VIDEOCONFERENCE MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

WEBEX PLATFORM

TUESDAY, NOVEMBER 17, 2020

1:31 P.M.

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

## APPEARANCES

COMMITTEE MEMBERS:

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

Ms. Shawnda Westly

Ms. Betty Yee, represented by Ms. 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. Randall Dziubek, Deputy Chief Actuary

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

## APPEARANCES CONTINUED

STAFF:

Ms. Pam Hopper, Committee Secretary

Ms. Michele Nix, Controller

Mr. Dallas Stone, Chief, Operations Support Services Division

ALSO PRESENT:

Mr. Tim Behrens, California State Retires

Mr. Bijan Mehryar, League of California Cities

Ms. Serena Petite, City of Tulsa, Oklahoma

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PROCEEDINGS

VICE CHAIRPERSON MILLER: I think we can go ahead and get started. I'll call the meeting of the Finance and Administration Committee to order and ask Ms. Hopper to call the roll, please.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

VICE CHAIRPERSON MILLER: Excused.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

Frank Ruffino for --

VICE CHAIRPERSON MILLER: I saw him a few minutes ago.

ACTING COMMITTEE MEMBER RUFFINO: Present.

COMMITTEE SECRETARY HOPPER: Thank you.

David Miller?

VICE CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

COMMITTEE SECRETARY HOPPER: Mr. Chair, all is in attendance.

VICE CHAIRPERSON MILLER: Thank you very much, Ms. Hopper.

So we're -- okay. So our first item is the approval of the November 17th, 2020 Finance and Administration Committee meeting timed agenda. What's the pleasure the Committee?

COMMITTEE MEMBER JONES: Move approval.

COMMITTEE MEMBER OLIVARES: I move.

I second.

VICE CHAIRPERSON MILLER: Okay. It was moved by Director Rubalcava and second -- no. Who was that?

COMMITTEE MEMBER JONES: No. It was Jones.

VICE CHAIRPERSON MILLER: Oh, Jones. President Jones and seconded by Director Olivares.

So any discussion on the matter?

Okay. I'll call for the question. Ms. Hopper, call the roll, please.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for

Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Yes.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have all ayes. Henry Jones making the motion, Stacie Olivares seconding it.

VICE CHAIRPERSON MILLER: Thank you, Ms. Hopper. The motion passes.

We move on to Item 3, the Executive Report. So I'll call on Mr. Cohen.

CHIEF FINANCIAL OFFICER COHEN: Thanks, Mr. Vice Chair. Just one thing to highlight that I think will give a little bit of context when we get to the discussion item on the annual report of our local agencies, risk and finance situation. I was able to, a couple of weeks ago, attend the State Department of Finance's economic forecasting conference. This conference that they hold every year is really their opportunity to vet out what the underlying economic forecast will be for the Governor's budget that will be released on January 10th or thereabouts in 2021.

And I think the thing that I really took away, which won't be a surprise to anyone listening, is the uncertainty upon which our entire economic situation is resting right now. I believe things are moving very fast as it relates to COVID and the vaccine, as you heard earlier today. But exactly what pace the state's economy will recover once we sort of turn the corner on the pandemic remains to be seen. And if that's true at the State level, it's even more so at the local level where difference situations and different economics are going to be more important. And that's something the Financial Office will continue to be watching as we go forward.

So with that, I'll turn it back to you and we can go ahead and work through the agenda.

VICE CHAIRPERSON MILLER: Okay. That brings us to Item 4, action consent items. Having seen anyone wanting to pull any of them, so what's the Committee's -- anyone want to move for approval of them. Do we have do them individually, Mr. Cohen, or can we --

CHIEF FINANCIAL OFFICER COHEN: You can go ahead and take them as a single motion.

VICE CHAIRPERSON MILLER: Okay. We'll take it in --

COMMITTEE MEMBER JONES: Move approval.

VICE CHAIRPERSON MILLER: -- a single motion.

COMMITTEE MEMBER JONES: Move approval.

VICE CHAIRPERSON MILLER: Moved by President Jones.

Seconded by?

COMMITTEE MEMBER PEREZ: (Hand raised.)

VICE CHAIRPERSON MILLER: Director Perez.

Okay. Ms. Hopper, I don't see any comments or discussion, so let's call the question and take the role.

COMMITTEE SECRETARY HOPPER: Okay. Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

MEETING MODERATOR: Pam, I think Frank is having issues -- oh, there he is.

COMMITTEE SECRETARY HOPPER: Okay. David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have all ayes with Henry Jones making the motion Jason Perez seconding it for items 4a, 4b, and 4c.

VICE CHAIRPERSON MILLER: Thank you. The ayes have it, the motion is approved.

And so we move to Item 5, information consent items. And I'm not seeing any requests to pull any of those.

So that brings us to Item 6, action agenda items. Starting with 6a, basic financial statements. Back to Mr. Cohen and Ms. Nix.

(Thereupon a slide presentation.)

CHIEF FINANCIAL OFFICER COHEN: Thanks, Mr. Miller. I'll turn it over to our Controller Michele Nix in a moment. But this is an annual action item where we seek the Committee's approval of CalPERS's basic financial statements. So with that, let me have Michele walk you through the content of what we've got going on on our finances this past year.

CONTROLLER NIX: Okay. Thank you, Michael.

Good afternoon, Mr. Vice Chair and members of the Committee. I'm Michele Nix, CalPERS Controller and team member.

Today, I would like to present a few highlights from the basic financial statements for the fiscal year ending June 30th, 2020. These will be incorporated into the CAFR upon your approval.

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CONTROLLER NIX: Okay. Basically, the PERF had total assets that ended up at 392.5 -- they were net assets that ended up at 392.5 billion. And the annual money weighted rate of return was five percent resulting in positive performance across most globally-diversified asset classes. Drivers of the PERF's investment return included strong performances in fixed income.

Slide 3, please.

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CONTROLLER NIX: The PERF annual rates of return. The investment return is comparable between time weighted and money weighted this year again. The time-weighted rate of return was 4.7 percent and the money-weighted rate of return was five percent at June 30th, 2020.

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CONTROLLER NIX: This basically just is a review of the differences between the money-weighted rate of return and the time-weighted rate of return based upon questions that we received last year. The time-weighted rate of return measures the compounded growth rate over the period being measured, while eliminating the distorting effects of inflows and outflows of cash, which would consider when money was added or withdrawn from the fund. However, management fees are removed when calculating the time-weighted rate of return.

Another way of saying this is that the time-weighted rate of return is weighted heavier to time. So those transactions that are older would matter more to performance than those transactions that are younger. Time-weighted rate of return reporting is the standard for investment performance.

On the other hand, the money-weighted rate of return expresses investment performance net of investment expenses that are adjusted for cash flows and changing amounts invested. Another way of saying this is that the money-weighted rate of return is weighted heavier to money. So those transactions that are larger in value would matter more to performance than those transactions that are smaller in value. The money-weighted rate of return is a GASB requirement.

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CONTROLLER NIX: The PERF's net position increased by 19.8 billion, or 5.3 percent, from 372.6 billion as of June 30th, 2019 to 392.5 billion as of June 30th, 2020. Over a ten-year period from June 30th, 2011 to June 30th, 2020, the net position increased 150.7 billion, or 62.3 percent.

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CONTROLLER NIX: Additions to the PERF's net position include investment income, employer and employee member contributions. Investment income is comprised of investment interest income, dividend income, and net appreciation or depreciation of the fair value of investments. Net investment income was 18.5 billion in fiscal year 2019-20 compared to the 23 billion in fiscal year 2018-19 due to a lower investment rate return experience in the current fiscal year.

Employer contributions increased by 7.3 billion or 47 percent due to a large State supplemental payment received in fiscal year 2019-20. Employer contribution rates increased between 0.8 percent and four percent for State, 1.7 percent for schools, and between 1.9 and -- percent and 4.8 percent on average for public agency miscellaneous and safety plans.

Number of contributions increased 0.2 billion or 5.1 percent because of an increase in the total active number of participants or members. Deductions from the PERF are comprised of benefit payments, refunds of contributions to members and beneficiaries, and costs of administering the PERF.

Benefit payments are the primary expense of a retirement system. For fiscal year 2019-20, retirement, death and survivor benefits payments increased 1.6 billion, or 6.5 percent, primarily due to the cost of living increases in the benefit payments and to an increase in the number of retirees and beneficiaries from 707 -- 712,115 as of June 30th, 2019 to 700 -- 732,521 -- 29 thousand as of June 30th, 2020. That's a mouthful.

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CONTROLLER NIX: As mentioned in slide 6, investment income is made up of appreciation -- of depreciation of invest -- appreciation and depreciation of investments, interest income, and dividend income. As the chart shows, global debt securities had the largest gains towards investment income.

Slide 8, please.

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CONTROLLER NIX: The unfunded actuarial liabilities or the excess of the co-actuarial accrued liability over the market value of assets was 158.4 billion at June 30th, 2019. The increase in unfunded and actuarial liability over the 10-year period is primarily due to an increase in actuarial accrued liability, which increased from 308.3 billion as of June 30th, 2010, which is the actuarial valuation date to 531.2 billion as of June 30th, 2019.

Slide 9.

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CONTROLLER NIX: In fiscal year 2019-20, 27.8 billion was received in contributions while 25.8 billion was paid in benefits. Contributions increased 37.3 percent from 2018 to '19, primarily due to additional payments made by employers towards unfunded liabilities paid in 2019-20 for the fiscal -- this fiscal year, basically.

