wanted to talk about some of the pressures on employers due to the levels of employer contribution requirements. Currently, the average employer contribution requirement for miscellaneous public agencies is 25.2 percent, for safety plans it's 49 percent. And those percentages represent the sum of the normal cost, and the payment towards unfunded liabilities. So that's the total employer contribution.

Typically, we see higher contributions for safety plans because, in general, the level of benefits is a bit more generous. Retirement ages are earlier. It costs more money to fund the safety plans in general.

We have seen some increases over the last few years in those rates, primarily due to the discount rate. Some years of below expectations with regard to investment return. Although, the last couple years have helped.

But we do also expect changes -- continued increases over the next few years. And again, because we're just now hitting the seven percent discount rate, and even -- and even once we're doing the valuations at seven percent, the Amortization Policy phases in the impact of that change over a five-year period. So we have a few more years of phasing in the full costs of these changes. So we do expect contribution rates to increase over the next few years as well.

We've seen quite an increase in agencies that are able to, giving us what we call additional discretionary payments. And those are contributions above their required contributions.

And the ones who are able to do that have found that it's a great tool for managing contribution volatility for perhaps lowering future contribution rates, because if you give us more now, you have -- you can give us a little bit less later. So we've seen a broader usage of that ability, which we think is good news.

The risk for contribution volatility is increasing due to the maturity factors that we've already talked about. It's also increased a little bit because of the new amortization futures.

And while the new Amortization Policy provides a lower likelihood that we'll dip to those low-funded ratios, it does increase the contribution volatility somewhat.

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DEPUTY CHIEF ACTUARY DZIUBEK: So slide 10 just provides a little bit more information on existing employer contribution rates. You see the two that were quoted on the previous page for public agency, miscellaneous, and safety. But we're also showing you the various State plans and the schools plans. And again, the safety plans tend to have the higher cost due to the richer benefits.

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DEPUTY CHIEF ACTUARY DZIUBEK: Now, if we look at projecting contribution rates going forward, as I said, you can see in the solid part of the line we've already experienced some contribution increases for all of these groups. And starting with the dashed lines is our projection, and we expect some more contribution increases going forward.

Now, we do expect that to level out. I'd like to say we expect it to drop significantly at that point, but that's not the case. That would take several years before that would happen. Although, the PEPRA folks coming in will put downward pressure on those lines as we go forward.

But as I said before, we're still phasing in the cost of the discount rate change in particular. That's what's causing the continued increases.

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DEPUTY CHIEF ACTUARY DZIUBEK: And this is just some information on the additional discretionary payments that I mentioned previously. Last year, we received over $500 million of additional payments. And we're trying to speak to our agencies more about the benefits of doing that for the ones that are able to. And it's a great way to reduce contribution volatility.

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DEPUTY CHIEF ACTUARY DZIUBEK: The last the two slides. We just wanted to put these in. You probably can't read the percentages in the various counties. But these -- these two pages are both in the formal report.

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DEPUTY CHIEF ACTUARY DZIUBEK: You can see the average funded status of these plans by county. And we'll continue to look at information in this fashion, and then maybe develop this a little bit more, similar to what Mr. Slaton was asking about. And we'll keep adding these types of graphs in this report going forward.

So with that, I'd be happy to take any questions that you might have.

CHAIRPERSON TAYLOR: All right. I do have a couple of questions.

Mr. Rubalcava.

BOARD MEMBER RUBALCAVA: Thank you, Madam Chair. You sort of answered it already, because when I pushed the button it was for question -- slide number 9 where you had a bullet showing that the employer contributions were going to increase in the next several years, but then later on slide 11 you did state that you expect this to level off. So I think that's important for people to understand, that this Board did take several actuarial changes -- policy changes, but that was to us -- address the unfunded liability. And at some point, that would improve the funded ratio, and that would be good for the employer contribution rate. Although, there will be some gradual up before things get smoothed out, and you see a favorable trend.

So I just wanted to -- similar to Mr. Juarez about making sure the press gets the whole picture.

Thank you. Thank you for your time.

CHAIRPERSON TAYLOR: Thank you.

Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. I just -- going back to the employer financial pressures. I think something that I would find helpful is because the employer contribution rates you say consist of the normal cost, and the unfunded liability, it would be nice, especially projecting going forward, for me to be able to see maybe in a split bar chart or something, what is the proportion in the different plans of that, and which of those are really contributing more to -- so you can see, you know, what's happening with the normal cost, versus what's happening with paying down that unfunded liability? I assume that's quite a different story from one plan to the other.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. That's a great comment. A lot of plans have a UAL payment that's greater than their normal cost at this point due to the funded status being at 70 percent and lower in some cases.

But you're right, I think the UAL piece of it is the more volatile piece also, because when the market doesn't do what we expect, that's where we see the impact on the employer contribution, not the normal cost.

COMMITTEE MEMBER MILLER: Thank you.

CHAIRPERSON TAYLOR: Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: So a couple things. I know everybody keeps talking about the discount rate, not we're doing anything. I mean, just to say, it's set in stone. We're not going to do anything isn't as an accurate statement, because no one saw '08 coming. So I mean, part of it is we've put processes in place. We've taken attempts to mitigate it. But for some reason, one side of the dais seems to think we're moving to something with the discount rate that I'm not aware of.

But at the same time, there's nothing set in stone. You have a market downturn as we did in '08, we're not going to sit there and wait two or three years. History has shown it. So I just -- and I have a different view of the discount rates as you all know, as to where we've been. So I watch it a little more diligently.

That said, great chart. I think what's kind of interesting on your states. I was up there in the well northeast corner of California, if I can read. It's 25 percent, is that right?

Squint. Yeah, that tiny --

DEPUTY CHIEF ACTUARY DZIUBEK: There is a county in the northwest that is in the 50s, yes.

VICE CHAIRPERSON COSTIGAN: Northeast, not northwest.

DEPUTY CHIEF ACTUARY DZIUBEK: Oh, northeast. Okay.

VICE CHAIRPERSON COSTIGAN: Northeast. Tiny little corner up there.

CHAIRPERSON TAYLOR: It's 71 percent.

VICE CHAIRPERSON COSTIGAN: I can't read it, but anyway.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: The only issue I have on that one is that is the blended rate of all the entities inside of those counties. So maybe -- and I believe -- I agree with Mr. Slaton more data is great is -- is maybe underneath it in parentheses how many are there. Because this chart is a lot different to read if the -- whatever the one county over here in the top right-hand corner is, which I still can't figure out what the number is, is that one, or is that two, or is that three on it.

CHAIRPERSON TAYLOR: That's a seven.

VICE CHAIRPERSON COSTIGAN: So maybe coming back with that, but I think this a great information.

CHIEF EXECUTIVE OFFICER FROST: Mr. Costigan, it's 75.

BOARD MEMBER HOLLINGER: Yeah, 75.

VICE CHAIRPERSON COSTIGAN: That does not look like a 75 to me, but that's okay.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: Seriously. Okay. But that's -- I'd just be curious as to how many entities does that reflect? And then as you get even more granular, urban versus rural. I mean, when you start getting into the Bay Area, the rates look like they're higher, or the funded statuses look like they're higher. But again, you're dealing with a lot more organizations, so that's kind of -- yeah, Scott, you were going to say something.

CHIEF ACTUARY TERANDO: No, I was going to agree with you. There's a lot of data, and there's a lot of opportunity to break this down. So any suggestions that you have we'll be happy to take back and look at what we can bring back.

VICE CHAIRPERSON COSTIGAN: No, but I think the more data is just fantastic. And as Mr. Slaton raised, I mean, all the bell curves and anything that shows a forward projection is fantastic.

And again, I want to say to what Mr. Juarez and others have said, a lot of great actions have been taken. And I want to give a lot of credit to, Scott, you and your team. The work that's been done over the last four years from ALM to discount rate, I know these have been difficult decisions. I think the last year really has shown one of the reasons why we've taken these moves. I think as we're talking earlier, Mr. Cohen and I, the S&P is now in bear territory for the year. We've given up all of the returns in the Dow for the year. I mean, we had a great discussion yesterday on private equity.

And you look at it, one year is not a reflection. One year, two years, three years, you start going back. So I think the defensive moves that you all have made, and they were very difficult decisions made over the last 36 months, you all should be commended, because these charts, these documents reflect those great decisions, and show that we are on a -- to a much more sustainable path going forward.

So thank you. Thanks for the great work.

CHAIRPERSON TAYLOR: Thank you.

Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. Thank you again for the great report. It was a very thorough report. I had a question for you on page 378 of the iPad, which is under the next steps. And there's a reference about a model that you're building out that would help to help you work with various employers to take a look at changes in their pension plan, and what the impacts would be. And I was just curious if you could elaborate a little bit more about that.

