

VIDEOCONFERENCE MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM
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2:00 P.M.

JAMES F. PETERS, CSR
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Theresa Taylor, Chairperson

Mr. David Miller, Vice Chairperson

Mr. Henry Jones

Ms. Fiona Ma, represented by Mr. Frank Ruffino

Ms. Stacie Olivares

Mr. Jason Perez

Mr. Ramon Rubalcava

BOARD MEMBERS:

Ms. Margaret Brown

Mr. Rob Feckner

Ms. Lisa Middleton

Ms. Eraina Ortega, also represented by Michelle Mitchell

Ms. Shawnda Westly

Ms. Betty Yee, represented by Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Michael Cohen, Chief Financial Officer

Mr. Matthew Jacobs, General Counsel

Mr. Scott Terando, Chief Actuary

Mr. Dan Bienvenue, Interim, Chief Operating Investment
Officer

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

STAFF:

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

Ms. Pam Hopper, Committee Secretary

Ms. Nina Ramsey, Associate Pension Actuary

Mr. Kurt Schneider, Supervising Pension Actuary

Mr. Dallas Stone, Acting Chief, Operations Support Services Division

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

2 CHAIRPERSON TAYLOR: So I'm going to call the
3 Finance and Administration Committee to order. It is 2:00
4 o'clock. And our first order of business is to call the
5 roll.

6 Ms. Hopper.

7 COMMITTEE SECRETARY HOPPER: Madam Chair, Henry
8 Jones?

9 COMMITTEE MEMBER JONES: Here.

10 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
11 Fiona Ma?

12 CHAIRPERSON TAYLOR: Unmute, Frank.

13 ACTING COMMITTEE MEMBER RUFFINO: Present.

14 COMMITTEE SECRETARY HOPPER: David Miller?

15 VICE CHAIRPERSON MILLER: Here.

16 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

17 CHAIRPERSON TAYLOR: Stacie?

18 She's here. Can she hear us?

19 CHIEF EXECUTIVE OFFICER FROST: Stacie, wave if
20 you can hear us.

21 Okay.

22 (Laughter.)

23 COMMITTEE SECRETARY HOPPER: Okay. Thank you.

24 Jason Perez?

25 COMMITTEE MEMBER PEREZ: Here.

1 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

2 COMMITTEE MEMBER RUBALCAVA: Here.

3 COMMITTEE SECRETARY HOPPER: Al here, Madam
4 Chair.

5 CHAIRPERSON TAYLOR: All right. Thank you.
6 Thank you. So let's move on to the approval of the April
7 21st, 2020 Finance and Administration Committee timed
8 agenda.

9 COMMITTEE MEMBER JONES: Move it.

10 CHAIRPERSON TAYLOR: Moved by Mr. Jones.

11 Seconded by Mr. Perez by no voice, but I can see
12 him. Do you want to say second?

13 COMMITTEE MEMBER PEREZ: Second.

14 CHAIRPERSON TAYLOR: Thank you.

15 You're on -- you're on record now. Thank you.

16 So it has been moved and seconded.

17 All those in favor and I need a vote Ms. Hopper.

18 COMMITTEE SECRETARY HOPPER: Henry Jones?

19 COMMITTEE MEMBER JONES: Yes.

20 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
21 Fiona Ma?

22 ACTING COMMITTEE MEMBER RUFFINO: Yes.

23 COMMITTEE SECRETARY HOPPER: David Miller?

24 VICE CHAIRPERSON MILLER: Yes.

25 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

1 COMMITTEE MEMBER OLIVARES: Yes. Sorry. There's
2 a delay.

3 COMMITTEE SECRETARY HOPPER: Thank you.
4 Jason Perez?

5 COMMITTEE MEMBER PEREZ: Yes.

6 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

7 COMMITTEE MEMBER RUBALCAVA: Yes.

8 CHAIRPERSON TAYLOR: All right. The approval of
9 the timed agenda has passed. Our next item is Item 4, the
10 Executive Report.

11 Mr. Cohen.

12 CHIEF FINANCIAL OFFICER COHEN: Thank you, Chair.
13 Good afternoon. I just wanted to highlight two things.
14 First of all, about two weeks ago, we held an employer
15 webinar to help explain what's going on to all of our
16 local government and school employers. It was very well
17 attended over 1,700 participants. We were able to answer
18 many of their questions. And so I viewed that as very
19 successful in terms of CalPERS getting information out
20 there as quickly as possible. It was a good team effort
21 between us, the Investment Office, and the Actuarial
22 Office, and the public affairs team. So that went very
23 well. And it's now up on our website so that anyone from
24 the public can view.

25 This second item to highlight is in this year's

1 budget, the Board authorized CalPERS to undertake an
2 electronic payment system for the first time, which has
3 turned out to be very timely given all of the efforts to
4 socially distance and reduce, you know, hand-to-hand
5 contact. And that went online about a month ago. And so
6 far, we've had almost 400 transactions through that new
7 portal totaling \$275,000. And so we'll certainly do
8 everything we can to publicize that portal and encourage
9 our members to continue to use it. But for the first
10 month, I would say that's very successful in terms of
11 people learning about it and using it to pay CalPERS any
12 amounts owed.

13 So with that, I'll turn it back to you for going
14 through the rest of the agenda.

15 You're still on mute, Chair.

16 CHAIRPERSON TAYLOR: Next up is action consent
17 items, number 5. I've received nothing to pull anything,
18 so I need a motion.

19 COMMITTEE MEMBER JONES: Move it.

20 CHAIRPERSON TAYLOR: Moved by Mr. Jones.

21 VICE CHAIRPERSON MILLER: Second, please.

22 CHAIRPERSON TAYLOR: Second by Mr. Miller

23 I've got action consent items moved and seconded.
24 Can we get a vote, Ms. Hopper.

25 COMMITTEE SECRETARY HOPPER: Henry Jones?

1 CHAIRPERSON TAYLOR: You want to unmute, Henry.

2 COMMITTEE MEMBER JONES: Yes.

3 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
4 Fiona Ma?

5 ACTING COMMITTEE MEMBER RUFFINO: Yes.

6 COMMITTEE SECRETARY HOPPER: David Miller?

7 VICE CHAIRPERSON MILLER: Aye.

8 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

9 COMMITTEE MEMBER OLIVARES: Yes.

10 CHAIRPERSON TAYLOR: There you go.

11 COMMITTEE SECRETARY HOPPER: Jason Perez?

12 COMMITTEE MEMBER PEREZ: Yes.

13 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

14 COMMITTEE MEMBER RUBALCAVA: Yes.

15 CHAIRPERSON TAYLOR: Okay. The motion -- that's

16 COMMITTEE MEMBER RUBALCAVA: Theresa, you're on
17 mute.

18 CHAIRPERSON TAYLOR: It's not showing on a mute.
19 Is that better? Hello?

20 COMMITTEE SECRETARY HOPPER: We hear you, Madam
21 Chair in the auditorium.

22 CHAIRPERSON TAYLOR: Okay. Because it was still
23 on. Okay. So receiving nothing to pull anything off of
24 information consent items, I'm going to move on to 7.

25 7a is the 20/21 annual budget proposal.

1 And again, Mr. Cohen.

2 CHIEF FINANCIAL OFFICER COHEN: Thanks, Chair.

3 And while we pull Jennifer Harris into the conference to
4 provide the details of the budget, I did want to say that
5 we did put this budget together before COVID came into
6 full effect. That being said, I think the budget document
7 shows that over the last several years, CalPERS has really
8 sort of taken serious efforts to tighten its belt. The
9 budget in front of you continues to flat over all
10 personnel. A number that we've been at for the last
11 several years.

12 In addition, we've taken major steps to bring in
13 a lot of the full-time staff that weren't in that official
14 count. We talked a lot about permanent positions in the
15 blankets the last several years. Those have now been
16 eliminated. This budget makes serious efforts to reduce
17 the seasonal clerks, as well as overtime being reduced.

18 So I think my key point would be that as COVID
19 emerges and sort of continues to -- changes the way we do
20 business, the CalPERS' executive team is completely
21 committed to taking another look at all of our
22 expenditures.

23 We understand the pressures that our employers
24 are under, as their revenue sources start drying up on
25 them and their pension costs continue to rise. And so

1 every dollar we can save is a dollar that we won't have to
2 collect from our participating employers. So we're going
3 to take an extra effort to tighten our belts even further
4 and make sure that every expenditure we make is in
5 furtherance of the mission and absolutely essential.

6 So with that, let me turn it over to Jennifer
7 Harris, our budget director to run through the details on
8 the budget proposal.