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CONTROLLER NIX: These financial statements as well as the CAFR are a result of many hours of hard work from FRAS team members who prepared these reports within the normal deadlines despite the challenges that 2020 presented to us.

This ends my presentation. But upon approval, these basic financial statements will be included in the CAFR for June 30th, 2020. I'm happy to take any questions that you might have at this time.

VICE CHAIRPERSON MILLER: Okay. I have a question from President Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Vice Chair.

Just a comment. I guess it's a question and a comment. I know that on the first slide you mentioned that the money-weighted return was five percent, but most of our stakeholders, and our members, and our colleagues n other pension funds they focus on the time-weighted and -- which was 4.7. But I'm just hoping that when we communicate (inaudible) that we're using -- you know, I understand the five has to -- that's a GASB requirement, but I think we need to be sure we communicate up front that our return was 4.7, because, you know, we take so many hits about what our returns were and some people use an annual rather than fiscal year. So I think it's important to just keep that in the forefront.

So with that, I will move the recommendations agenda item, yeah, 6a.

VICE CHAIRPERSON MILLER: I have a question from Director Brown as well.

COMMITTEE MEMBER JONES: Okay.

BOARD MEMBER BROWN: You want to get a second first from someone or do you want me to ask my question.

VICE CHAIRPERSON MILLER: We can do it after we have a motion on the floor. I just -- you were in the queue before we had the motion, so...

BOARD MEMBER BROWN: Okay. Great. I'll ask my question. It's pretty simple. A couple of months ago, Mr. Cohen and I raised an issue about the Board consultant expense being shown in staff salaries. Are we still doing that, and if we are, can I get a breakout of those numbers?

CHIEF FINANCIAL OFFICER COHEN: We are still doing that. We, as we talked about last time, view it as completely appropriate. But we're happy to, as we did last time, get you a breakdown of those expenses in the investment personnel and other expenses category, absolutely.

BOARD MEMBER BROWN: Great. And then are we on -- okay. So I have a comment on the mid-year budget, but I'll wait on those adjustments. We're not on that one yet, is that correct?

CHIEF FINANCIAL OFFICER COHEN: That's correct. That will be the next item.

BOARD MEMBER BROWN: Thanks. Thank you.

VICE CHAIRPERSON MILLER: Okay. Thank you. So back to President Jones. I think you were about to move approval of the --

COMMITTEE MEMBER JONES: Yes, I moved approval.

VICE CHAIRPERSON MILLER: Okay. Do we have a second?

COMMITTEE MEMBER RUBALCAVA: I'll second, Mr. Miller. Ramon Rubalcava.

VICE CHAIRPERSON MILLER: Oh, Mr. Rubalcava.

Okay. Seeing no more discussion.

Oh, no. I have Director Middleton for a question.

BOARD MEMBER MIDDLETON: Okay. Thank you, Mr. Vice Chair. I'm looking at page nine of nine. And we had a substantial increase in contributions in 2019 -- in the 2019-20 fiscal year. What are the projections for the next few years in terms of employer contributions?

CHIEF FINANCIAL OFFICER COHEN: Sure. Let me take a first shot at that and then Michelle can add on anything. I think the large increase you're seeing is a combination of the planned increases as well as the unplanned sort of discretionary payments, in particular we're starting to see more local agencies make pension obligation bond contributions, which come in large chunks and can really, yeah, change the trajectory of the line, as well as the State has made -- you know, they made the $6 billion payment in the 2017-2018 year, which has caused the spike you see in that graph. And then they made a smaller payment, but substantial nonetheless in this following -- in this last year.

So I think overall you would expect the trend line to be steady increases, based on the base contributions. But the reality is we don't really know what agencies are going to issue pension bonds or make other large discretionary payments. And certainly the State budget is another area that has huge uncertainty. And that's generally what you'll -- where you'll see the spikes.

Overall, you would tend to see the two lines merging over the very long term over the next several decades. But what -- you sort of see those large increases is a little bit impossible to forecast.

BOARD MEMBER MIDDLETON: Certainly. Michael, that makes perfect sense. Do we have a breakout, either in this report that I missed or somewhere elsewhere, where we could separate out the discretionary payments from the scheduled payments?

CHIEF FINANCIAL OFFICER COHEN: Sure. Michele, you want to take that one.

CONTROLLER NIX: Sure. There is a breakout. I'll have to figure out what page it's on, because I don't know what the pages are off the top of my head. So can I get back with you on that?

BOARD MEMBER MIDDLETON: You certainly can. And I'm not surprised to find that you've got that data sitting there.

(Laughter.)

CONTROLLER NIX: I do have it sitting here, but I don't have it memorized, so I need to figure it out.

CHIEF FINANCIAL OFFICER COHEN: We'll -- we'll go ahead and send it out as Committee direction that all the Board members will be able to see.

BOARD MEMBER MIDDLETON: Thank you, both.

VICE CHAIRPERSON MILLER: Thank you.

I'm seeing no more requests for discussion.

Oh, I am seeing a comment from Mr. Terando that that will be information in the presentation later today.

So -- okay. So at this point, I'll call for the question and ask Ms. Hopper to take the role.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have a motion made by Henry Jones, Ramon Rubalcava seconding. All ayes for Item 6a.

VICE CHAIRPERSON MILLER: All right. The ayes have it. The motion is approved.

That brings us to Item 6b, the 2020-2021 mid-year budget revision. Back to you, Mr. Cohen.

(Thereupon a slide presentation.)

CHIEF FINANCIAL OFFICER COHEN: Thank you, Mr. Vice Chair. This is another action item, a traditional item that we bring you in November. Revisions to the budget you originally adopted in April. This is something I've mentioned several times over the last number of months that obviously this year's budget has changed quite significantly on an operational standpoint due to the pandemic. And a vast majority of CalPERS team members working remotely. And so we -- as I mentioned at the July off-site, we have taken a hard look at those expenses that are essential and those that we -- we felt we could do without. And I'll have Jennifer Harris, our Budget Director, walk you through those.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Thanks, Michael. Good afternoon, Mr. Vice Chair and members of the Committee. Jennifer Harris with

CalPERS Financial Office.

Agenda Item 6b is an action item and we request your approval today to revise the 2020-21 budget. Also included in this item is a report on final year-end expenses for prior fiscal year 2019-20.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: In summary, CalPERS proposed to reduce the 2020-21 budget by 72.3 million. There is a 68.5 million reduction in operating costs and a 3.9 million reduction in external fees.

Also included is the elimination of 32 vacant positions reducing the total authorized positions for the first time in several years. In general, the operating cost reductions are driven by the COVID-19 pandemic and includes statewide compensation decreases, as well as CalPERS-directed reductions to further reduce expenses and achieve savings to limit fiscal impacts to the PERF.

The changes you'll see in external fees reflect revised investment strategies, as well as updated health plan enrollment data and pharmacy benefit costs.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

CHIEF HARRIS: This slide displays the total revised mid-year budget, which is included as attachment 1 to this agenda item. The chart reveals the budget category changes as compared to the annual budget approved by the Board in April. Overall, there is a 9.9 percent operating cost reduction, which is driven by reductions in the administrative operating cost budget. There is also 0.4 percent reduction in external fees.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Within operating costs, CalPERS proposes a 68.7 million, or 12.6 percent, reduction in administrative operating costs. This includes 52.1 million in personal services expenses and 16.6 million reduction in OE&E.

The decrease in the personal services budget includes statewide compensation reductions, that's 33.3 million. It also includes reductions for additional collective bargaining adjustments at 4.3 million and 14.5 million in reductions based on CalPERS-directed analysis of operations and workload. With a focus on protecting its core mission and services to members, CalPERS proposes to eliminate 32 vacant positions, hold additional vacant positions open during the fiscal year, and reduce temporary help and overtime usage beyond the reductions you saw in April.

The 16.6 million decrease in OE&E reflects both permanent and one-time CalPERS directed reductions to most line items including general expenses, printing, postage, travel, training, data processing and consultant costs. Reductions by line item can be seen on page five of the mid-year budget.

Next slide, please.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: CalPERS also proposed adjustments to the investment operating cost budget. Compared to the annual budget, there is a 1.6 million net increase in investment operating costs. This is primarily due to and estimated increase for appraisal fees resulting from renegotiated contracts, as well as in anticipation of an increased number of appraisals that will be required this year.

This increase is somewhat offset by decreases in technology consultants, as well as costs for trading and portfolio management systems resulting from delayed projects.

Finally, within operating costs, CalPERS proposes a net 1.3 million decrease to its headquarters building budget. This includes operating cost reductions resulting from reduced services and renegotiated contracts, as well as non-operating cost reductions due to delaying non-critical building improvements.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: For external fees, CalPERS proposes a net 3.8 million decrease. There is a 6.2 million increase in external Investment Manager fees for operative -- opportunistic strategies for new strategies to leverage market disruptions. There is also a 10 million decrease in third-party administrator fees.

As detailed in the mid-year budget, this is includes 3.9 million decrease in health plan fees resulting from members migrating to health plans with lower administrative costs. There is also 5.2 million decrease for pharmacy benefit costs. This is a result of the Board's September 2020 decision to transition from a tradition spread and rebate driven contract to a market leading acquisition based contract. This is consistent with action agenda item -- or I'm sorry, action consent item that you just approved number 4b, the semiannual contracting prospective report, which had the OptumRx contract in there.

That finishes my comments on the mid-year budget. But before opening up for questions, I'd like to quickly highlight where we ended the 2019 fiscal year.