DEPUTY CHIEF ACTUARY DZIUBEK: Sorry. We're just find the page that you referenced.

ACTING COMMITTEE MEMBER PAQUIN: Sure. It's at the bottom of the page with the heading that says Next

Steps. It should be page 378 on the iPad.

DEPUTY CHIEF ACTUARY DZIUBEK: So I'm sorry, since we were kind of fumbling looking for the page, can you just -- what -- what -- can you repeat your question again?

ACTING COMMITTEE MEMBER PAQUIN: Sure. So there's a reference to a model, and it said that your team is working to enhance it. It says the model should be enhanced over the next few years to make it possible to more easily model the diversity of public agency plans.

Currently, the model is only able to handle two large public agency plans. This limits the weight -- or limits the insight it can give into the risk based public agency sector.

CHIEF ACTUARY TERANDO: So I'll talk to that. As you're aware, we just moved from the old AVS system to the new AVSRE. And part of that will help address this in terms of the new system will allow us to have the cash. Right now, when we do this work, it's very -- a manual process, and we don't have the ability to really look at all the public agencies and get, you know, the information that Mr. Slaton wanted in terms of results for every plan and giving you a full picture for every single plan.

We have to take it like a -- pick sample plans for the public agencies. We can't look at all 4,000 plans.

We have new software that we've just implemented. That's should help us provide the information that we need to help us give us that information. We are also working work the Investment Office in terms of stochastic modeling to provide us additional and better modeling so we can look at all the plans instead of just a handful of plans.

So I think that's what that comment was referring to is the ability for us to provide more information and more complete information.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you. And would that be when the employers approach you to ask for assistance, or would you be able to be more proactive once the model is up?

CHIEF ACTUARY TERANDO: I think we're going to approach it in phases, in terms of we're going to see that what we can do. We just launched on Halloween, so it's brand new for us as well. So it's a -- we're -- the team is in the process of learning everything and getting trained on the new system, and it's still in development too. We're in the next stage in terms of development and the modeling and the next steps.

And so we're going to be -- it's a continual process in terms what we -- we're going to take a look at what we add on an incremental basis, both providing information both to the Board, as well as to the agencies as well.

We definitely want to add more. It's just we have to sit back and figure out how we can do that in the most efficient way.

ACTING COMMITTEE MEMBER PAQUIN: I appreciate that. It seems like a great tool, and glad to see that you're moving in that direction.

Thank you.

CHIEF ACTUARY TERANDO: Thank you.

CHAIRPERSON TAYLOR: Ms. Hollinger.

BOARD MEMBER HOLLINGER: Yes. Thank you. I just wanted to clarify that we -- when we manage to a discount rate, it's really about the level of risk that we're willing to undertake. And I think when you look at it, you have to look at it through the lens of what's going on financially in the time period.

So as Mr. Costigan stated, if we were in a declining bear market, we would have to reassess what level of risk that we would be wanting to take in order to protect and preserve the pension.

So it's a ongoing thing. It's never -- it's a constant.

CHAIRPERSON TAYLOR: So is there anything else, Mr. Terando?

CHIEF ACTUARY TERANDO: I think that's it from our end.

CHAIRPERSON TAYLOR: For that item?

CHIEF ACTUARY TERANDO: Yes.

CHAIRPERSON TAYLOR: I appreciate it.

So that was an information item.

We are moving onto 8b, Semi-annual Health Plan Financial Reports, which is also an information item.

HEALTH ACTUARY ZHONG: Good afternoon, Madam Chair, members of the Committee. Emily Zhong, CalPERS team member.

This is Agenda Item 8b, Semi-annual Health Plan Financial Reports. It is an informational item. This report summarize as of June 30th, 2018 the financial results for the flex-funded HMO plans and for our self-funded PPO plans. I'll give you highlights of the report.

Let's start with the PPO plans. As you may recall, a new Reserve Policy was approved in September this year. The figures in this agenda item do not reflect the new policy, because this report is mainly for the first six months of 2018.

The new policy includes a reduction in the level of the PPO reserve that will be carried. This will be reflected in the next semi-annual report that covers the calendar year 2018.

Attachment 1 has the financial result for the PPO plans as of the end of June this year, the total assets for HMO is 708 million, and the total reserve is 597 million. They are decreased slightly from the end of 2017.