9 FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

10 CHIEF HARRIS: Good afternoon, Madam Chair and members of
11 the Committee. Jennifer Harris, CalPERS team member.

12 Agenda Item 7a is an action item. And your
13 approval today will set the authorized funding level for
14 upcoming fiscal year 2020-21. Within this item is
15 information on current year expenditures, which I'll
16 briefly touch on first, beginning on page five of
17 Attachment 1.

18 As of December 31st, 2019, CalPERS expended 827.7
19 million or 43.6 percent of the 2019-20 budget. Based on
20 mid-year projections, CalPERS estimates that it will end
21 the fiscal year with approximately 44.2 million in
22 unexpended funds. 31 million of this is in administrative
23 operating costs and is largely attributable to salary
24 savings, resulting from a seven and a half percent vacancy
25 rate.

1 CalPERS also projects 12.9 million in unexpended
2 third-party administrator fees. This is a result of last
3 fall's open enrollment period, during which time, members
4 chose health plans with lower administrative fees.

5 Due to COVID-19, actual expenses for the last six
6 months of the fiscal year are likely to differ from this
7 mid-year projection. For example, at the end of the third
8 quarter on March 31st, 2020, early numbers indicate that
9 CalPERS could have an additional 8.6 million in unexpended
10 funds within administrative operating costs. This
11 includes another three million unexpended resulting from
12 additional salary savings, as well as 5.6 million in
13 unexpended OE&E funds, largely driven by canceled travel,
14 training, and consumer events.

15 As we've discussed previously, budgeted funds
16 remain in the PERF until actually expended. Therefore,
17 these surpluses that we're projecting now remain available
18 for investment.

19 Moving on to the proposed budget starting on page
20 eight of attachment 1. The total 2020-21 budget is
21 proposed at 1,694,000,000. This is a 204.6 million
22 decrease, or 10.8 percent decrease, compared to the
23 current year.

24 The major driver of this decrease is a reduction
25 in estimated investment external management fees and

1 third-party administrator fees, both of which are largely
2 influenced by external factors, such as market
3 fluctuations and member enrollment. In contrast,
4 operating costs and building costs are estimated to
5 increase 18.3 million, or 2.7 percent.

6 CalPERS' budget is comprised of six expenditure
7 categories. I'll highlight the year-over-year changes for
8 each category beginning with administrative operating
9 costs on page ten of your attachment.

10 In 2020-21, CalPERS proposes 545.8 million for
11 administrative operating costs. This is a 17 million, or
12 3.2 percent, increase compared to the current year. There
13 is a 9.4 million net increase in personal services. This
14 is a reflection of a 15.7 million increase for
15 collectively bargained salary and benefits that will be
16 effective on July 1st, as well as 6.1 million increase in
17 incentives for executive positions and investment
18 classifications.

19 These increases are offset by a 12.4 million
20 reduction in expenses. This includes a significant
21 reduction in temporary help, the redirection of high-cost
22 vacancies to lower salaried positions, and refined budget
23 estimates.

24 Within OE&E, there is a 7.6 million increase,
25 primarily to improve disaster recovery and information

1 security capabilities, to refresh CalPERS' network and
2 server hardware, and to augment insurance coverage.

3 The annual budget includes information on
4 authorized positions within the organization. As detailed
5 on page 11, CalPERS has 2,875 authorized positions. While
6 this figure has remained changed over the last few years,
7 you can see that CalPERS has redirected positions between
8 branches to meet workload needs or for reorganization
9 purposes.

10 The budget also provides information on temporary
11 help. As displayed on page 12, CalPERS reduced funding
12 for temporary help 10.3 million over the last five years.
13 Page 13 reveals that these reductions are primarily driven
14 by a reduction in -- or the elimination of all permanent
15 blankets as well as a significant 84 percent reduction in
16 seasonal clerks. During this upcoming 2020-21 fiscal
17 year, CalPERS commits to fully eliminating the use of
18 seasonal clerks for non-seasonal workload.

19 Finally, the administrative operating cost has
20 some information on overtime. You can see over the past
21 five years, CalPERS has consistently reduced overtime from
22 2.7 million in 2015-16 to 1.9 million estimated for
23 2020-21.

24 The next expenditure category is investment
25 operating costs beginning on page 14. These are expenses

1 specifically incurred to support investment activities.

2 In 2020-21, CalPERS proposes 124.9 million. This is a net
3 4.4 million increase, or 3.7 percent increase, compared to
4 the current year. The net increase includes a 1.2 million
5 increase for consultants, a 2.6 million decrease for
6 operating costs, largely for appraisal services, and a 5.8
7 million for technology expenses primarily to continue the
8 implementation of the Total Fund Data Strategy.

9 Following enterprise -- following investment
10 operating costs are enterprise projects. However, CalPERS
11 does not propose any funds in the upcoming fiscal year for
12 enterprise projects.

13 Headquarters building costs, shown on page 17,
14 are estimated at 25.8 million. This is a very slight
15 \$6,000 increase compared to the current year. There is a
16 1.3 million increase in operating costs, offset by a 1.3
17 million decrease in non-operating costs.

18 The next expense category is investment external
19 management fees displayed on page 19. In 2020-21, CalPERS
20 estimates fees at 685.9 million. This is a 213.8 million
21 decrease, or 23.8 percent decrease, compared to 2019-20.
22 The drivers of the estimated decrease are mainly in global
23 equity and multi-asset class investments for both base and
24 performance fees. These reductions are the result of
25 investment strategy reviews that drove a reduction or

1 termination for some external manager contracts and an
2 increased reliance on internal investment staff.

3 Additionally, there is a decrease in real asset
4 performance fees, which is expected, given the timing and
5 structuring of performance payments.

6 The graphic on page 20 details actual investment
7 manager fees paid over the past five years and revealed a
8 significant 42 percent decrease from 1.3 billion in
9 2014-15 to 760 million in 2018-19. The decrease is
10 largely attributable to CalPERS' efforts to restructure
11 base and performance fee contracts.

12 The graphic also illustrates that while total
13 assets under management, or AUM, is increasing, external
14 AUM is decreasing, meaning more assets are being managed
15 internally by CalPERS staff. CalPERS will continue its
16 efforts to reduce external AUM in the current and upcoming
17 fiscal years.

18 Finally, the 2020-21 budget proposes 312.7
19 million for third-party administrator fees. These are
20 fees paid to external parties with whom CalPERS contracts
21 to provide communication, record keeping, and
22 administration for the health, long-term care, and pension
23 prefunding programs. The 312.7 million proposed is nine
24 million less than the current year, and was driven by
25 members choosing health plans with lower administrative

1 fees.

2 This line item is one that CalPERS typically
3 brings back for adjustment at mid-year in the fall. And
4 we do that because we get more current enrollment data
5 throughout the fiscal year and at the beginning of open
6 enrollment.

7 Again, the total 2020-21 budget is 1,694,000,000.
8 As Michael Cohen explained, CalPERS developed this budget
9 prior to the COVID-19 pandemic. And as a result, it does
10 not include any forecasted fiscal impacts. However,
11 CalPERS will continue to monitor the impacts of COVID-19
12 and scrutinize all expenses to make sure they're
13 absolutely essential.

14 Any resulting changes to the budget will be
15 brought to the Board in November for the mid-year review.
16 At this time, CalPERS does recommend the Board approve the
17 budget as proposed to provide the funding for the upcoming
18 fiscal year beginning this July 1st.

19 Thank you. That concludes my presentation.

20 CHAIRPERSON TAYLOR: Thank you, Jennifer.

21 I do have some questions on this. So our first
22 question goes to Margaret Brown.

23 BOARD MEMBER BROWN: Hi, Jennifer. Thank you for
24 that thorough presentation. I want to draw your attention
25 to -- let's see if I can get it to go -- to page 19 of

1 attachment 1. Excuse me, I'm trying to get this to
2 navigate back. Just give me a second. The investment
3 external management fees. And you talked about the reason
4 for the savings. And I just had a question about the
5 increase in cost for management fees. I'm looking at
6 private equity is going from 295, I assume that's million,
7 to 300 million, or a 1.7 percent increase. Do we know
8 specifically why that is? Is that for the vendor we
9 brought on to help us with co-investments or? No.

10 CHIEF FINANCIAL OFFICER COHEN: Let's go ahead
11 and bring Dan Bienvenue from the Investment Office into
12 the conference. And I think he'll be in the best position
13 to answer your questions regarding their forecast.

14 BOARD MEMBER BROWN: Thanks, Mr. Cohen.

15 CHIEF FINANCIAL OFFICER COHEN: Absolutely.

16 CONFERENCE MODERATOR: Hi, Dan. You should be
17 able to turn your video and your audio on.

18 INTERIM CHIEF OPERATING INVESTMENT OFFICER
19 BIENVENUE: All right. Can you hear me?

20 All right. Excellent.

21 You know those management fees are very much
22 forecasts and they're difficult forecasts to make, just
23 because we don't know obviously how much capital is going
24 to get called. We don't know exactly what we're going to
25 commit -- be able to commit to at the beginning of the

1 year. But using our pacing models, that's where we
2 believe what will get called on the private equity side
3 will result in those fees going to that 300 number, that
4 \$5 million increase.