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FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: As shown here and detailed in attachment 2, the 2019 year-end expenditure report, CalPERS ended the prior fiscal year with 283.9 million in unexpended funds. This was 15 percent in unexpended funds. This includes 78.7 million in operating costs and 205.2 million in external fees.

The underutilization of operating costs is largely driven by position vacancies as well as operational impacts from the COVID-19 pandemic. In contrast, amounts unspent for external management fees results from CalPERS decreased reliance on external investment advisors.

All budgeted funds remain in the PERF until they're actually expended. Therefore, this 283.9 million unspent remained available for investment.

That is the end of the slides.

In conclusion, CalPERS recommends you approve the 72.3 million proposed in -- the reduction proposed in the mid-year budget. This reduction is consistent with salary and benefit decreases that are affecting all State of California employees and it signals CalPERS commitment to reducing its costs.

Thank you for the opportunity to walk you through this mid-year budget and we welcome your questions.

VICE CHAIRPERSON MILLER: Thank you very much, Ms. Harris, for a very comprehensive report. And thanks to the -- all, everyone, the whole team there for all the fine work that went into these lovely results.

So at this point, I have a question from Director Brown.

BOARD MEMBER BROWN: Thank you, Chair Miller.

Ms. Harris, yes, of course, I did get stuck on page five, the best page, which are the adjustments to administrative operating costs. SO that's 6b, attachment 1, page five of 18, for those of you who want to follow along.

And I just had a couple of quick questions. You know, I live for the percentages. And so we had a huge decrease in printing 76.3 percent. So -- so what do we expect that to be? Is that like signage, way-finding signage or is that just agendas we have for public meetings? I'm just trying to think. That seems like an awful lot of printing for all the online stuff we do.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Thank you for that question. That's a good question. The majority of that decrease we're actually seeing resulting from our decision to send out the three prospective reports virtually --

BOARD MEMBER BROWN: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: -- instead of in print.

BOARD MEMBER BROWN: Yeah. I didn't think that would account, you know, all the agendas you guys print and put on the back table at Board meetings would account for that, but I just thought I'd ask.

And then I did see, you know, big reduction in travel. Also a huge reduction in training. I don't that's necessarily a good thing. And hopefully we'll be continuing to train our staff maybe through online means. I mean, training is important for the staff and I hope we are going to work on that. And that's probably for -- more for the CEO.

And then there's another huge reduction in something called University Enterprises, Inc., and I -- it's just a very small amount, but I don't actually know what that is, a 43.1 percent reduction. So can you tell me what that is?

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Yes. CalPERS, as well as many State agencies, contract with University Enterprises, which is actually an enterprise with Sac State. And that's a contract for which we use student assistants. So we -- with our temporary help and our reductions, that was one of the reductions that we're looking at.

BOARD MEMBER BROWN: Oh. So we have it at the top on temporary help and then we have it down here with university extensions.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: The temporary help is for things like season clerks and retired annuitants. That's the number that you're seeing at the top. But for the student assistants, we actually have a contract and we put that in OE&E, because we don't pay benefits on that. It's just a -- it's just a contract again with Sac State for that service.

BOARD MEMBER BROWN: Okay. Thank you.

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

BOARD MEMBER BROWN: You learn something new every day. Thank you.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: Um-hmm.

VICE CHAIRPERSON MILLER: Okay. I'm seeing no more clarifying questions. And so, at this point, what's the Committee's please with regard to a motion?

COMMITTEE MEMBER JONES: Okay. I'll move it, since no one else will.

(Laughter.)

VICE CHAIRPERSON MILLER: Okay. Is someone -- we're looking for a motion to approve the mid-year budget revisions that have been presented.

COMMITTEE MEMBER PEREZ: Henry motioned and I'll second it.

VICE CHAIRPERSON MILLER: Okay. President Jones motioned and Director Perez seconds.

I'm seeing no call for any further discussion. So I'll call for the question and ask Ms. Hopper to take the roll call.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Aye.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, Henry Jones had made the motion, Jason Perez second for Agenda Item 6b.

VICE CHAIRPERSON MILLER: Okay. The motion passes.

We'll move on to Action Agenda Item 6c, the CalPERS Board election candidate nomination petition options. And I believe that's Mr. Dallas Stone will be presenting that if I'm not mistaken, Mr. Cohen.

CHIEF FINANCIAL OFFICER COHEN: That's correct. I'll turn it over to Mr. Stone.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

Thanks Michael. Good afternoon, Mr. Vice Chair and members of the Committee. Dallas Stone, CalPERS team member. At the September Finance and Administration Committee meeting, the Committee requested the Board election team bring back an action item in November with information on pursuing an emergency regulation to suspend the original signature requirement in the nomination petition process, which would permit potential candidates to submit non-original scanned or faxed copies of nomination petition signatures.

I'll provide that information along with non-regulatory changes that would reduce potential challenges presented by gathering original signatures during the existing pandemic.

CalPERS election Regulations Section 554.5 currently provides that the nomination of prospective candidates is established by the petition on the nomination petition forms provided by CalPERS.

The nomination petition form must be signed by the nominee and by the established number of eligible active or retired members. The minimum number of petition signatures required for candidacy is established by the CalPERS Board through the adoption of the notice of election. Historically, the Board has established 250 signatures as a minimum number of signatures. Attachment 3 to this agenda item provides the existing regulation section which includes the original signature requirement.

The part of the regulation that is relevant to this discussion provides that in no event shall less than 250 valid original signatures be required. The requirement for original signatures requires that the potential candidate must submit wet signatures rather that be scanned or faxed copies of signatures. If the committee decides to move forward with an emergency regulation to modify the original signature requirement, this is a regulatory language that will need to be suspended or modified.

The process for a proposed emergency regulation to suspend or modify the original signature requirement is an abbreviated version of the general regulatory process. The emergency regulation process would require the Board elections team to prepare a regulatory package and come back to the Committee for approval.

The Office of Administrative law, or OAL, requires that the regulatory package include the proposed text of the regulation, a finding that there is an emergency, and a description of the specific facts supported by substantial evidence that demonstrate the existence for an emergency and the need for immediate adoption of the proposed regulation.

After the Board's approval, the package is submitted to the OAL and the public comment period begins, which is five calendar days. At the conclusion of the comment period OAL is required to review the regulatory package and make a decision on the proposed emergency regulation within 10 calendar days. If OAL approves, t files the emergency regulation with the Secretary of State at which time the regulation becomes effective.

At a minimum, the process will likely take about 20 days from the Board's approval of the regulatory package. The OAL makes the final determination on whether to approve the proposed emergency regulation before it can be implemented. If approved, the regulation would be in effect for 180 days from the date it is filed with the Secretary of State.

The notice of election, which includes the election schedule and nomination procedures is approved by the CalPERS Board in February of 2021. If the Committee opts to pursue emergency regulatory changes, then the proposed regulation would need to be effective prior to the approval of the notice of election, which means that Board would need to approve the regulatory package in December 2020 or early January 2021 to allow sufficient time for public comment, OAL approval, and filing with the Secretary of State.

For discussion purposes, I wanted to provide information on non-regulatory internal process changes that are available to help mitigate the risks and challenges surrounding in-person gathering of signatures during a pandemic, should they be necessary when we begin the election process next year.

One internal process change that could be made is to extend the nomination petition period by adding approximately two weeks to the beginning of the period. This change would be implemented at the Board's discretion through the adoption of the election schedule and the notice of election. The change would allow additional time for potential candidates to safely gather original signatures, should they choose to do so by mail or other means that do not involve person-to-person contact.

This change is contingent on our election vendor having the capability to print and mail the notice of election within a shortened time frame. Our elections believes this is likely doable.

Another change that is available is the modification to the nomination petition form to provide a single signature form in addition to the standard multi-signature form. One version would be a single signature nomination petition form only allowing one signature as seen in the sample provided in attachment 1. The other version would be the standard multi-signature nomination petition form as provided in attachment 2.

This is an action item concerning whether to move forward with emergency regulations to modify the signature gathering requirements for the nomination petition process in the 2021 member-at-large Board election.

I'm happy to answer any questions that you might have at this time. Thank you.

VICE CHAIRPERSON MILLER: Thank you, Mr. Stone

I do not see any requests to speak from the Board.

It looks like we have one public comment on Item 6c.

Oh, no. I do have President Jones and then Director Brown. So President Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Vice Chair. Just a couple questions. There was a reference made to approving in December, but we don't have a Board meeting in December. So what was that reference being made to? And secondly, if it does require action, can it be done in November? Whatever you were referring to that was requiring action in December. That's the first question.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Yeah. Mr. Jones, so what we're -- what we're trying to state is that if an action is taken today, that basically directs our elections team to work with our Legal Office to develop and emergency regulation package. That regulation package would require the Board's approval before we submit it to the Office of Administrative Law. So we would need to have a special meeting with the Board to approve that regulation package before submitting it to OAL for -- to start the process.

COMMITTEE MEMBER JONES: So you cannot complete that process to be -- to have it as a November meeting?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: This month? We would have to present --

COMMITTEE MEMBER JONES: I'm sorry. I'm sorry.

We're in November.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: We are.

COMMITTEE MEMBER JONES: I mean -- so it would have to be by December, so it can't be at January off-site then.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: We could do it very early January, but, you know, we're -- we are expecting at least 20 days for us to package everything up and submit it and go through the comment period and OAL approval.

COMMITTEE MEMBER JONES: Okay.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: And OAL could have additional questions to us with regards to how we're substantiating the case of that there is indeed an emergency.