The medical claim costs for the basic plan were very favorable for the first half of 2018. All trends were in the negatives. But on the Medicare side, Medicare cost trends are a little higher than ten percent. Now, the Medicare trend may seem pretty high at this point, but this is reflective of the seasonality pattern on claims we observed historically. And we do expect the Medicare trends to be lower during the last six months of the year.

The pharmacy claim costs are currently trending in the mid to high single digits. And the PPO enrollment increased about two percent over the 2017 enrollments.

Let's move onto the flex-funded HMO plans. Attachment 2 shows the financial result for the flex-funded HMO plans. Total assets for HMO are currently at 250 million, with an incurred, but not reported, claim reserve of 163 million. That leaves a balance of 87 million for all flex-funded HMO plan as of June this year.

Still to be accounted for are the final risk adjustment transfer for phase 4 of 2017 and phase 3, 2018.

And those will be reflected in the next semi-annual report.

The final phase, or phase 4, of 2018 risk adjustment analysis will be performed in fall 2019. The overall medical and pharmacy costs are trending in the low single digits for HMO. However, they're a variation on the individual plan level. This is mainly caused by the amount of migration on the HMO plan year-to-year. The team will continue to monitor the plan's cost experience and financial result for the second half of the year, and we will report back to you next time.

And that concludes my report. I'll happy to answer any question.

CHAIRPERSON TAYLOR: All right. Seeing no further questions on this item.

We will move on to information item -- agenda item on 9a, 2018 CalPERS Board of Administration State, School, and Public Agency Election Results.

So go ahead, Kim.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Okay.

CHAIRPERSON TAYLOR: Are you ready?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yes. Good afternoon, Madam Chair, members of the Finance and Administration Committee. Kim Malm, CalPERS team member.

In front of you is a -- is the 2018 results of the State, school, and public agency member election. This is an information item. The State and school positions held by Ms. Taylor and Mr. Feckner ran unopposed, and therefore there was no election. Their oath of office was certified by the Secretary of State on June 8th, 2018.

The public agency member election was decided by a majority vote. And Jason Perez was elected with 56.78 percent of the votes.

Congratulations to all the Board members.

The following is a summary of the results:

The terms of office for the elected Board members is January 16th, 2019 through January 15th of 2023. Voter turnout out for this election was 16,586 out of 258,899 eligible voters, which was a participation rate of 6.4 percent.

The paper ballot voting was the most popular voting method with 60.71 percent, followed by online voting with 34.72 percent and telephone voting at 4.57 percent. This is a decrease to the 2014 public agency election, which had a 6.8 percent turnout rate.

We continue to partner with the Office of Public Affairs and Stakeholder Relations to try and increase the vote and get the word out. A number of those outreach efforts included we worked with Policy Reasearch and Data Analytics Division this year and identified the top 10 employers that had the most people that could vote. We personally made phone calls to those top ten employers, and asked them to assist us with getting the word out to their departments.

Public Affairs created a toolkit that we sent to 1,431 public agency employers. The toolkit was only downloaded by 43 of those 1,431 employers.

We sent two email blasts reminding voters to vote for the emails that we had. The first one went out at the end of August, and we sent 167,846 emails. Twenty percent of those were opened. The second email we sent was in September to 168,263 people, and about 25 percent of those emails were opened.

There were seven press releases sent with election updates. Public Affairs also posted 18 Facebook posts and 22 Twitter messages. We recorded and posted the candidate's statements online. We hosted a candidate forum, which was streamed live, and the recording was place on CalPERS website for future viewing. The form was attended by 24 people, 70 people watched it livestreamed, and 468 YouTube replace.

There were 5,575 undeliverable ballots due to invalid addresses, which equates to about 2.2 percent of the voting population.

CalPERS does send a notice twice a year to members reminding them or letting them know that their addresses are undeliverable for those that have undeliverable addresses, and asking them to update their address with their employers.

The City of Corona had the highest voter participation, which was 48.29 percent. The County of Shasta had the highest number of employees who voted, which was 1,419.

Attachment 1 is a report that includes the top 20 employers why the highest voting participation, in addition to the top 20 employers with the most votes submitted, as well as other demographic information, such as age, group, gender, and participation by voting method.

During the tabulation process, there was tech -- there were technical difficulties that resulted in a brief delay. Attachment 3 discusses the incident in detail.