5 BOARD MEMBER BROWN: And then what about the
6 opportunistic strategies, that's going up 5.4 million? It
7 looks like it's more than a 100 percent. I'll draw that
8 to Michael Cohen's attention.

9 FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

10 CHIEF HARRIS: Margaret, this is Jennifer Harris.

11 Yes, that is an area. It's actually going up 250
12 percent. Our apologies. We did go back and double check
13 that all of the other percentage increases are accurate.

14 BOARD MEMBER BROWN: Yeah. I was going to say.
15 I was wondering if you couldn't go above a hundred. Okay.
16 So what's the increase for Mr. Bienvenue?

17 INTERIM CHIEF OPERATING INVESTMENT OFFICER

18 BIENVENUE: Yeah. So that increase -- now, as Michael
19 said, this was -- and I know this came up yesterday and we
20 decided to talk about it today, so I'm happy we're talking
21 about it. As Michael said, this increase where all of
22 these projections were done sort of pre-COVID, so this
23 does not include what we think will change with COVID.

24 But I will say that with the opportunistic
25 strategies, we have been focusing there. We do think that

1 some of these, you know, sort of opportunistic areas are
2 places where there are advantages to be gained and capital
3 to be deployed. So, you know, as money has come
4 internally managed, especially, you know, on the equity
5 and the MAC side, and greatly reducing, you know, the
6 overall fee load by, you know, something like \$214
7 million, there are pockets where it's going up and those
8 are places where we're committing.

9 BOARD MEMBER BROWN: Great. Thank you.

10 CHAIRPERSON TAYLOR: Great. I have a question
11 from Jason.

12 Mr. Perez.

13 COMMITTEE MEMBER PEREZ: I just wanted to say
14 thank for you guys sharpening the pencils. I know last
15 time we had discuss the budget, there were some issues.
16 Not issues. There was some substantive discussion now.
17 It looks like you guys listened to and pushed. And that
18 is a huge, huge difference to put that kind of money back
19 in the members' pockets. So thank you.

20 CHAIRPERSON TAYLOR: I will second that.
21 These -- these savings over the last few years are
22 amazing. I appreciate focusing on our blanket positions
23 and our seasonals.

24 I did have one quick question. You said you had
25 a 7.5 percent vacancy rate. Is that something you are --

1 and then later, you said something about having --
2 replacing vacancies with lower cost positions, I think.
3 So I just wanted to -- is the vacancy rate something we're
4 going to rectify or are you trying to get rid of those
5 positions?

6 FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

7 CHIEF HARRIS: Hi, Chair. This is Jennifer Harris.

8 CalPERS does typically run between seven and seven and a
9 half percent vacancy rate. So the seven and a half was
10 the vacancy rate on December 31st.

11 On March 31st, we are actually at an eight
12 percent vacancy rate. Recruitments are taking a little
13 bit longer, given the telework environment, and the
14 efforts that we're doing to mitigate impacts of COVID-19.

15 The redirection of the high cost vacancies to
16 lower salaried positions is really the efforts of our
17 position pool, where we take a look at refilling any
18 vacancy that comes up. And if it's no longer needed for
19 the original purpose, then we redirect it where it's
20 mostly critically -- most critically needed within the
21 organization. So that is what happened there.

22 CHAIRPERSON TAYLOR: Okay.

23 FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

24 CHIEF HARRIS: Over the last year and a half, two years,
25 we have actually redirected over 40 positions in the

1 position-pooling effort.

2 CHAIRPERSON TAYLOR: Okay. Great. I appreciate
3 it. Thank you. And then -- I'm sorry. It looks like I
4 have a question from Mr. Miller.

5 VICE CHAIRPERSON MILLER: Not on this item. Next
6 item, I have a comment.

7 CHAIRPERSON TAYLOR: Mr. Jones.

8 COMMITTEE MEMBER JONES: Yes. Thank you. Madam
9 Chair. I just want to also thank the staff for a very
10 clear presentation. The budget presentation seems to
11 continuously -- continues to improve year over year. And
12 also just to recognize and highlight your savings of \$213
13 million over that period of time that you mentioned. And
14 I think that we just -- do just focus on your bottom line
15 on your investment management fees, because as you execute
16 your strategies throughout the year, you're going to be
17 moving back from one asset class to another. So it's
18 understandable that you could see some swings between
19 asset classes.

20 But the bottom line is what we need to focus on,
21 because that's the amount of money that's going to be left
22 in the fund to earn investment returns.

23 And I also want to congratulate you on reducing
24 your number of days to provide actual cash flows from five
25 to three days, because that's two more days of money

1 that's staying in the fund to earn interest to pay -- help
2 pay our member's benefits. So congratulations on a job
3 well done.

4 CHAIRPERSON TAYLOR: Thank you. And I will
5 reiterate that as well. Just very impressed that we --
6 you guys have done such a great job at cutting our costs.

7 The opportunistic strategies that went up more
8 than a hundred percent, two hundred and something you
9 said, I think we discussed yesterday, and Dan said that as
10 much, but I think a lot of that has to do with leverage
11 and debt that we were talking about yesterday. So I think
12 that's why those have gone up.

13 But again, I acknowledge that Henry is correct is
14 it's going to swing back and forth, the fact that the
15 investment office has saved quite a bit of money is great.
16 The overall savings is amazing.

17 And with that, Ms. Olivares has a question.

18 COMMITTEE MEMBER OLIVARES: Thank you. And this
19 question is for -- I think, it's for Dan and Mike. I'm
20 trying to understand again what our cost of managing money
21 is. So I think before we talked about it being around 8
22 bps. If we look at the external management fees and the
23 overhead for our Investment Office, I want to make sure
24 I'm getting this correct. So I see that our external
25 management fees are almost 686 million -- go back to that.

1 And then I'm trying to understand exactly what we're
2 putting into the investment side, in terms of the fund
3 management?

4 INTERIM CHIEF OPERATING INVESTMENT OFFICER

5 BIENVENUE: So, Ms. Olivares, I'll let Mike speak to what
6 is sitting in sort of what part of the budget between
7 Michael and Jennifer. I can tell you for ourselves when
8 I've set eight basis points in the past, that is more on
9 the public market side. So that's global equity was run
10 around eight basis points. I think fixed income was
11 around six. With this reduction in fees, we would expect
12 the equity in all of the public markets to be down in --
13 down in that sort of five to six basis point range, but
14 that's not for the whole plan. For the total portfolio,
15 we're in kind of the mid-20s, I think. If I have to
16 remember the most recent number, it was around 26 to 28
17 basis points total, again, the private assets, you know,
18 being, you know, frankly materially more expensive to run
19 and to manage. Although, they're also -- also that's
20 where the expected returns are certainly on the private
21 equity side.

22 But the total is around that 26 to 28, if I
23 recall correctly, and we would see that number coming down
24 by this \$200 million.

25 COMMITTEE MEMBER OLIVARES: What does that 26 to

1 28 bps include? That's what I'm a little lost on. So
2 there's investment salaries, right? There's external fund
3 managers. But does that include some of the actuarial
4 expenses that are related to the fund?

5 INTERIM CHIEF OPERATING INVESTMENT OFFICER

6 BIENVENUE: Michael or Jennifer, is this something you can
7 help with.

8 CHIEF EXECUTIVE OFFICER FROST: Yes. Jennifer,
9 do you want to try. And if not, I can do that.

10 FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

11 CHIEF HARRIS: Sure. No. So we do have funds for the
12 Investment Office in various places within the budget. So
13 for staff salaries, you can see that on page 22. That's
14 the administrative budget by branch. So the Investment
15 Office, there's 95 million budgeted. So that's both
16 salaries, benefits, and OE&E for the Investment Office.

17 Then you see the investment operating costs,
18 which were that budget component, the 124.9 million
19 budgeted for 2020. And then there's the external manager
20 fees. So those three amounts would really be what is
21 involved. And what you're talking about does not include
22 any of the actuarial costs. You can see the Actuarial
23 Office costs also on page 22. They're budgeted at 13.5
24 million.

25 COMMITTEE MEMBER OLIVARES: Right. I guess I'm

1 trying to compare our investment operations and fund
2 management with the cost of another party providing this.
3 Like, for example, say if there was an ETF, for example,
4 that did the global equities. I mean, there is sounds
5 like we're very competitive. If we were to look at a
6 different type of blend in terms of fund management, I
7 just want to make sure that we're competitive. And I
8 don't see a complete picture here. So it's kind of hard
9 for me to piece this together.