COMMITTEE MEMBER JONES: Okay.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: So, you know, time is of the essence.

COMMITTEE MEMBER JONES: I see.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: And if we did it in January, there could be no guarantee that we would have it in place before we would bring to the Board in February of 2021 the notice of election for approval to begin --

COMMITTEE MEMBER JONES: I see.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: -- to being the 2021 member-at-large election.

COMMITTEE MEMBER JONES: So what I hear you saying that we would need to have a special meeting in December to make sure that the process is complete.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Conservatively, we would like it in December, but at the latest January.

COMMITTEE MEMBER JONES: Okay.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Thank you.

COMMITTEE MEMBER JONES: And, you know -- and I -- if we decide to make these changes, I would be open to a special meeting in December, if that's the concurrence of the Committee -- Finance Committee members, and -- well, no, we would really need a full Board, because it requires Board action.

So unless other Board members have any concerns about that, I'll work with the CEO to identify a specific day that works for everyone, if we are going to move forward with this proposal. Okay.

VICE CHAIRPERSON MILLER: Okay. Thank you, Mr. President.

Director Brown.

BOARD MEMBER BROWN: Thank you. Dallas, I'm wondering if you can just tell me what is the -- again, the difference between attachment 1 and attachment 2. So attachment 2 is two pages and requires all the signatures and then attachment 1 is just for one signature?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

Yeah. So in order to make things very simple for all of our members, we thought, you know, if there was a candidate that was interested in maybe sending something out through social media or somebody wanted to go on our elections webpage on our site, and download, and sign the petition form, we thought that just providing a single signature form might be -- would be easier for them.

And basically, the difference between attachment 1 and attachment 2 is attachment 1 is really just an abbreviated version of attachment 2.

BOARD MEMBER BROWN: Okay.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

And attachment 2 typically has 50 pages. It's for folks to take to large gatherings and have signatures. We only provided just a sample of the first two pages just file size and overall simplicity.

BOARD MEMBER BROWN: Yeah, I see that.

The only thing about downloading the form, like I say, if you -- I'm going to download the form and sign it and send back it in, it has the last four of our -- your candidate's Social Security numbers on there, so you'd have to white that out or something, block that out.

I do like the single -- the single one. I know with I ran three years ago, four years ago, when I would send out the whole thing with budget pages, they'd go how many do I have to get? I'd go, oh, fill them.

No, but it's nice to have just -- a place for just one. But you would just send out the first page over, and over, and over, and over, and over again is what I would do. So that's very interesting.

I just want to -- I just want to ask the Committee that, you know, whatever you do you make sure that it's safe, not only for the candidates and for the beneficiaries, because remember this is all members for this next upcoming election. And so since it impacts me, you know, I don't want to say anything, but it sure would be easier just to say, you know, no signatures or 50 signatures. I know that would open up the candidate pool, but I just don't want to make it too difficult. So that's my comments. Thank you.

VICE CHAIRPERSON MILLER: Okay. Director Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller. I wanted to follow up on Ms. Brown's comment.

I'm concerned about keeping Social Security numbers safe. There's a lot of information that can be accessed just with four digits and a name, as well as an employer. And so I wanted to know what safeguards we have in place.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
What is your question again, Ms. Olivares. I apologize.

COMMITTEE MEMBER OLIVARES: What safeguards do we have in place to prevent identity theft. On these forms we're asking for name, signature, last four digits of social, and employer. There's a lot of information we can get.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
Correct. And our internal team does need that information in order to identify the member that signed the petition form to indeed validate that they are an eligible signee on the petition form.

So typically, it would be the gathering -- the gathering of the signatures is conducted by the candidate. And then the candidate would submit their package to our Board Elections Coordinator in Sacramento and then our internal staff would work through the myCalPERS system to validate those eligible signatures to confirm that they did meet the 250-signature requirement.

COMMITTEE MEMBER OLIVARES: My question was what safeguards do we have to prevent identity theft, at the moment of collection of signatures to the submission of documents?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Well, I guess my comment would be, Ms. Olivares, is that we are not actively working with the candidate as they're gathering signatures. So I would assume that the candidate would be, you know, putting safeguards in as they're collecting them. And then they are directly submitted to our Board Elections Coordinator.

After that, we have the internal ownership of that data, we -- we -- we confirm that they are eligible to sign it. And then after that, they are stored in a secured area, you know, on CalPERS's campus.

COMMITTEE MEMBER OLIVARES: My understanding is that we have a higher level of safeguards internally with member information and retiree information. So I would --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Correct.

COMMITTEE MEMBER OLIVARES: -- imagine that we'd be consistent in that process. And I would hope that we can Matt Jacobs take a look at this too and then maybe a risk review of this.

I would wouldn't put my -- the last four digits of my social security number on this. So I don't know if there's another way we can go about this, but I would want to make sure that we protecting member's information and retiree's information at all costs.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Absolutely. And I'm happy to work with our Legal team and our Information Security team with regards to the issue that you stated, Ms. Olivares, to see if there's another way for us to identify the member and ensure that they're eligible when they sign the nomination petition form.

VICE CHAIRPERSON MILLER: Yeah, unless it's done --

COMMITTEE MEMBER OLIVARES: Thank you. I'm hoping we can hear back on that soon. I also wanted to make a comment on emergency regs and OAL. Having gone through that process a few times, it will take a while, so I understand why we might need a Board meeting in December. That's a very long process with a lot of back and forth.

VICE CHAIRPERSON MILLER: Yeah. And, Mr. Stone, just to build Director Olivares comments, in my personal experience, and I think others -- people who have been through the process will also attest that a lot of members, while they are happy to sign and endorse you, they will -- they will not put those numbers and their signatures are disqualified.

They have a legitimate concern. And so I think at minimum if that is a requirement, some best practice guidance for candidates and the people helping them get signatures, if they're not just doing it by themselves, with a clipboard for the most part, is -- would be -- would be very welcome.

Yeah. So -- so that's that.

I do have Mr. Jones with a question or comment.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Vice Chair.

You know, I -- on the issue, I completely support the need to have the necessary protections for our members, but I don't think this is exposing our members anymore than the old process in terms of signature gathering, because the requirement of 250 signatures, I personally probably only witness maybe a dozen people actually signing those petitions. So what happens is you get people on your behalf going to different people having them sign. And then they pass that document on to someone else and ultimately it comes back to CalPERS with those signatures and the last four digits of the Social Security number.

So I don't see that this is any more risk than our current practice, if we're going to have a form that someone can sign, and either email it or give it to someone else to get another signature. So I believe that, you know, whatever process are in place now for the old method, this is not changing that process for the protection of those members.

VICE CHAIRPERSON MILLER: Okay. Thank you. Director Brown again.

BOARD MEMBER BROWN: Thank you.

Ms. Olivares raises a really good point. And I think this is why it's always great to have new blood and a new set of eyes on this process. Like Mr. Miller, I did run into problems with people who didn't want to sign. And, yes, like Mr. Jones says, those forms sometimes get passed onto other people. And I don't know who has seen those forms with the Social Security numbers.

And, yes, you can glean a lot, even with the last four. So I do agree with Ms. Olivares that we should find another way that doesn't require the last four digits of the social security, some other identifying information potentially, or once -- I also like one signature on a form. So a lot of times I would just send one out at a time, which is very problematic. But I would seal them and so there wouldn't be, you know -- keep them safe.

But I think, Ms. Olivares, you raise a very good point. And I think we should try to do something to protect that information. We're being required to get it to run for office, so CalPERS should have protections in place to protect beneficiaries.

Thank you.

VICE CHAIRPERSON MILLER: Okay. Looks like President Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair.

Yeah, I, too, am very concerned about the protection of our members. And unless there was a way to make a change in our processes within a month, so our election process can go forward, I would be amenable to that, but I don't think we could make those changes now to still have an orderly election coming up.

So that is something that I would support looking at as we go forward. But to try to make that significant change with one month, and we've already indicated that we've got to do something by December to set -- be ready for this upcoming election. So I don't think we have the capacity to make those kind of fundament changes.

You know, one of the things is some -- voting processes include issuing everyone a unique identification number. That's a possibility. But you can't accomplish that at this stage for our upcoming election.

CHIEF EXECUTIVE OFFICER FROST: Yeah. And, Mr.

Jones, everyone -- every member in the system does have a unique identification number, other than their Social Security number that was issued through myCalPERS, but they would have to go in and acquire that number or look up that number.

But I think what we should do is, understanding that this is an issue that has come forward that the Board is concerned about, let's give this to Dallas and his team to go and see what the options are and we can bring back a full range of options. As Mr. Jones indicated, it's probably difficult to do that for this next election. So let us also think about what other safeguards we can put in place for the current process.

VICE CHAIRPERSON MILLER: Yeah. Point well taken. And if we have anything going for what is emergency regs, the simpler it is, the more likely we will get it addressed in time without it having coming back from OAL to -- they find the -- well, they send things back a lot. Even when they're very well considered, you may have to go through a round or two of question and answer with them.

So, I guess I'll, at this point -- I see no more requests for discussion. So I'll ask if anyone wants to put forth a motion to go forward with preparing on the issue, I guess, of the electronic signature question, whether there's any inclination to pursue that which would require a regulation change.

Do we have a motion?

COMMITTEE MEMBER RUBALCAVA: Mr. Miller, this is Ramon Rubalcava. I will make a motion that we do ask for the Office of Administrative Law to allow us to change from original signatures to non-original signatures.

VICE CHAIRPERSON MILLER: And is there a second to that?