The total cost to conduct the 2018 public agency member election was $474,688. The cost per eligible voter was a $1.83, based on the number of eligible voters possible. However, the cost per vote was approximately $29.22 for the votes that were actually cast. This is historically the highest cost per vote.

There were no costs associated with State and school elections, since there was no election, and the notice of election was distributed electronically.

I'd like to personally than Public Affairs, and Stakeholder Relations, and IT, and Legal, and the Policy Research Group -- or Pension Research -- sorry, Policy Research Group for all of the work that they did. They have spent a lot of time and my team -- my team members trying to get the vote out and get people interested. And I appreciate all of their hard work, even though the participation rate was low.

That concludes my report, Madam Chair, and I'm happy to answer any questions.

CHAIRPERSON TAYLOR: Thank you, Ms. Malm. I want to thank you, your staff, all the folks that you were talking about just then about all the hard work that you put in to try to get out the vote. We also did in other areas try to get out the vote, but we will have to reconsider ways to increase our voting for these elections.

Right now, I do have several questions from several Board members.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Madam Chair. Great work. The only thing you can't do is actually cast the ballot.

CHAIRPERSON TAYLOR: Right?

VICE CHAIRPERSON COSTIGAN: So there are a couple of things. I know you talked about the hard cost. Very disappointed in the candidate forum. I know the 474 doesn't actually reflect the cost of that, because we have staff that has to staff the room, all that. At some point, we're going to have to make a decision what to eliminate. Twenty-four -- you had 94 people in total watching a live event. That's --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Most of them were probably our team.

VICE CHAIRPERSON COSTIGAN: No, probably.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: And other Board members and designees.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yes, absolutely.

VICE CHAIRPERSON COSTIGAN: It's just not an appropriate use of member money. The employer toolkit, I would certainly -- would like to know why CSAC, League, you know, three percent download. Again, at some point, you just have to make the decision that our efforts, what we're doing just aren't working. There's voter apathy on the other side to six percent the email blast. What's interesting is that 20 -- and this has come back for -- this screen -- so your emails went out to 167,000, and 34,230 were opened, which is 20 percent.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yeah.

VICE CHAIRPERSON COSTIGAN: Are we able to determine what's caught by a filter or not? So, for example, I get hundreds of emails a day, and a significant portion of them actually get caught by our filter system. So unless I go in and release that individual email, and that would include emails from CalPERS I have to go in and if release, that get caught in the spam filer, are we able to break that down that they got through the firewall? Is there something for example working with the employers in advance to say allow this email to come through?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: So those emails went to individuals. Those were not emails that went to employers. Those are to voting public agency members that we happen to have their email address.

VICE CHAIRPERSON COSTIGAN: Are we using their work or their personal?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Whatever one they registered with us.

VICE CHAIRPERSON COSTIGAN: And that's the --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: And I don't -- I don't personally know that, but I can certainly ask whether or not there's -- we are able to track whether or not it got filtered out.

VICE CHAIRPERSON COSTIGAN: Because that would be -- you're looking at -- and this is something working with Public Affairs.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Um-hmm.

VICE CHAIRPERSON COSTIGAN: Is it the RE: line that's either not attracting their attention, is it getting caught somewhere or is it just sort of getting screened out, because I think 20 percent is exceptionally low for something as it relate to an election. But the candidate forum, the only thing that really seems to be working is the Board election webpage --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Um-hmm.

VICE CHAIRPERSON COSTIGAN: -- the number of folks that were driven to that, because the numbers -- and just like we're all going through the elections right now. These numbers don't see it correspond, how you have 13,000 people view the election, and slightly more actually voted. So did every that cast a vote also looked at it or the folks that looked at the website did cast a vote anyway.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
Um-hmm.

VICE CHAIRPERSON COSTIGAN: I just want to say this is not -- you guys are doing amazing work. I don't know what else -- and we would love to hear from folks, what else we should be doing to get people to actually cast a vote, because you're doing everything for them. So thank you.

Thank you, Madam Chair.

CHAIRPERSON TAYLOR: Thank you, Mr. Costigan.

We could pay them.

(Laughter.)

CHAIRPERSON TAYLOR: Mr. Feckner.

COMMITTEE MEMBER FECKNER: Thank you, Madam Chair.

A couple of questions. First of all, how much of that 400 and whatever thousand dollars that was was attributed to the online part cost factor? Do you know?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
I'm not certain that I have the breakdown, sir, with me on the contract.