10 CHAIRPERSON TAYLOR: Dan.

11 INTERIM CHIEF OPERATING INVESTMENT OFFICER

12 BIENVENUE: You know, Ms. Olivares, I think one thing that
13 could be helpful would be to look at the CEM survey from
14 past years, which does show CalPERS operating in that sort
15 of low cost quadrant relative to our peers. To your
16 point, there -- there aren't ETFs with -- at least that
17 I'm aware of, with a blend similar to ours. And it is the
18 case that the -- you know, the private assets make it
19 challenging. Certainly on the public markets, we like to
20 compare ourselves to -- you know, to the major -- the
21 major sort of asset managers. And Vanguard was out
22 speaking to our maybe -- maybe five or six years ago. And
23 I think their total cost comes in around 18 basis points.
24 So we certainly feel very competitive on the public market
25 side.

1 And frankly, we've done a lot of work on the
2 private market side too. And I think you see that in the
3 CEM numbers. But I do think the CEM is probably the best
4 benchmark that I can think of to help -- to help, you
5 know, sort of get what you're digging at.

6 COMMITTEE MEMBER OLIVARES: Do we -- thank you,
7 and appreciate that. I'd love to see some more
8 information. Do we compare our internal cost for fund
9 management to that of other large institutional investors?

10 INTERIM CHIEF OPERATING INVESTMENT OFFICER
11 BIENVENUE: Yes. That's what that CEM benchmarking survey
12 does is it's other asset owners. To be fair, given our
13 size, it's hard to find too many comparables. But, you
14 know, we -- when we are compared to our, you know, other
15 sort of large asset owners, whether it's U.S.-based plans
16 or otherwise, our -- as I say, we come in that sort of low
17 cost quadrant.

18 COMMITTEE MEMBER OLIVARES: Yeah.

19 CHIEF EXECUTIVE OFFICER FROST: Ms. Olivares, I
20 will make certain to get the CEM data out to you and the
21 rest of the Committee. But essentially, CEM is an
22 institution out of Toronto, Canada. They create a peer
23 group for each of the participating systems, and then they
24 go through those four quads of defining the value and the
25 cost related to how that fund is operating, whether it's

1 on the staff or external management fees, et cetera.

2 So I'll send that out to you. I do know that we
3 often bring CEM out to present those numbers in person.
4 So I'll work with Dan to figure out what the best timing
5 of that might be, if the Committee is interested in
6 hearing this in more detail.

7 But in the meantime, I'll get the CEM -- our most
8 recent results from CEM out to the Committee.

9 COMMITTEE MEMBER OLIVARES: Great. Thank you,
10 both.

11 CHIEF EXECUTIVE OFFICER FROST: Yeah.

12 CHAIRPERSON TAYLOR: Great. Seeing no more
13 questions, this is an action item, so I need a motion to
14 move the item.

15 VICE CHAIRPERSON MILLER: So moved.

16 COMMITTEE MEMBER JONES: Second.

17 CHAIRPERSON TAYLOR: Moved by Mr. Miller,
18 seconded by Mr. Jones.

19 Ms. Hopper, can you take a vote?

20 COMMITTEE SECRETARY HOPPER: Yes Madam Chair.

21 Henry Jones?

22 CHAIRPERSON TAYLOR: Unmute, Henry.

23 Try again.

24 (Laughter.)

25 COMMITTEE MEMBER JONES: Yes. Did you get me

1 this time?

2 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
3 Fiona Ma?

4 CHAIRPERSON TAYLOR: Frank?

5 ACTING COMMITTEE MEMBER RUFFINO: Yes.

6 CHAIRPERSON TAYLOR: Okay. Yes.

7 COMMITTEE SECRETARY HOPPER: Thank you.

8 David Miller?

9 VICE CHAIRPERSON MILLER: Aye.

10 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

11 COMMITTEE MEMBER OLIVARES: Aye.

12 COMMITTEE SECRETARY HOPPER: Jason Perez?

13 COMMITTEE MEMBER PEREZ: Aye.

14 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava.

15 COMMITTEE MEMBER RUBALCAVA: Aye.

16 CHAIRPERSON TAYLOR: All right. Thank you.

17 Motion carries.

18 Moving to 7b, Annual Review of Board Member
19 Employer Reimbursements. And, Mr. Cohen.

20 CHIEF FINANCIAL OFFICER COHEN: Yes. Thank you,
21 Chair. This is the annual presentation we bring to you.
22 For those Board members who are eligible, it authorizes a
23 percentage of their salary to be reimbursed for their
24 local employer -- local or State. The percentages are
25 roughly the same as last year as laid out in the agenda

1 item. Unless there's questions, I think I'll just leave
2 it at that, at this point.

3 CHAIRPERSON TAYLOR: Was this a David question?

4 VICE CHAIRPERSON MILLER: Yeah. Not a question.
5 Just a comment that I'll probably be coordinating with
6 staff to revise my reimbursement, because I'm happy to say
7 I will be serving as Vice Chair of the Investment
8 Committee. Thank you all for that and look forward to
9 that service. But I will probably be asking to have that
10 revised to reflect that, as my employer certainly wants
11 the details.

12 CHAIRPERSON TAYLOR: These are for this year, Mr.
13 Cohen, or next year?

14 CHIEF FINANCIAL OFFICER COHEN: These are for
15 this -- this year.

16 CHAIRPERSON TAYLOR: Okay.

17 CHIEF FINANCIAL OFFICER COHEN: And so certainly
18 we can bring back, at a future Board meeting, any
19 necessary amendments, whether it's a Finance Committee
20 meeting or just straight to the full Board, if there's a
21 slight adjustment.

22 CHAIRPERSON TAYLOR: Okay. That sounds fine.
23 Any other comments?

24 Okay. I've -- this is action item. It needs to
25 be moved.

1 Mr. Rubalcava.

2 COMMITTEE MEMBER RUBALCAVA: I'll move it.

3 CHAIRPERSON TAYLOR: Moved by Mr. Rubalcava.

4 VICE CHAIRPERSON MILLER: (Hand raised.)

5 CHAIRPERSON TAYLOR: Seconded by Mr. Miller.

6 Ms. Hopper, if we could please take a vote again.

7 COMMITTEE SECRETARY HOPPER: Henry Jones?

8 CHAIRPERSON TAYLOR: I'm sorry.

9 COMMITTEE MEMBER JONES: Aye.

10 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
11 Fiona Ma?

12 ACTING COMMITTEE MEMBER RUFFINO: Yes.

13 COMMITTEE SECRETARY HOPPER: David Miller?

14 VICE CHAIRPERSON MILLER: Aye.

15 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

16 COMMITTEE MEMBER OLIVARES: Aye.

17 COMMITTEE SECRETARY HOPPER: Jason Perez?

18 COMMITTEE MEMBER PEREZ: Aye.

19 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

20 COMMITTEE MEMBER RUBALCAVA: Aye.

21 CHAIRPERSON TAYLOR: All right. Motion carries
22 on 7b.

23 Moving on to 7c, State Valuation Employer/
24 Employee Contribution Rates.

25 CHIEF FINANCIAL OFFICER COHEN: And on this one

1 we'll need to bring in the actuaries, so Scott Terando and
2 Nina Ramsey if the host can go ahead and bring them in.
3 They'll be presenting their proposed rate for adoption.

4 CONFERENCE MODERATOR: Yes, Nina and Scott, you
5 should be able to turn on your video and audio.

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

8 CHIEF ACTUARY TERANDO: Are we good?

9 CHAIRPERSON TAYLOR: Okay. Scott, I can see you.
10 I don't know if I can see Nina.

11 CHIEF ACTUARY TERANDO: Can you hear me?

12 CHAIRPERSON TAYLOR: Yes.

13 CONFERENCE MODERATOR: Hi, Nina. We're not
14 getting any audio from your microphone.

15 ASSOCIATE PENSION ACTUARY RAMSEY: Now?

16 CHAIRPERSON TAYLOR: There you go.

17 ASSOCIATE PENSION ACTUARY RAMSEY: Okay.

18 CHIEF ACTUARY TERANDO: All right. Good
19 afternoon. Madam Chair, members of the Committee, Scott
20 Terando, Chief Actuary for CalPERS.

21 This agenda item recommends adoption of the
22 employer and employee contribution rates for the State
23 plans for fiscal year starting July 1st, 2020. The agenda
24 item includes updated actuarial results. And for the most
25 part, the results are in alignment with what was presented

1 from last year's annual valuation.