COMMITTEE MEMBER JONES: Second

VICE CHAIRPERSON MILLER: Okay. We have a motion and a second.

COMMITTEE MEMBER OLIVARES: I have a --

VICE CHAIRPERSON MILLER: I'll open it for discussion. And it looks like Director Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller.

So if we were to allow electronic signatures, there are other identifiers through various types of software providers, which would ask identifying information about the person signing, in terms of their address -- their current address, previous addresses, other affiliations, which could be used to cross-reference the CalPERS identification for that individual.

CHIEF EXECUTIVE OFFICER FROST: Yeah. I think you're getting at some of the options that quickly came to mind for me as well, is that this process seems a tad bit dated, with the fact that you need original signatures or non-original signatures, when we have technology that likely could support this and do the validation into myCalPERS and authenticate appropriately.

COMMITTEE MEMBER OLIVARES: Um-hmm.

CHIEF EXECUTIVE OFFICER FROST: So let us gather some options and we can bring those back to you after we've had a chance to really do some more research.

COMMITTEE MEMBER OLIVARES: Great. Thank you.

CHIEF EXECUTIVE OFFICER FROST: Uh-huh.

VICE CHAIRPERSON MILLER: Thank you.

Yeah. And I've got Director Brown.

BOARD MEMBER BROWN: One last comment. As we start finding high-tech ways to solve this problem, remember that the majority of people who participate in these elections are retired and older, set in their ways, and some aren't even on the Internet. So let's make sure we still allow for something manual.

Thank you.

VICE CHAIRPERSON MILLER: Okay. I'm seeing no more -- oh, President Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Vice Chair. Yeah, to Ms. Brown's comment. We're not eliminating the ability for someone to sign a wet signature and send that in. So that still would exist, is that correct, Mr. Stone?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Again, it's base on your direction. And I was just going to ask, you know, when we do take action, we have to be very clear on what your direction is, because I will have to go back with the Legal Office and we will have to develop, you know, the exact verbiage of that regulatory change that we will be submitting and that you will be voting on to approve.

So what -- I think what I'm hearing so far is that you guys are going to be taking up an option to allow our members, our candidates to submit non-wet signatures. So I'm assuming this is like a photo copy or some type of electronic download of the form that we currently provide. And we would accept that in lieu of the wet signature.

COMMITTEE MEMBER JONES: Well, then -- then all that will be returned to us in December, so that we could move forward, is that the plan?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Correct. I just want to make sure that we're very clear on what you want our team and the legal team to draft, because at that point, if we come back to you in December and we are -- we cannot hit the right mark with regards to what you wanted to see with that reg -- with that emergency regulation, then, you know, we'll be a bit behind in terms of our timing to get everything packaged up and submitted appropriately.

COMMITTEE MEMBER JONES: And well I would support Ms. Brown's notion that we still allow wet signatures for those who don't have access to technology to send those in as they normally do.

VICE CHAIRPERSON MILLER: Director Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller.

To Mr. Stone's point, everything in the emergency reg has to be spelled out completely clearly. It requires a lot of detail. So to that end, there might be questions about how we validate these signatures. What is our process for doing that, once the signatures have been collected.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

So we do not have a archive of member signatures. We do not compare the signature to a signature that we have on file. What we do is we -- we take the nomination petition form and the information that was provided by the signatory. We review the information that they provided in our myCalPERS system to validate that they were an eligible voter in that upcoming election, and that that petition was signed. And then, at that point, that would be an eligible signature to count towards the minimum of the 250.

COMMITTEE MEMBER OLIVARES: Can't we check for redundancies?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: We do check for redundancies. If someone signed multiple times, we would only allow one signature on that form.

COMMITTEE MEMBER OLIVARES: Okay. Thank you.

VICE CHAIRPERSON MILLER: Okay. I'm seeing no more requests to speak. And before I call the question, I will -- actually, I'm going to -- I think I will be abstaining, because -- oh, it looks like we have a public comment on 6c. So let's hear our public comment before we do any movement toward voting.

So, Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We have Mr. Tim Behrens of California State Retirees on Item 6c.

MR. BEHRENS: Thank you, Kelly. Chairman Miller, members of the Committee, I thought I had a simple solution for you. But now after listening to Dallas's presentation, it doesn't sound quite so simple. CSR is going through a three-year election process. And the board waived our normal election process because of the pandemic. And all of our members that are running for chapter office or delegate are self-nominated, so there is no contact made by anyone face-to-face.

They just fill out the appropriate form, send it in, and they get on the ballot. Having said that, I don't know if that's possible or not. My next thought was that at least reduce from the 250 to say 50, because the process is going to be so difficult to manage by the candidates running for office. And then looking down the road in the long one, since we gave our stakeholders an opportunity to vote over the Internet, maybe in the long run we could have the same thing for nominations done through CalPERS website, where all I'd have to do is get on there, open up portal, fill it out for the candidate I'm supporting, and that would count as a signature.

Thank you. Good luck.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

If I could just comment -- if I could just comment on that really quick. You know, there's obviously a menu of options at your disposal with this discussion. And it could be reducing the signatures from 250 to whatever number you would like. It could be completely eliminating the signature gathering requirement and obviously accepting non-original signatures on the nomination petition form.

I know that back in September, Ms. Taylor did ask with regard to LACERA and LACERS, you know, what they had -- what they had done. And LACERA did change their process to allow an additional 48 hours after the nomination petition process had closed to submit the original wet signatures. And then the Los Angeles City Employees Retirement System, they brought forth to their board allowing either additional time to gather required signatures, reducing the number of signatures from 100 to 50, or completely suspending the signature-gathering requirement for their elections. And their board did decide on suspending the signature requirement altogether for that one election.

So I did -- at least wanted to bring that to your attention, if that's something that you guys would also like to entertain for discussion.

COMMITTEE MEMBER RUBALCAVA: Mr. Miller.

VICE CHAIRPERSON MILLER: Mr. Rubalcava, are you raising your hand?

COMMITTEE MEMBER RUBALCAVA: Yes. Thank you, Mr. Miller. Thank you, Mr. Stone. I -- since it is -- I just throw it out there, are people interested in perhaps lowering the requirement for signatures from 250 to a lesser amount? I know it hasn't been discussed, but it is in the -- I mean, it is in the ordinance -- or the regs that -- and everything in the regular is -- can be amended or suspended, isn't that what we're looking at suspending or modifying?

GENERAL COUNSEL JACOBS: If I might --

COMMITTEE MEMBER RUBALCAVA: So I don't know the history or anything about that, so...

GENERAL COUNSEL JACOBS: If I might comment. This is Matt Jacobs.

The more --

VICE CHAIRPERSON MILLER: Yes, Mr. Jacobs, go ahead.

GENERAL COUNSEL JACOBS: Thank you, Mr. Miller.

The more changes that we propose in an emergency reg, the less likely it is that it gets approved by OAL. And they really should be focused -- any kind of proposed changes should be focused on what is the emergency that we are trying to address -- or what is the urgent action that is necessary. And here, what we've got today is the idea that because of Coronavirus, we've got a more difficult time collecting signatures --

COMMITTEE MEMBER RUBALCAVA: Wet signatures, right.

GENERAL COUNSEL JACOBS: -- wet signatures. So that might get us through. But if you start adding things that aren't really specific to the urgency or don't have that same urgency, we're going to have more trouble getting that through OAL on an emergency basis.

VICE CHAIRPERSON MILLER: Okay. Mr. Perez.

COMMITTEE MEMBER PEREZ: I think Stacie was in front of me.

VICE CHAIRPERSON MILLER: Mr. Perez.

COMMITTEE MEMBER PEREZ: Stacie was in front of me.

COMMITTEE MEMBER OLIVARES: Thanks, Jason. Thanks, Perez.

Mr. Miller, this is in response to Mr. Jacobs too. So typically OAL does require that you be narrow in focus and it has to be in regard to the emergency at hand. And I think due to the still uncertain nature of the Coronavirus, I am actually concerned about disease transmission. So in addition to potential identity theft, it's unclear exactly how long the disease will live on paper. And if you're talking about prospective candidate collecting wet signatures from people and then sending this on through the mail, I don't -- there's risk there that we don't need to take. So as we define this for OAL, I think it's important to cite that reason as well.

Thank you.

VICE CHAIRPERSON MILLER: Thank you.

Director Perez is next.

COMMITTEE MEMBER PEREZ: Thank you. Dallas, what did the State do for our State elections this last month -- this month?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: We did reach out to the Secretary of State for comment. And they reported that they had made no changes to the existing process and still required original signatures on petitions per the elections code. And that was us reaching out to them a couple weeks ago.

COMMITTEE MEMBER PEREZ: And how many did they require?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: I don't have that number with me offhand, Mr. Perez, but I believe it's in the thousands not hundreds.

COMMITTEE MEMBER PEREZ: All right. I hate to put all this work and effort into a waiver or for an exception when, I mean, it's not broke and then maybe look into it long term to fix it for the next election, but that's just me.

VICE CHAIRPERSON MILLER: Okay. It looks like Director Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Miller. Sorry, a lot of questions regarding this. What is the benefit to having signatures collected -- to having that signature requirement versus just self-nomination, aside from wanting to narrow down the candidate pool?

GENERAL COUNSEL JACOBS: Well, this is Matt Jacobs. I think -- I mean, I'm just speculating now, but I think it's just to -- that you don't want people on there without demonstrating at least some level of support amongst the constituency.

COMMITTEE MEMBER OLIVARES: Okay. So it's only to narrow it down, so that way you don't want to give -- you don't have -- provide too many choices and people get confused.