COMMITTEE MEMBER FECKNER: That's fine. You can get it me later.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yeah, I will.

COMMITTEE MEMBER FECKNER: I just want to try and compare whether or not we're getting a bang for our buck by going to that avenue. I know that's the wave of the future, but it may not be the wave for CalPERS future.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

So if you're -- remember correctly, a couple of -- a few years ago came in front of you guys and we -- what we talked about was -- is -- was moving to electronic and phone, so that we could eventually move away from paper, and we would save considerable amounts of money between the paper, and the postage, and the envelopes, and everything else. That's not looking like the way that that's trending. And so -- and that was one of the ways we were trying to get out the vote, right? Encourage the younger voters to go online or do the phone.

And so if there isn't a bang for the buck, because we won't necessarily probably get rid of the paper, then it's certainly something that I'd like to get through the next election. And then I'd like to sit down and we can talk about some modifications that the Board would like to see.

COMMITTEE MEMBER FECKNER: Okay. Next question. You said that the people we have bad addresses for that you reach out to them a couple times a year. How do you do that if we don't have their addresses, through the employer?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: These letters are sent to the address -- well, gosh, if we send it to the address on file, then it's not -- they're not going to get that.

COMMITTEE MEMBER FECKNER: Right.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Let me confirm that it doesn't go through their employer and --

COMMITTEE MEMBER FECKNER: And if not, maybe we just need to look at how we do that differently. Go maybe through the employer or maybe through the employee organizations start pushing this information and have everybody at least check.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: I agree. I agree. That's a great idea.

DEPUTY EXECUTIVE OFFICER HOFFNER: Mr. Feckner, I think one of the challenges we've had before is sending the information through the employer as we've done in the past.

COMMITTEE MEMBER FECKNER: Trust me, I get that.

DEPUTY EXECUTIVE OFFICER HOFFNER: It's gotten to the point where there's just a ream of information there and none of it was disseminated.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yes.

DEPUTY EXECUTIVE OFFICER HOFFNER: So I think we've kind of done both historically, and I think we continue to look at that, but it's also been a challenge when they don't disseminate any information and then nobody gets any data about the election.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Right. And --

COMMITTEE MEMBER FECKNER: And I would -- I would agree about the employer. That's why I said maybe we reach out to the employee and retiree organizations and ask them to start pushing it to make sure their folks have the right information to us.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: The retirees are pretty good at contacting us and changing their address. And they can contact us directly and change it. The active members have to change it through their employer. And so if they call, we can't change it for them online. They have to go through the employer. Otherwise, it just writes over it the next time we get roll.

And so like Mr. Hoffner said, you know, contacting the employer, they just sat there. Nothing happened. So trying to contract the member themselves, but, you know, it's being sent to an address that they're not responding to.

COMMITTEE MEMBER FECKNER: Right. Thank you. Thanks for all your hard work.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

CHAIRPERSON TAYLOR: Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. Again, thanks to the team for all your hard work. The first time I ran for a seat on this Board was back in I think '01. And so I've been really engaged in the following CalPERS elections for many years. And I have to say that over the years, there's been so much improvement and there have been exceptional events, but every time we've learned, and improved, and continued to learn and improve.

And I know I'm preaching to choir with everyone here, it's just the mystery of the low turnouts. I really believe that when we offered additional easy, secure ways for people to vote electronically that we would see an upsurge.

I can only imagine that, you know, what the turnouts might be if we didn't have those options with the changing demographics and everything. But I think that's still a mystery and a problem that we need to solve that does relate to engagement. And if you're an optimist, you say people are so happy they don't feel like they need to participate. If you're a pessimist, you say, oh, they hate us so much, they don't think it matters. They're not noting. But we don't know.

And so I would encourage you to, you know, take heart, continue to work to continuously improve these processes. And I echo Mr. Feckner's comments and the others as well. Let's continue to reach out to our stakeholders, as well as our staff. Everyone who might have some ideas and input for -- we've got to crack this nut. At some point, we've got to come up with some ideas about how we get people engaged enough to actually vote.

I thought after 2016, nobody would ever skip voting on anything again.

(Laughter.)

COMMITTEE MEMBER MILLER: Well, it hasn't quite happened. So I would encourage you to keep going. And feedback on the forums. If we continue to do this candidate forums, we really need to make some changes and improvements. This last one had some significant opportunities for improvement. And again reaching out to our stakeholders, internal and external for advice, I think, is probably a good first step.

Thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Um-hmm. Thank you

CHAIRPERSON TAYLOR: Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair. Again, I know that you and your team just do, you know, the strongest effort you can possibly do to do this. And I've watched the changes occur over time to try to increase the turnout. At the $29 number, it sounds like maybe a Starbucks gift card would vote.

(Laughter.)

CHAIRPERSON TAYLOR: I'm telling you.

BOARD MEMBER SLATON: It might be a better investment of money for this. I wanted to ask you on the -- I know we went to the online. But I wanted to ask if I were qualified to have voted in this election, could I have seen the forums, the candidate statements, and voted all in one place on this?

(Holding phone.)

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yes, sir.

BOARD MEMBER SLATON: And you still got this turn -- level of turnout?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yes, sir.

BOARD MEMBER SLATON: Boy, so they wouldn't even pick up their telephone to do it.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yes, sir.

BOARD MEMBER SLATON: You know, my guess is part of it is, you know, when you look at ballots in regular elections, not necessarily CalPERS, and you go to the down-ticket races where you don't know any of the candidates, you don't know anything about any of the candidates, so tendency is to pass on those elections, and not cast a vote, even though you've got the ballot literally right in front of you.

I guess it's just the level of interest that this is of any meaning to them. I mean, I had, you know, people ask me questions about it, about the election, but very few and far between.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Um-hmm.

BOARD MEMBER SLATON: You know, I could count on one hand the number of people who even broached it to me and I know a lot of people who work in the public sector.

So I don't know what the solution is, other than the gift card.

(Laughter.)

CHAIRPERSON TAYLOR: Five bucks. It's cheaper than -- all right. Thank you. I see no further questions from the Committee.

So we're going to move on from there. We are on Committee summary of direction.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Thank you.

CHIEF FINANCIAL OFFICER COHEN: Madam Chair, other than the discussion sort of for things to think about in the risk and election here, I didn't record anything as sort of being formal Board direction, but please correct me if I missed something.

CHAIRPERSON TAYLOR: So I think we had some specific direction for the election, if you want to come up, Ms. Malm.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

I didn't drop everything this time.

CHAIRPERSON TAYLOR: Yea.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yea.

So can I find my notes?

Okay. Yeah I -- yeah, the cost for electronic voting was one of those. Oh, here they are.

Okay. The emails on the MS system, if any of them were caught via filter. The cost for online and phone only versus the paper, and areas for improvement on the candidate forum. There's ome -- there was some thoughts.

CHAIRPERSON TAYLOR: Yeah.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

But I think the actual questions were emails filtered and the costs on the -- of the online and phone.

CHAIRPERSON TAYLOR: Correct. I don't think we were real specific with the candidate forum.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Well, yeah. Those were thoughts. It was --

CHAIRPERSON TAYLOR: Yeah

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

-- like contact through the employers versus their home, reaching out to the stakeholders, and team members on new ideas, and the areas for improvement on the candidate forum. And potentially not doing the candidate forum after our next election, possibly that might be a change that the Board discusses and the toolkit, if it's not worth -- if you don't find that worth your while.

Sure. Thank you. Yeah. So next year -- or after the retiree election in 2019, which we will start in February -- after that election completes, which will be in October of 2019, we will have the -- our off-year, the 2020 off-year. And that's the year that we will do and end-to-end review of our entire election process, and hopefully sit down with all of you to talk about modifications and ideas that you would like to see to the entire process.

Keep in mind that that's going to require a regulation change and possibly even legislative change. And so I'd like to start as early possible, so that we have enough time to make the changes that you want to see for the 2021 now.

CHAIRPERSON TAYLOR: Yes, we look forward to that.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Me too. Thanks.

CHAIRPERSON TAYLOR: Thank you, Kim.

I don't -- I want to make sure that Mr. Cohen is done.

CHIEF FINANCIAL OFFICER COHEN: Yep, I am.

CHAIRPERSON TAYLOR: That was it?

CHIEF FINANCIAL OFFICER COHEN: Thank you.

CHAIRPERSON TAYLOR: All right. Do we have any public comment?

CHAIRPERSON TAYLOR: All right. So the Risk and Audit Committee -- this meeting is adjourn.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 2:35 p.m.)

C E R T I F I C A T E   O F   R E P O R T E R

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 21st day of November, 2018.

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