2 At this point, I'll pass it along to Nina Ramsey
3 who will step through a more detailed analysis of our
4 results.

5 ASSOCIATE PENSION ACTUARY RAMSEY: Thank you,
6 Scott.

7 Good afternoon, Madam Chair, members of the
8 Committee. Nina Ramsey, CalPERS actuarial team member.
9 We're here to present to you the results from the latest
10 State valuation as of June 30th, 2019. This valuation
11 determines the required contributions for the 2020-21
12 fiscal year.

13 Next slide, please.

14 --o0o--

15 ASSOCIATE PENSION ACTUARY RAMSEY: Thank you.

16 The State plan consists of the five-member
17 subgroups listed on slide two, the State miscellaneous,
18 industrial, safety, peace officers and firefighters, and
19 CHP.

20 Next slide, please.

21 --o0o--

22 ASSOCIATE PENSION ACTUARY RAMSEY: There have
23 been a few significant events since our last valuation.
24 First, the PERF earned a 6.7 percent investment return for
25 the year ending June 30th, 2019. We also implemented our

1 fiscal year is \$7.348 billion, which is 374 million
2 dollars greater than the current year's contribution.

3 The rates are increasing primarily due to the
4 following reasons:

5 First, we have the progression of the existing
6 amortization basis, which ramp in costs over five years;
7 also, we did experience an investment loss for the June
8 30th, 2019 year; and lastly, we've had -- the State plans
9 have a payroll growth of 4.7 percent, which is greater
10 than our assumed payroll growth rate of 2.75 percent.

11 These increases were offset by members entering
12 into lower benefit formulas due to PEPRAs. And we estimate
13 that the State will see a \$76.3 million savings in the
14 20-21 fiscal year due to the increase in PEPRAs members.

15 Next slide, please.

16 --o0o--

17 ASSOCIATE PENSION ACTUARY RAMSEY: Here, we have
18 a comparison of the current year contributions to next
19 year's contributions by each member subcategory. You can
20 see that three of the five plans have increasing rates.
21 This includes miscellaneous, industrial, and CHP, while
22 the safety and peace officer firefighter plans have a
23 decreased rate. The contribution dollar amounts are
24 increasing for all plans. The reason the dollar
25 contribution is increasing for the plans with rate

1 decreases is the fact that their payroll grew more than
2 the contribution rate decreased.

3 On this slide in the column titled "Estimated
4 Rate", those are the projected rates from our last year's
5 valuation report. So you can see that we are within one
6 percent for all of the plans comparison to the final rate
7 and their projected rate from last year.

8 Next slide, please.

9 --o0o--

10 ASSOCIATE PENSION ACTUARY RAMSEY: So on this
11 slide we have the total 2020-21 contributions by plan. We
12 have on the left, the actuarially determined contribution
13 rate, in the center is the additional statutory
14 contribution rate, which the State makes on top of the
15 rates we calculate, to give the total contribution rate on
16 the far right column.

17 The additional con -- I'm sorry. The additional
18 statutory contribution, it's really just more for
19 informational purposes for you. We're not asking you to
20 approve those. This is something that the State handles
21 during their annual budget process.

22 Next slide, please.

23 --o0o--

24 ASSOCIATE PENSION ACTUARY RAMSEY: So here we
25 have a brief history of the State's overall funded status.

1 The funded status is a measure of the plan's overall
2 health. Each plan has its own funded status, which can be
3 found in the agenda item on attachment 2. But here is the
4 overall State funded status, which has increased by half a
5 percent to 70 percent as of June 30th, 2019.

6 Next slide, please.

7 --o0o--

8 ASSOCIATE PENSION ACTUARY RAMSEY: All right.

9 Moving on to member contribution rates. So, in general,
10 most State employees are exempt from the PEPRA requirement
11 that they pay half of the normal cost. However, there are
12 a few State PEPRA groups that do pay half of the normal
13 cost. This includes the California Legislature,
14 California State University, and the Judicial Branch.

15 This year, the normal cost has not changed by one
16 percent or more, so no change is necessary for the 20-21
17 fiscal year.

18 Next slide, please.

19 --o0o--

20 ASSOCIATE PENSION ACTUARY RAMSEY: There are
21 bargaining units who have agreed to pay half of the normal
22 cost for all of their members. So this would include
23 classic and PEPRA. This -- this would be for bargaining
24 Units 5, 9, 10, and 16, who will be having changes in the
25 20-21 fiscal year.

1 So Bargaining Unit 9, their agreement to pay half
2 of the normal cost ends on June 30th of this year. So on
3 July 1st, they plans who have changed will revert back to
4 what was previously bargained for. So the safety members
5 in Bargaining Unit 9 will see a decrease from 11.5 to 11
6 percent, and the miscellaneous members in Bargaining Unit
7 9 will see a decrease from 8.5 to 8 percent effective July
8 1st, 2020.

9 Bargaining Unit 5 agreement to pay half of the
10 normal cost is effective on July 1st of this year. So
11 this will be the first time that they have changed. The
12 miscellaneous members in Bargaining Unit 5 will go from
13 paying 8 to 8.25 percent, and the CHP members in
14 Bargaining Unit 5 will increase from 11.5 to 12.5 percent.
15 The CHP members will continue to increase their member
16 contribution rate by one percent every year until it
17 reaches 14.75 percent, which is half of the current normal
18 cost.

19 All of the other plans within these bargaining
20 units will not see any changes.

21 Next slide, please.

22 --o0o--

23 ASSOCIATE PENSION ACTUARY RAMSEY: So lastly, we
24 have the projected future employer rates. You can see
25 that the rates will be increasing over the next few years.

1 This is mainly due to the progression of the amortization
2 basis, which ramp in costs over five years. The rates
3 begin to decrease in the 23-24 fiscal year for safety and
4 the 24-25 fiscal year for all other plans. This is when
5 the plans will begin to see the completion of some of
6 their current amortization basis that will just drop off
7 and then decrease the contribution rate.

8 These projections assume a seven percent
9 investment return and no other gains or losses. So these
10 will be -- likely be different in the final report that
11 will come out later this summer, which will use the final
12 June 30th, 2020 investment return.

13 As I mentioned, our report will be out later this
14 summer and will include our methods, assumptions, and
15 participant data information as well as the final
16 investment return.

17 This concludes my presentation and with that I'd
18 be happy to take any questions.

19 CHAIRPERSON TAYLOR: So I want to thank you for
20 the presentation. It was very good, very thorough. And
21 as we all know, this is all going to change probably,
22 so -- in your next report, we will see a difference here,
23 I'm sure.

24 I had heard that the State rates were -- that
25 non-PEPRA members were also increasing. Is that -- am I

1 incorrect about that, increasing their contribution, is
2 that incorrect?

3 ASSOCIATE PENSION ACTUARY RAMSEY: So for CSU,
4 Legislature, Judicial Branch, those changes would apply to
5 PEPRA members only. But for Bargaining Units 5, 9, 10 and
6 16, that applies to classic and PEPRA.

7 CHAIRPERSON TAYLOR: Okay. So that's where I
8 heard that from. It's not any on other bargaining units.
9 They bargained specifically to change it is what you're
10 saying?

11 ASSOCIATE PENSION ACTUARY RAMSEY: Right now,
12 that's -- those are the only bargaining units that have
13 agreed.

14 CHAIRPERSON TAYLOR: Okay. All right. Any
15 questions? I do have some questions.

16 Mr. Miller.

17 VICE CHAIRPERSON MILLER: Yeah. Thank you very
18 much. This has been a very helpful report. I had
19 communicated a little with Scott just expressing the
20 interest in seeing this and how keenly interested all the
21 stakeholders will be to see the reports in June and see
22 what the newest round of numbers looks like. So I really
23 appreciated it. It was really well put together, well
24 presented. In difficult times, I appreciate everybody
25 working under these new challenges. So great job, Scott,

1 and your team, and you as well Ms. Ramsey.

2 Thank you.

3 ASSOCIATE PENSION ACTUARY RAMSEY: Thank you.

4 CHAIRPERSON TAYLOR: Thank you.

5 Also, I have a question from Ms. Brown.

6 BOARD MEMBER BROWN: Thank you, Madam Chair.

7 I just had a question on the slide that's up,
8 page 10 of 10, on the California Highway Patrol. You
9 know, looking going across, it looks like we go up to 59
10 percent in 21-22, then we go down in 22-23, and then they
11 go back up in 23-24, can you -- I don't know why that is,
12 but maybe you can tell us why.

13 ASSOCIATE PENSION ACTUARY RAMSEY: Absolutely.
14 So as I mentioned, in this coming fiscal year, the members
15 will have their contribution rate increased. So if the
16 members are paying another extra percent every year, that
17 means that's one percent less that the employer will be
18 paying. So that's why it kind of fluctuates a little bit,
19 because right now they're paying 12.5, in the 20-21 year,
20 it will be 13.75, 14.5, and then 14.75 in 23-24, where it
21 kind of stabilizes and goes down.