Okay. Thank you.

VICE CHAIRPERSON MILLER: I'm not seeing any more requests to speak. So, at this point, I will have -- Mr. Fox, any additional comments from the public?

STAKEHOLDER RELATIONS CHIEF FOX: Mr. Chair, no, there are no more comments on this item.

VICE CHAIRPERSON MILLER: Okay. At this point, I'll call for the question and ask Ms. Hopper to please call the roll.

COMMITTEE SECRETARY HOPPER: Henry Jones?

COMMITTEE MEMBER JONES: Aye.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

COMMITTEE SECRETARY HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Abstaining.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: No.

COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Vice Chair, I have four ayes, one no by Jason Perez, and one abstention from David Miller. Motion made by Ramon Rubalcava, seconded by Henry Jones.

VICE CHAIRPERSON MILLER: Okay. The ayes have it. The motion is approved. And we'll go forward and -- I thank you, Mr. Stone, for your presentation and the team's work, and than everyone for the thoughtful discussion. I think certainly in the longer run, we really want to take a look at our election procedures and see if, you know, our objectives and our goals for a lot have these procedure elements are -- could be met more effectively and efficiently in another way.

I abstained because, frankly, I believe that having to have wet signatures in the time of a pandemic is not just a public health issue, that it also is an almost insuperable barrier to any potential candidate who does not have institutional support. And as one of those kind of candidates for several runs in the past, I can tell you it would be virtually impossible for me to go around with my clipboard and find 250 people wandering the streets of Sacramento who might be State employees to sign for me in this environment. So I think we've got a lot to think about for the future, but this is our -- you know, our next step forward.

Thanks.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Thank you, sir.

VICE CHAIRPERSON MILLER: So moving along to the next item here is item 7a information agenda items, and 7a annual review of funding levels and risk report. So for that we go to, it looks like, Mr. Terando.

(Thereupon a slide presentation.)

CHIEF ACTUARY TERANDO: Good afternoon, Mr. Chair and thank you. Scott Terando, Chief Actuary.

Today, we're going to be presenting our annual report on the funding levels risk report. This is an opportunity for the Actuarial Office to review the system as a whole and present any findings we have, as well as talk about any risks to the system that we see developing both now or going forward.

I'm going to make some just general comments to begin with and then I'm going to pass it along to Randy Dziubek, who will actually provide additional detail and insights into our findings.

Overall, this report shows that while on the funding position and the risks of falling to low funding levels in the future are improving, risks remain in the system. Required employer contributions are projected to increase over the next few years. And with the economic slow down due to COVID, this could pose considerable problems for some employers.

Actual contribution increases could also exceed expectations if future experience is unfavorable. Also, recent trends in capital market assumptions suggest it may be difficult to achieve a seven percent long-term inflation -- or investment return without taking on additional risk into the portfolio.

During 2021, we will be reviewing the asset allocation and the discount rate during the asset liability management process, or ALM as we call it. If this process leads to a reduction in the discount rate, additional increases to employer and PEPRA member contributions will be required.

Careful review and consideration of risk measures and risk tolerance during the ALM process will be critical -- will be critical for optimal portfolio selection, as well as near-term funding for the system going forward.

And with those opening comments, I'm going to pass it along to Randy who will go through our presentation.

DEPUTY CHIEF ACTUARY DZIUBEK: Thank you, Scott. And good afternoon, Mr. Vice Chair and Committee Members. I am Randy Dziubek, CalPERS Actuarial team. Before I get into the details of our presentation today, I want to make a couple opening comments. First of all, the report that we're going to talk about and the presentation slides today are going to cover pretty much the entire PERF, so all of the plans within the PERF combined.

However, there are a couple small plans that are not part of our results, and they are the Terminated Agency Pool, as well as the 1959 Survivor Benefit Program. And the reason I mention that is that I noticed in Michele Nix's slides earlier today her results do include those two small plans. And so in a couple instances, my numbers will be off from hers just a little bit.

And secondly, we refer to this as an annual report. And for the most part it is an annual report. However, during years in which we're going to go through the formal asset liability management process, which we will do next year, we typically don't release this report in that year, because the information included in this report is going to be provided throughout the ALM process anyway. So you will not see this report likely next year.

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DEPUTY CHIEF ACTUARY DZIUBEK: So the main topics we're going to cover today are first current results of the system, then we'll talk about some potential impacts of the pandemic that we're in the midst of currently, and then finish up with some important risk drivers.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. So slide 3 shows funded status of the system, so for the entire PERF as well as the significant subemployee groups. And these funded status results are shown as of June 30, 2018, as well as June 30, 2019. And you can see there was a very slight improvement in most categories from those two measurement dates with the PERF funded status as of June 30, 2019 being 70.1 percent. And this is one number I noticed in Michele's slide was 70.2. That is what will show up in the CAFR. That number includes the TAP and the'59 Survivor Plan.

The reason that we don't have results here as of June 30, 2020 is that even though we know what the asset values are as of that date, the liability portion of this calculation is not yet known. We will compute those plan liabilities as part of our annual valuation process, which we're in the midst of currently.

The important thing to keep in mind with funded status is there's -- first of all, there's no line that divides a good funded status or a bad funded status. It's important to understand whether, no matter what your funded status is, whether employers are able to make future contribution requirements. And also, it's important to just look at the trend of funded status over the recent past.

If, for example, you go back over five, 10 years, and what you see is a steady decline in funded status, well that probably indicates that you should at least review your funding policies. In CalPERS case, if you went back over the last 10 years, what you'd see is the funded status hovers right around 70 percent throughout that period, some years higher, some years lower.

So on the one hand, you might think, well, perhaps we should have had some steady improvement over the last 10 years, but on the other hand, we had to keep in mind that during that 10-year period, we did reduce the discount rate from seven and a half to seven percent. We also built in improved mortality rates for our members.

And both of these changes had significant impacts to the determined liabilities of the system. So even adding those changes to our assumptions, we were able to maintain our funded status. So I would say all in all, that's a fairly positive result.

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DEPUTY CHIEF ACTUARY DZIUBEK: Moving on to contribution rates, what we show on this slide are average contribution rates for our different employee groups. And these are rates determined as of both June 30, 2018, as well as June 30, 2019. And there is a lag between the valuation date and when the contributions are actually due. So, for example, the rates that you would see as of the June 30, 2019 valuation date actually apply to the 2020-2021 fiscal year for State and schools, and the 2021-22 fiscal year for public agencies.

And what these rates represent -- first of all, these are -- these are contribution dollars divided by payroll, so expressed as a percentage of pay. And they are the sum of the employer's share of normal costs for the year, plus any required payment towards any unfunded liability that may exist.

And it's important to note here that in most of our plans -- and so in most of these cases, the UAL payment is actually higher, and in some cases considerably higher, than the employer normal cost. And what we can infer from that is that if we were theoretically a hundred percent funded across the board in our system, these contribution rates would be less than half of the rates that you're seeing here and in some cases much less than half.

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DEPUTY CHIEF ACTUARY DZIUBEK: Now, these contribution rates have increased somewhat over the last few years. And we are projecting them to continue to increase somewhat. And this is primarily a result of the decrease in the discount rate and the fact that the impact of that, in terms of employer contributions is phased in over a period of time.

And so even though the seven percent discount rate went into effect in the past, we still are phasing in the impact of that change. And as you can see, after a few years of slight increases, we do expect a lot of these contribution rates to start coming down, and that is for two reasons.

First of all, as we get more and more PEPRA members into the system, their costs are typically lower than classic members. And also over time, we expect employers will payoff their -- some of their unfunded liabilities and so their total contribution will reduce because of that.

Now, even though we reflected the 4.7 percent return here, for the year ending June 30, 2020, for future years, we are assuming that the fund earned seven percent every year. And, of course, if we earn something greater or less, these results could be significantly different.

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DEPUTY CHIEF ACTUARY DZIUBEK: So the required amount that employers need to make to CalPERS and to any retirement system around the country typically are based on some type of funding policy that the system has. And in our case, we do have funding policies adopted by the Board. And in situations where the funding policy derives a required payment towards unfunded liability that is less than the interest on the existing unfunded liability, we call that negative amortization.

And that's because, if that contribution is made by the end of the year, we actually expect the unfunded liability to grow rather than decrease, because the required payment towards the unfunded liability is not enough to cover even the interest growth on the beginning balance.

But the good news is what we can see from this particular slide is that we've seen a dramatic decrease in the number of our plans, and these are public agency plans only, for which negative amortization is a part of their contribution. You see the vast majority now are making contributions at least as large as the interest on the UAL and, in most cases, more than that even.

And additionally, the new Amortization Policy that went into effect in the 2019 valuations, because it has a maximum payoff period of 20 years, should do a better job in mitigating negative amortization going forward.

And the last thing I want to say about this issue is that in the 2019 public agency reports, we added some information in the reports this year that point out very clearly if the required contribution is less than interest on the unfunded liability.

We wanted employers to be aware of that, point that out and also give them an amount that they could contribute on top of their regular required contribution, if they wanted to avoid this negative amortization.

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DEPUTY CHIEF ACTUARY DZIUBEK: And speaking of additional discretionary payments, this chart shows how these amounts have been increasing over the last several years. And again, these are amounts that -- first of all, this is just for public agencies. The State is not included in this particular chart. So these are amounts that public agencies have given to us voluntarily above the amount that we require in the actuarial report, in large part because they're understanding more the benefits of paying down their unfunded liabilities faster. It does save quite a bit of money in the long run.