22 BOARD MEMBER BROWN: Great. Okay. Thank you.

23 ASSOCIATE PENSION ACTUARY RAMSEY: Um-hmm.

24 CHAIRPERSON TAYLOR: Okay. Again, Nina thank
25 you. Scott, thank you for this report on this. This is

1 also an action item, so I need someone to move the item.

2 VICE CHAIRPERSON MILLER: I'll move it.

3 CHAIRPERSON TAYLOR: Moved by Mr. Miller.

4 I need a second

5 COMMITTEE MEMBER RUBALCAVA: Second.

6 COMMITTEE MEMBER OLIVARES: I second.

7 CHAIRPERSON TAYLOR: Second by Mr. Rubalcava or

8 Ms. Olivares. No, I'm sorry. I said Mr. Rubalcava.

9 Ms. Hopper I need a vote, please.

10 COMMITTEE SECRETARY HOPPER: Henry Jones?

11 CHAIRPERSON TAYLOR: Unmute, Henry.

12 COMMITTEE MEMBER JONES: Aye.

13 COMMITTEE SECRETARY HOPPER: Frank Ruffino for

14 Fiona Ma?

15 ACTING COMMITTEE MEMBER RUFFINO: Aye.

16 CHAIRPERSON TAYLOR: David Miller?

17 VICE CHAIRPERSON MILLER: Aye.

18 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

19 COMMITTEE MEMBER OLIVARES: Aye.

20 COMMITTEE SECRETARY HOPPER: Jason Perez?

21 COMMITTEE MEMBER PEREZ: Aye.

22 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

23 COMMITTEE MEMBER RUBALCAVA: Aye.

24 CHAIRPERSON TAYLOR: All right. Thank you, Ms.

25 Hopper.

1 Item 7c has passed. We move on to 7d, Schools
2 Valuation Employer/Employee Contribution Rates. And
3 again, Scott and, I guess, Nina, correct?

4 ASSOCIATE PENSION ACTUARY RAMSEY: It will be
5 Kurt.

6 CHAIRPERSON TAYLOR: Kurt.

7 ASSOCIATE PENSION ACTUARY RAMSEY: Yes.

8 CHAIRPERSON TAYLOR: Thank you

9 (Thereupon an overhead presentation was
10 presented as follows.)

11 CONFERENCE MODERATOR: Hi, Kurt. You should be
12 able to share your vide and your audio now.

13 SUPERVISING PENSION ACTUARY SCHNEIDER: Hello.
14 Can everybody hear me?

15 CHIEF ACTUARY TERANDO: Yep.

16 SUPERVISING PENSION ACTUARY SCHNEIDER: Yep.
17 Great. Thank you, Scott. Thank you, Madam Chair and
18 members of the Board. Let's -- I'm Kurt Schneider of the
19 CalPERS Actuarial Office.

20 Let's go to the next slide, please.

21 --o0o--

22 SUPERVISING PENSION ACTUARY SCHNEIDER: All
23 right. So the purpose of this is to review the June 30,
24 2019 valuation results for the schools pool. This
25 valuation determines the contribution rates for fiscal

1 year 2020-21 for employers and also the contribution rates
2 for PEPRA employees. Unlike public agencies, we just have
3 the one employer rate for all school employers.

4 Next slide.

5 --o0o--

6 SUPERVISING PENSION ACTUARY SCHNEIDER: Just some
7 highlights of the results. The investment return for the
8 year was 6.7 percent, which was less than the assumed rate
9 of return. And for schools, the assumed rate of return
10 was 7.25 percent. The assumption changes that were
11 reflected in this valuation was lowering the discount rate
12 from 7.25 percent to 7 percent. You might remember that
13 that was scheduled to happen one year later than it did
14 for State and public agencies.

15 There is also a new amortization policy for this
16 plan -- for all CalPERS' plans effective with the 2019
17 valuation. It will only affect -- it generally affects
18 any amortization base established June 30, 2019 or later,
19 with the exception being the amortization base from the
20 assumption change I just mentioned. So that assumption
21 base, we're using the old amortization policy, because
22 that assumption change was scheduled to take place before
23 we changed the Amortization Policy.

24 Another thing that happened the last -- since the
25 last valuation was that the State made a contribution on

1 behalf of school employers in the amount of \$904 million.
2 CalPERS received that money in July of 2019, so that's
3 reflected in the contribution rates that were calculated
4 and adopting here today.

5 And the effect of that on next year's employer
6 contribution is savings to employers of about \$37 million
7 dollars.

8 Next slide.

9 --o0o--

10 SUPERVISING PENSION ACTUARY SCHNEIDER: So here
11 we have very high level results. We have the market value
12 of assets. And you can see how that changed since the
13 prior valuation, the accrued liability, the unfunded
14 accrued liability. The main thing that we're concerned
15 with today is the employer contribution rate. And you see
16 it there going from 19.721 percent, effective today, to
17 22.68 percent effective starting July 1.

18 Next slide, please.

19 --o0o--

20 SUPERVISING PENSION ACTUARY SCHNEIDER: So here
21 you see a lot more numbers. So here's the -- here's the
22 rates broken down a little bit more. Let me just give you
23 an overview. The top half of this slide is the
24 contribution requirements for the employer as a percentage
25 of payroll. The bottom half is dollar amounts in millions

1 of dollars. So the first column there -- you see there is
2 the current contribution requirements effective today.

3 The middle column is what we projected the next
4 year's contribution rates to be what we projected last
5 year. And that far right column is the ones of the result
6 of the valuation. Those are the contribution rates that
7 will be effective next year.

8 So we broke down that 22.68 percent. Part of
9 it's the employer normal cost, which is the cost of the
10 benefits that are accruing during the year, followed by
11 the unfunded liability rate, 13.88 percent. And then that
12 negative number in parentheses that's the -- part of the
13 State contribution, which you can see down at the bottom
14 was \$100 million of that 904 million.

15 That \$100 million has an effect of reducing the
16 employer contribution rate by 76 percent for the entire
17 fiscal year. And that's where we get the 22.68 percent
18 employer contribution rate.

19 Next slide.

20 --o0o--

21 SUPERVISING PENSION ACTUARY SCHNEIDER: So here,
22 we have the funded ratio over the last five years. You
23 can see that it decreased a little bit since the prior
24 year down to 68.5 percent. Part of that decrease you have
25 to realize is from lowering the discount rate. And when

1 you lower the discount rate, the funded ratio does go
2 down, but you have to keep in mind that going forward, the
3 lower discount rate has a positive impact on the funded
4 ratio, you know, versus the former higher discount rate.

5 Next slide.

6 --o0o--

7 SUPERVISING PENSION ACTUARY SCHNEIDER: So we're
8 monitoring kind of the effect of PEPRA that it's having on
9 the plan. And currently about 36 percent of active
10 payroll is by PEPRA members. And since their benefits are
11 least costly than classic remembers, it means the employers
12 are currently saving about 0.9 percent of payroll due to
13 the enactment of PEPRA.

14 The valuation also sets the member contribution
15 rates for PEPRA members in the schools pool. In this
16 valuation, since the total normal cost rate did not change
17 by at least one percent, the PEPRA member contribution
18 rate does not change. So it's currently seven percent.
19 Next year, it will remain seven percent. Coincidentally,
20 that's also the contribution rate for classic members is
21 also seven percent. So everything is seven percent for
22 members.

23 Next slide, please.

24 --o0o--

25 SUPERVISING PENSION ACTUARY SCHNEIDER: And

1 lastly, we project rates into the future. And like Nina
2 said, these are going to change, because these rates are
3 calculated assuming the fund earns seven percent every
4 year, including this year. We did -- we are currently
5 well below seven percent. We're probably not going to
6 earn seven percent this year.

7 And just to give you an idea, so the projected
8 rate for the next fiscal year is projected the employer
9 rate to be 24.6 percent, and that's if we earn seven
10 percent this year. Like I said, we're well below that.
11 If we were to earn zero percent, for example, that next
12 year's rate would be closer to 25.4. That it's 24.6 would
13 be about 0.8 percent higher, 25.4. Although, future rates
14 also change when we know the return, but they will change
15 again depending on future years' returns.

16 And just as for State, the -- an entire valuation
17 report will be out later this year, later this summer, and
18 that will include updated projections that take into
19 account the actual rate of return for this current fiscal
20 year.

21 And that concludes my presentation. And with
22 that, I'll take any questions.

23 CHAIRPERSON TAYLOR: Thank you, Kurt. I do have
24 a question for you. Lisa.

25 BOARD MEMBER MIDDLETON: Okay. Thank you, Kurt.

1 These numbers are not surprising, but they are alarming.
2 Can you give us an outline as to what you expect to see in
3 your next report, which I believe is going to be in June?