And if you look at the prior fiscal year, we had a very large jump in additional discretionary payments. And again, this is just public agencies. We received over $2.6 billion of additional contributions during the last fiscal year. And I think Michael Cohen mentioned this earlier, a lot of that came out of pension obligation bonds being issued by some of our agencies and then taking the proceeds and giving them to us to pay down their unfunded liability.

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DEPUTY CHIEF ACTUARY DZIUBEK: So over the next couple of slides, I want to talk a little bit about the pandemic that we're in the middle of and potential impacts on the retirement system.

In California alone, at the time this was published anyway, there were over 16,000 COVID-related deaths. I believe it's over 18,000 as of today. And we know from listening to our employers and stakeholders, that their revenues have been significantly impacted in many cases, making it that much more difficult for them to make their required CalPERS contributions.

And we have seen specific impacts in various areas from the pandemic with respect to investment returns, mortality, retirements, and on. However, it's really too early to tell. We don't have enough data at this point to know if these impacts will result in any meaningful changes to required employer contributions or whether these impacts will continue beyond a year or so. There is a potential that some of these could continue, you know, beyond the next year or two. We just don't know.

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DEPUTY CHIEF ACTUARY DZIUBEK: So we know that the investment return for the last fiscal year was 4.7 percent. As most of you probably remember earlier in 2020, we were running at a negative return for the year. And luckily we had a pretty significant rebound towards the end of the fiscal year to hit that 4.7 percent return. So that is lower than our expected return of seven percent, but better than we were expecting a few months earlier. We have seen some data that certainly indicates we're seeing more deaths then expected. Retirements is an interesting topic. What we've seen so far is that in some cases, in some groups, we're seeing more retirements than expected, and in other groups we're seeing less retirements than expected.

And you can -- you can see why the pandemic might push someone in either direction. Perhaps, they're -- they weren't planning to retire, but they don't like working from home. They're afraid of eventually having to go back to the office and getting the virus. And so they say, I'm just -- I'm just going to retire. I'm sure we all know a few people who have done that or perhaps they're ready to retire, but they're very concerned about the economy, about their financial situation, and they feel like I better hold onto this job and this paycheck.

So at this point, we really don't expect that these impacts on experience will result in significant increases or decreases to the employer contributions. And at this point, we have no reason to believe that they'll continue beyond a year or two, but there still are some unknowns with regard to this pandemic.

We do know also that because of the impact on revenues, this continues to be our largest concern for the system is employer's ability to continue making their required contributions.

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DEPUTY CHIEF ACTUARY DZIUBEK: So before I dive into some of the risk drivers, I just want to mention that, you know, traditionally when you think of the financial health of a retirement plan or the sustainability outlook, most people start by looking at the current funded status of the system. And we did that on the first slide of the presentation.

And years ago, it was not uncommon that that's all you would look at. You know, the actuaries, and the boards, and folks would sort of focus on that number as if it told the whole story. And, of course, we've learned valuable lessons over the past, but there are many measures to look at, many risk drivers, risk measures, projections, stochastic modeling. You need to look at all of these to really got a clear picture of the financial health of the system.

So let's start here with a projection of funded status for the PERF, as well as employer contribution rates over the next ten years. So the left chart shows the projected funded status of the PERF over the next 10 years, given assumed average returns of between six and eight percent per year over this 10-year period.

So, of course, our expected return is seven percent and so the line right through the middle represents what we expect to happen over this 10-year period. And, you know, in any one year, we know we're probably not going to hit seven percent, but over a 10-year period, there's a good change that our average return will be somewhere between the six and eight percent that we're showing here. But what you can see is after ten years, we can get a fairly large range in funded status, whether we average six percent, seven percent or eight percent.

And then moving to the right-hand side of the page, these represent two sample plans, public agencies within CalPERS and show a 10-year projection of their employer contribution rates, again given the six to eight percent range of average returns, with the blue line in the middle again being the expected return.

Now, these are sample plans. Every plan that we would look at, if we plotted their specific 10-year projection would look a little bit different these. But in terms of the impact of investment return on our plans' required contributions, these would be representative of pretty much all plans within CalPERS.

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DEPUTY CHIEF ACTUARY DZIUBEK: So slide 11 is very similar to slide 10 that we just looked at. We're looking at projected funded status on the left for the PERF, projected employer contributions on the right. But our scenario now for investment return is one really good or one really bad investment year for us in year one, and then seven percent thereafter.

And the range that we're using here it's very small and hard to read, but I believe it goes from a low of about six -- negative 16 percent and a high of about 30 percent between those dashed lines on the chart on the right -- sorry the left. And these are not likely returns in any one year. However, they are not out of the realm of possibility. In fact, a return of higher than 30 percent or lower than minus 16 percent, we have about a five percent chance of seeing that in any particular year.

So it is important to know if we receive one of these abnormal years, what will that do to our funded status? And this chart illustrates there's an immediate and significant change in the funded status of the system after one year of such an abnormal return.

And then if we look across to the projected contribution rates, the good news here is that our five-year ramp up, which is part of our amortization policy, will smooth the impact of this odd investment year over a five-year period. So you can see the changes in contribution rates are not as significant in the early years as the changes we would see in the funded status. And the thinking being that typically when we have an abnormal year, like what we're looking at here, in the next couple years, there might be some kind of a correction in the opposite direction.

And so the fact that the employer contribution rates will take five years to fully reflect this abnormal investment return, gives us time for an offsetting return in the next couple years, so hopefully we'll never experience the full extent of the impact of this negative return.

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DEPUTY CHIEF ACTUARY DZIUBEK: So one of the things that we measure annually with our stochastic modeling is the likelihood of falling below a given funded status. We're looking at 40 percent, 50 percent, and 60 percent here. Again, there's no magic line to, you know, what's good, what's bad, what funded status, if we fall below, would we not be able to recover from? There is no such single funded status. But it's very clear that if the funded status of the system falls to a low enough level, it can be very difficult to dig out of that and get back to a hundred percent funded.

And so it is important to have some safeguards in place and continue to monitor the likelihood of falling below some of these very low funded percentages. The good news is it's very unlikely that we would fall underneath 50 percent funded over the next 30 years. However, because of the volatility of the market, falling under 60 percent, there is some chance of that, some reasonable chance of that over the next 30 years.

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DEPUTY CHIEF ACTUARY DZIUBEK: So an important maturity measure that we look at for the retirement system is something we call the asset volatility ratio. And it's simply the ratio of the market value of assets of the plan to the payroll of the active members. And the reason we look at this ratio is that it's a good indicator of the likely contribution volatility going forward.

In other words, the higher this ratio becomes, the more likely the employer will see larger volatility in their contribution requirements going forward. And this -- the fact that these have been increasing, which we see from this chart and are projected to increase further, is really just -- you know, because of the maturing of the system, this is what tends to happen in any retirement system as our ratios of actives to retirees change, and our asset levels grow and liability levels grow, this ratio just tends to grow over time. So it's not a bad indicator that it's growing, it's just an indicator for all of us to expect some increase in contribution volatility going forward.

The safety plans tend to have a higher ratio than miscellaneous plans, because their benefits are a little bit more valuable generally.

And if we had gone further out in the future beyond 2020, because of the existence of PEPRA, at some point, once the PEPRA members represent the majority of the system and the majority of the liabilities, we'll see these asset volatility ratio patterns level off and even decline a little bit way into the future.

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DEPUTY CHIEF ACTUARY DZIUBEK: So, of course, in talking to our employer partners and stakeholders, we know that for many their required CalPERS contribution is presenting some budget issues for them. We can see here the average contribution requirement for safety plans is over 50 percent of payroll. And we do expect, as we said, some small increases to these requirements going forward before we think they'll begin to decline.

Probably as a combined result of the pandemic and historically lower interest rates, we've seen employers use some -- some techniques for managing their employer contributions more so than we've seen in the past. And those include pension obligation bonds, Golden Handshakes, and furloughs.

Now, if an employer were to get into a situation where they were completely financially unable to make their CalPERS contribution, there are policies within the amortization policy that, if approved by CalPERS, could allow a spreading out of the amortization of unfunded Liability, which would bring their near-term contributions down and hopefully get them through this period.

However, we only want to use that in worst case situations. It does result in higher costs going forward. If we lower the costs now, they're just going to be that much bigger in the future.

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DEPUTY CHIEF ACTUARY DZIUBEK: So here quickly, we talked about contribution volatility previously. And this chart just shows you the likelihood of plans experiencing a certain increase in their employer contribution over the next 30 years. And this is within one particular year. So from one year to the next, their contribution goes up by -- and we're showing three percent, five percent, and seven percent for miscellaneous plans, and five percent, seven percent, and nine percent for safety plans.

And what you can see again sort of based on the maturity measure that we looked at previously is in most cases these have risen just a little bit from last year and probably will continue to in the near future as the system continues to mature.

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DEPUTY CHIEF ACTUARY DZIUBEK: And finally, Scott mentioned this in his opening, we'll be going through the full asset liability management process next year. The Board will review investment policies, asset allocation, and make decisions about asset allocation and the discount rate assumption going forward. Over the last several years, just looking at trends in capital market assumptions, we have seen a slight reduction in capital market assumptions over the last four years. That doesn't mean necessarily that there will be a decrease in the discount rate.

And, of course, the Board's decision with regard to asset allocation will impact whether the discount rate will need to change or can stay at seven. But given the recent trends and the fact that this is coming up next year, I think it's important as part of this type of analysis to just identify that it is a real possibility that the discount rate will need to be lowered or that the Board will choose to lower it.