4 SUPERVISING PENSION ACTUARY SCHNEIDER: So the
5 schedule for the schools pool we wait until the fiscal
6 year is over in July. And after we finish all the public
7 agencies' valuations, then we finish the valuation report
8 for this. So usually, it's out in September sometime.

9 BOARD MEMBER MIDDLETON: September. And when
10 will you be reporting on other public agencies, cities,
11 counties, water districts, and so on?

12 SUPERVISING PENSION ACTUARY SCHNEIDER: Those are
13 expected to be out in late July, I believe.

14 BOARD MEMBER MIDDLETON: Will they reflect fiscal
15 year-end?

16 SUPERVISING PENSION ACTUARY SCHNEIDER: No. So
17 those projections also don't reflect it. Although in
18 those valuations it's a little bit easier to make an
19 adjustment and to see what those are, and then especially
20 for non-pooled agencies, like City of Palm Springs, they
21 can use the Pension Outlook Tool to plug in the actual
22 return and get up-to-date projections any time they want.

23 Now, with public agencies, remember, there is a
24 two-year delay in the contribution rate, so --

25 BOARD MEMBER MIDDLETON: Well aware.

1 SUPERVISING PENSION ACTUARY SCHNEIDER: -- when
2 we -- so the rates that we will know for certain when we
3 finish the next valuation are not for the upcoming fiscal
4 year, like they are for State and schools, they're for the
5 following year. So we know with certainty what public
6 agencies are required to pay, you know, a full year in
7 advance. And the projection is looking out two years.

8 BOARD MEMBER MIDDLETON: All right. Thank you.

9 CHAIRPERSON TAYLOR: Okay. Lisa, does that
10 answer all your questions?

11 BOARD MEMBER MIDDLETON: For now.

12 CHAIRPERSON TAYLOR: Okay. It looks like I don't
13 have any other questions for Kurt. So let's go ahead and
14 take a vote. This is also an action item. I need a
15 motion to move the item.

16 COMMITTEE MEMBER PEREZ: I'll motion.

17 CHAIRPERSON TAYLOR: Okay. Mr. Perez. Moved by
18 Mr. Perez.

19 VICE CHAIRPERSON MILLER: Second

20 CHAIRPERSON TAYLOR: Seconded by Mr. Miller.

21 And -- sorry, I hit the button. Ms. Hopper, can
22 you go ahead and take a vote.

23 Thanks.

24 COMMITTEE SECRETARY HOPPER: Madam chair, thank
25 you.

1 Henry Jones?

2 COMMITTEE MEMBER JONES: Aye.

3 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
4 Fiona Ma?

5 ACTING COMMITTEE MEMBER RUFFINO: Aye.

6 COMMITTEE SECRETARY HOPPER: David Miller?

7 VICE CHAIRPERSON MILLER: Aye.

8 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

9 COMMITTEE MEMBER OLIVARES: Aye.

10 COMMITTEE SECRETARY HOPPER: Jason Perez?

11 COMMITTEE MEMBER PEREZ: Aye.

12 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

13 COMMITTEE MEMBER RUBALCAVA: Aye.

14 CHAIRPERSON TAYLOR: All right. Thank you.

15 Motion carries for 7d, Schools Valuation Employer/Employee
16 Contribution Rates.

17 And we are moving on to 7e, Proposed Board of
18 Administration Election Regulations.

19 CHIEF FINANCIAL OFFICER COHEN: And if we can go
20 ahead and have Dallas Stone brought in. Just as a
21 reminder, you heard this item in February. And this is
22 coming back to you for approval of the election regulation
23 package.

24 CONFERENCE MODERATOR: Hi, Dallas. You're on.
25 You should be able to share your video and audio.

1 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF

2 STONE: Hi. Good afternoon. Can everyone hear me?

3 CHAIRPERSON TAYLOR: We sure can.

4 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF

5 STONE: Fantastic. All right. Good afternoon, members of
6 the Committee. Dallas Stone, CalPERS' team member. This
7 is an action item seeking the Board's approval of proposed
8 amendments to the Board election regulations.

9 During the Board election off year, CalPERS team
10 members identify and submit regulatory changes to improve
11 and clarify the process for the next Board election cycle.
12 In addition, during the February 2020 Finance and
13 Administration Committee meeting, it was requested that
14 regulatory provisions be added to include an opportunity
15 for candidates to voluntarily provide additional relevant
16 information in their candidate statements, including
17 information regarding financial solvency, sexual
18 harassment, conflicts of interest, and protection of
19 confidentiality.

20 The proposed amendments include technical
21 regulatory changes to clarify existing procedures. They
22 are:

23 Delete an unnecessary comma. We're going to
24 replace "he" or "she" with "they". We are making this
25 gender-neutral amendment only in sections 554.5(c) of this

1 regulatory package, since we are clarifying this
2 subdivision. There are additional gender-specific
3 references throughout the Board election regulations that
4 will be amended to reflect gender-neutral references at a
5 later date with a Section 100 amendment. The Section 100
6 amendment is a process that allows agencies to work
7 directly with the Office of Administrative Law to make
8 technical changes that will not have a regulatory effect.
9 This will allow CalPERS to streamline this regulation
10 package, while using the Section 100 process to convert
11 all remaining references to general -- general[SIC]
12 neutral.

13 We're also going to clarify that a request for an
14 arbitration must be submitted no later than five working
15 days after both the candidate statement and the addenda
16 have been distributed, to clarify the candidate requesting
17 the arbitration does not need to submit a notice of
18 participation. The initial request is considered the
19 notice of participation.

20 We're going to delete an obsolete provision that
21 permitted use of comparable return envelope to return the
22 ballot, instead of the official envelope included in the
23 ballot package. Since a barcode was moved to the return
24 envelop in 2018, voters must use the return envelope
25 included in the ballot package to ensure only one vote is

1 cast per voter. We're going to clarify that CalPERS
2 should not place any information that identifies the voter
3 on the ballot such as a barcode. We're going to clarify
4 that if a voter does not sign the return envelop, the
5 ballot will be invalid.

6 We're going to clarify that the current ballot
7 intake process, the ballots are scanned but not opened to
8 ensure only one vote is cast per voter. Ballots are only
9 opened after the voting period has been closed.

10 Additionally, the proposed amendments add the following
11 four questions to the five existing questions that the
12 candidates may answer in their candidate statement.

13 The addition of these questions is intended to
14 encourage the candidate to provide voters with additional
15 relevant information regarding financial solvency, sexual
16 harassment, conflicts of interest, and protection of
17 confidentiality.

18 These additional questions are: Within the past
19 five years, have you had any financial hardships such as
20 bankruptcy filings, insolvencies, assignments for benefits
21 of creditors, monetary judgments, liens and attachments,
22 wage garnishments, notices of foreclosure or similar
23 hardships? If yes, please explain the nature of the
24 hardship and how it was resolved.

25 Second question, have you ever been subject to

1 any legal or employment action on the grounds of
2 discrimination or sexual harassment? If yes, please
3 explain the nature of the legal or employment action and
4 how it was resolved.

5 Third question. Do you have any conflicts of
6 interest that could impact your role as a CalPERS Board
7 member? If yes, please explain the nature of the conflict
8 or conflicts and how you would address it or them if you
9 are elected to the Board.

10 And the fourth question. Will you maintain the
11 confidentiality of all non-public information that you
12 receive in your position on the CalPERS Board?

13 If the proposed amendments are approved, the
14 notice package will be submitted to the Office of
15 Administrative Law to initiate the rulemaking process and
16 begin the 45-day comment period to allow feedback from the
17 public. During the September Finance and Administration
18 Committee meeting, we will present the comments we
19 received, if any, and seek approval to submit the final
20 rulemaking package to Office of Administrative Law.

21 These proposed amendments will not impact the RFP
22 that we will be releasing in May.

23 I'm happy to answer any questions you may have at
24 this time.

25 Thank you.

1 CHAIRPERSON TAYLOR: Thank you, Mr. Stone. That
2 was very clarifying. I appreciate that.

3 I thought I had a question myself. Hold on a
4 second. Oh, the envelope, that's what I had a question
5 on. It's not in here, because this is actually changing
6 the administrative law, but we are changing the envelopes,
7 is that correct, so that they aren't see-through, is that
8 what we were going to do? I can't remember.

9 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF
10 STONE: So also part of our February Board update when we
11 did the elections program overview, we did notify you that
12 we will be moving to a -- to a security tinted envelope
13 for the return ballot.

14 CHAIRPERSON TAYLOR: Okay. Excellent. I thought
15 I remembered that, but I wasn't absolutely sure. I have a
16 question from Ms. Brown.

17 BOARD MEMBER BROWN: Thank you, Dallas. Did I
18 hear you say that you're going to be including something
19 in the ballot that says don't use your own envelope. You
20 must use the CalPERS envelope, otherwise request another
21 one. I don't think people know that like you can spill
22 your coffee on it and so you'll just use a new envelope
23 and then that's not allowed and that vote is not counted.
24 It happened quite a bit.

25 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF

1 STONE: So in the instructions, if members were to damage
2 or spoil their return envelope or their ballot, they can
3 call our 800 help desk and we will mail them out a brand
4 new ballot package for them to vote.

5 The reason why we can't use just a standard
6 envelope is due to the barcode being on there. We have to
7 be able to scan it to ensure one vote per voter.

8 BOARD MEMBER BROWN: I think people more or less
9 understand about their ballot being spoiled, but not
10 necessarily about that envelope being spoiled, you know,
11 because -- so -- but that's helpful, if we can have
12 something in the instructions that really say don't use
13 your own envelope. That would be helpful.

14 And then I had a question on attachment 1, page
15 three of six. The question I have is with number nine. I
16 think the idea of non-public information being kept
17 confidential, I think that's too general, because
18 there's -- there's non-public information that is not
19 confidential. It's not saying will you keep confidential
20 information confidential. You're just saying non-public
21 information. I think it's too general.

22 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF

23 STONE: Would you have a proposed edit that we should
24 discuss further?

25 BOARD MEMBER BROWN: Yeah. I would say that

1 items appropriately designated confidential, would you
2 keep them as confidential. Non-public information is not
3 necessarily confidential information. Let's be very
4 clear. They're two different things.

5 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF
6 STONE: I don't at this time if maybe Matt or if we can
7 bring in Justin Simpson or Chloe Quail into the
8 discussion, if they have a comment on that from a legal
9 perspective.

10 CHAIRPERSON TAYLOR: Yeah. Is Matt on?

11 GENERAL COUNSEL JACOBS: Yes, I'm on. We're
12 drawing some pretty narrow lines here. I don't -- I mean,
13 if it's non-public, then presumably it's confidential,
14 so --

15 BOARD MEMBER BROWN: But not necessarily.

16 GENERAL COUNSEL JACOBS: What would be -- Ms.
17 Brown, what would be non-public but not confidential?

18 BOARD MEMBER BROWN: Something an employee tells
19 you, something a reporter tells you. That is non-public,
20 but it is not confidential.

21 GENERAL COUNSEL JACOBS: I don't know. I think
22 we're cutting the baloney a little thing there, so I would
23 propose to leave it as is.

24 CHAIRPERSON TAYLOR: Thank you. And then my next
25 question is from Mr. Jones.

1 COMMITTEE MEMBER JONES: Yes. Thank you, Madam
2 Chair. Yeah. I just want to say that I support these
3 additions, and -- as we discussed before. And I think
4 that it improves the transparency of -- to be sure that
5 the candidates are providing the information, so the
6 constituencies that are going to be casting a ballot for
7 them have as much information as possible. And I think
8 it's worthwhile to note that a few of these added items
9 are already required by CalPERS after a candidate is
10 successful. So it's just making sure that that
11 information is provided before the election, as opposed to
12 once you are on the Board, then you're required to comply
13 with a couple of these items. So I support these
14 amendments.

15 And if you need a vote, I would move that we
16 approve the -- this item.

17 CHAIRPERSON TAYLOR: Thank you, Mr. Jones.

18 I'll take that under advisement. I still have a
19 couple of questions.

20 Mr. Perez.

21 COMMITTEE MEMBER PEREZ: Initially, I was fine
22 with this, but Ms. Brown brings up some pretty good
23 points. This is all voluntary, right?

24 CHAIRPERSON TAYLOR: Right. Absolutely.

25 COMMITTEE MEMBER PEREZ: Okay. So I see her

1 point where there's some information that we get that we
2 feel compelled to share for different reasons. But if you
3 don't -- you don't have to attest to it initially,

4 CHAIRPERSON TAYLOR: That's correct. This is
5 voluntary.

6 COMMITTEE MEMBER PEREZ: Matt. I trust you
7 Theresa, but I want to hear it.

8 GENERAL COUNSEL JACOBS: It's unclear to me what
9 your question is, Mr. Perez.

10 COMMITTEE MEMBER PEREZ: This is just a voluntary
11 statement. We don't even have to acknowledge this
12 statement or check that box on the application?

13 GENERAL COUNSEL JACOBS: That's correct.

14 COMMITTEE MEMBER PEREZ: Okay. Thank you.

15 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF
16 STONE: Mr. Perez, yeah, section 554.6, section (d) it
17 says, "As part of a candidate statement, a candidate is
18 urged, but not required, to provide answers to the
19 following questions".

20 COMMITTEE MEMBER PEREZ: Okay. Thank you.

21 CHAIRPERSON TAYLOR: Okay. Was that your
22 question, Jason?

23 COMMITTEE MEMBER PEREZ: Yes, ma'am.

24 CHAIRPERSON TAYLOR: All right. Great.

25 Ms. Olivares.

1 COMMITTEE MEMBER OLIVARES: Thank you, Madam
2 Chair. So as we go through this, it just reminds me of
3 recent headlines about the Postal Service and how again
4 there's some fiscal trouble, and there's this discussion
5 about postal services not being able to do their duty due
6 to COVID. So I would just want us to keep in the back of
7 our minds additional options for voting and handling other
8 matters that we've traditionally done by mail.

9 CHAIRPERSON TAYLOR: We do. Dallas, did you want
10 the go into that, what our other options for mail -- for
11 voting are?

12 OPERATIONS SUPPORT SERVICES DIVISION ACTING CHIEF
13 STONE: Absolutely. Yeah. So we offer three voting
14 options for all of our eligible voters. One is they could
15 vote online. We provide our members with a pin and an
16 identification number for them to enter into a secure area
17 and place their vote. The second option is they can vote
18 via telephone through an IVR system. And then the third
19 option is through the paper ballot process.

20 CHAIRPERSON TAYLOR: Great. Is that sufficient,
21 Stacie?

22 COMMITTEE MEMBER OLIVARES: Yes. I just wanted a
23 reminder of that. Thank you.

24 CHAIRPERSON TAYLOR: Thank you very much.
25 Seeing -- let me take sure. Seeing no other

1 questions, this is an action -- yes, this is an action
2 item. So I -- Mr. Jones you moved it earlier. So I need
3 a second.

4 COMMITTEE MEMBER RUBALCAVA: (Raised hand.)

5 VICE CHAIRPERSON MILLER: I'll second it.

6 It looks like Ramon beat me.

7 CHAIRPERSON TAYLOR: Mr. Rubalcava is seconding
8 the motion.

9 I need a, vote Ms. Hopper.

10 COMMITTEE SECRETARY HOPPER: Henry Jones?

11 COMMITTEE MEMBER JONES: Aye.

12 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
13 Fiona Ma.

14 ACTING COMMITTEE MEMBER RUFFINO: Aye.

15 COMMITTEE SECRETARY HOPPER: David Miller?

16 VICE CHAIRPERSON MILLER: Aye.

17 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

18 COMMITTEE MEMBER OLIVARES: Aye.

19 COMMITTEE SECRETARY HOPPER: Jason Perez?

20 COMMITTEE MEMBER PEREZ: Aye.

21 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

22 COMMITTEE MEMBER RUBALCAVA: Aye.

23 CHAIRPERSON TAYLOR: All right. Motion passes
24 for Item 7e.

25 And we move on -- I have Item 8. It says

1 information agenda items. Was that supposed to be any
2 direction from the Committee?

3 CHIEF FINANCIAL OFFICER COHEN: Correct. Yes.
4 Just a summary of Committee direction. I have one item,
5 which is to get the Board members the most recent CEM data
6 on the Investment Office's comparisons to some peers in
7 terms of cost data.

8 CHAIRPERSON TAYLOR: Great. And we do appreciate
9 that. Thank you very much.

10 CHIEF FINANCIAL OFFICER COHEN: Absolutely.

11 CHAIRPERSON TAYLOR: All right. So since that's
12 the last item, I think I had no public comments. Yes.

13 MS. HOPPER: That's correct, Madam Chair. I have
14 not heard of any public comment for this item.

15 CHAIRPERSON TAYLOR: All right. So then I -- we
16 are done with Finance and Administration. I'm adjourning
17 the Finance and Administration Committee meeting. It is 3:16
18 p.m. Let's give it 15 minutes for to set up for Risk and
19 Audit. So how about 3:31. I see everybody -- if that
20 works for whoever is Risk and Audit. Thanks.

21 (Thereupon the California Public Employees'
22 Retirement System, Board of Administration,
23 Finance & Administration Committee meeting
24 adjourned at 3:17 p.m.)

25

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 29th day of April, 2020.

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