And given employers difficulty currently for making required contributions, this would just add to that difficulty for many of them.

So with that, Scott and I are happy to take any questions you might have.

VICE CHAIRPERSON MILLER: Okay. Thank you very much for your presentation. We very much appreciate it and very helpful.

I have several questions queued up here. And we'll start with Director Middleton.

BOARD MEMBER MIDDLETON: All right. Thank you, Mr. Vice Chair and Mr. Dziubek, MR. Terando. Thank you for an excellent report. I do have a few questions. I'm going to start with just a quick comment. I love understatement. Not all of my colleagues on city councils do. But when I read the sentence, "However, employer contribution levels are climbing and this is potentially increasing financial stress on some employers".

(Laughter.)

BOARD MEMBER MIDDLETON: Thank you for that smile.

Potentially is not the word most of my colleagues are using right now.

(Laughter.)

DEPUTY CHIEF ACTUARY DZIUBEK: Yes, I would say many of our employers would word that more strongly. Agreed.

(Laughter.)

BOARD MEMBER MIDDLETON: Thank you.

Could you turn to the last chart that you showed on page 15 of 17 of your example. I'd like to make sure I truly understand what you're saying on this particular chart and understand what the difference is between the three, five and seven percent of payroll, the five, seven and nine percent of payroll for public safety.

DEPUTY CHIEF ACTUARY DZIUBEK: Sure. So what we're showing here is the probability over the next 30 years of any of these groups having an increase to their employer contribution rate of greater than the thresholds at the top of the chart.

So the three percent of payroll, five percent and seven percent are really just thresholds that we selected to show you various probabilities. So, far example, for the State miscellaneous plan, based on the current results, they have a 55 percent chance of having at least one time over the next 30 years, a three percent of payroll or greater increase to their contribution rate in a single year.

BOARD MEMBER MIDDLETON: All right. And --

DEPUTY CHIEF ACTUARY DZIUBEK: And likewise, if you move across, the percentages go down. They have only a 14 percent chance of getting a single year increase of five percent and so on. And the thresholds are higher for safety, mostly because they're already at higher rates and so they're more likely to have a somewhat larger increase, given the same event as a miscellaneous plan would have.

BOARD MEMBER MIDDLETON: And this is in any one year?

DEPUTY CHIEF ACTUARY DZIUBEK: That's correct.

BOARD MEMBER MIDDLETON: Okay. So that's helpful. And what -- one of the things that we know is that the risks vary from employer to employer. So this kind of information, I think, somewhat helps.

One of the difficulties we have is trying to define what employers are at greater risk than other employers. And I'm looking for some data that would help us to be able to go to the employer community and give them a better sense of what their risk level is. And so far, most of employers keep coming back simply to that funded status. And I was very much in agreement with something you said right at the very beginning, what's your trend line on funded status, what's your ability to pay in upcoming years? And do we have (inaudible) that would help each individual employer understand where they're at on that, those measures?

DEPUTY CHIEF ACTUARY DZIUBEK: That's a good question. Of course, every employer gets a unique actuarial valuation every year that provides them their specific information on funded status and projections. Something that is required in the state of California for CalPERS is that all of our agencies are required to make their minimum contribution every year. And if they don't or if they can't, that could lead to termination of their contract with CalPERS.

And so we don't have a situation, perhaps as in other systems, where required contributions aren't being made for some period of time. That tends to get plans in the biggest amount of trouble when they're not making their required contributions. So as of this time, you know, all of our employers are caught up with required contributions. There isn't as much of a range in funded status as you might think, because of that.

Now, some are better off, because they've made additional discretionary payments.

BOARD MEMBER MIDDLETON: Right.

DEPUTY CHIEF ACTUARY DZIUBEK: And their funded status is higher. They're unfunded liability is lower, you know, their contribution requirements are lower. That's all due to having made higher contributions than what we ask of them, but, of course, that does increase the volatility of future contributions. They now have more assets as stake, you know, at some risk in the market. So they have to be aware of that as well.

Other than that, I -- I think -- you know, based on the funding policies that we have in place, if an employer is able to make their required contributions, and that's a big if, but if they are, they will eventually become a hundred percent funded, more than likely, and we will always have enough money to pay out required benefit payments.

Really, the only thing that can really cause us severe problems is when the contribution requirements get to a certain level and a particular employer just can't afford to make them. And, of course, the affordability aspect varies widely across our agencies. Some are struggling now. Some are not as much and actually have extra money that they can give to us.

I will say that the California State Auditor is going to be updating their -- I think they call it a high-risk dashboard, where they -- they evaluate the financial strength of the cities around California. And part of that analysis involves CalPERS results. This is their analysis. This is not CalPERS Actuarial Office. But they rank the cities from 1 to 400 and something based on financial strength.

Scott, do you have anything to add?

BOARD MEMBER MIDDLETON: I'm reasonably familiar with that report. And it's -- it has some advantages and then there's some data in there that I think is problematic, but that's one person's opinion.

I'm sorry, I stepped on Scott.

CHIEF ACTUARY TERANDO: Oh, no, that's okay.

I was going to say, you know, what Randy said on the State others report, you know, that's one tool that's -- that some agencies can use to kind of measure their risk.

But to what Randy was talking about, you know, one of the challenges is our -- is we have such a wide variety employers. And the challenge is finding, you know, what -- what's a meaningful measure and that varies from employer to employer. Some employers can't handle a one percent increase in contributions. Some of them, it's not a problem.

So, you know, the challenge for us is coming up with a standard measure, you know, we've looked at, you know, funded status. We've added additional projections. We've added risk measures. You know, we added a lot of sensitivity to kind of show the employers. But the volatility with the system with potential cost increases with the system.

And, you know, I think, you know, if we're -- they have a lot of information. They can call the actuary to have a discussion with them. And I think they needed to kind of look at how much their pension costs are in relation to their budget and how has that changed over time, because you know -- I think that's one indication. Since we don't have the budget numbers, that's not something we can do.

But I think that's something that the cities and agencies should be doing is saying how -- how those (inaudible) are trending over time. And if it's increasing, is it increasing at a rate that's going to make it difficult for them to deal with moving forward.

BOARD MEMBER MIDDLETON: I want to be very complimentary, because I think the level of knowledge on the part of the employer community has really picked up in the last few years. And that's complimentary to both the employers and to CalPERS, in terms of the quality of the conversation improving.

But without outing any particular employer, we do have some demographic data regarding those employers that have struggled to make payments. And being able to communicate some of those demographics to the broader whole, I think would be helpful in gaining some -- some satisfaction, so -- and I will again encourage the continued conversation with League of California Cities, the chief financial officer, city managers, and mayors and cities councils, because the more we're conversing with them, the better they understand the situations we've got going forward.

So with that, I'll quiet and let some other folks ask some questions. Thank you.

VICE CHAIRPERSON MILLER: Okay. Thank you, Director Middleton.

And next we have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Yes. Thank you for the presentation. And I really enjoyed the dialogue with Ms. -- Trustee Middleton who's also city councilmember, so that gives it a whole interesting perspective. And that's what I want to talk about, the employer contribution rates and the treasurer and employers to pay their required contribution. I want to start with chart -- I guess it's page six of 17, negative amortization. It's good that it's flowing -- going -- decreasing, but I actually am surprised that there's still a negative amortization, because -- is that because it takes a while for it to filter down, because I remember when I first came on the Board, the first -- my first vote was to do the third part of all these funding policy changes. And it was going from 30 years amortization to 20.

And I always thought that going to -- decreasing from 30 to 20 years would actually get rid of negative amortization. So if people are still making their -- and I guess State law requires that they make their -- what's required actuarially, that every employer make their contribution, how can we still have negative amortization, which means your're taking -- only paying interest and nothing else nothing else. So how can that be? I'm missing something.

DEPUTY CHIEF ACTUARY DZIUBEK: Great question. So these employers, in fact, they are making their required contribution. The issue is that what we determine as the required contribution has UAL payment that is less than interest on their unfunded liability.

And you're correct in stating that the new Amortization Policy with its 20-year maximum period, will mitigate negative amortization going forward, but that policy only applies to new -- newly created unfunded liability, so things that happened after June 30, 2019, I guess, or 2018.

So all of those existing unfunded liability bases that were established years ago are still being amortized under the old policy, which allowed up to a 30-year amortization period. And for such a long period and with the method of amortization, the payments for several years initially are less than interest on the unfunded liability. Over time, they increase more rapidly and do payoff the unfunded. But that is one of the reasons that we proposed and that you adopted the new policy. So we just need to waited for those old bases to be paid off under the old policy.

COMMITTEE MEMBER RUBALCAVA: Thank you. If we can go to the previous chart, I guess page five of 17, and it shows the projected increase in employer contributions. I mean, clearly because of the pandemic and the impact on revenue -- on tax revenue, employers have even more pressure than before on their employer contribution. But if that chart was separated by -- because you mentioned unfunded liability -- I'm sorry, you UAL, and -- versus normal costs, we would -- would normal costs be more or less level and it's -- and the increase is because of their past liabilities, would that be correct?

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. So the levels that you're seeing here -- for example, the

California Highway Patrol in 2021 was, the number is really small, but it looks like about 59 percent. That's a combination of the normal cost and the UAL payment. The employer normal cost piece of that is less than half of that number.

So the reason that these rates are all as high as they are is because we're 70 percent funded for the most part, and employers are having to make fairly large payments toward their unfunded liability.

We're increasing primarily because of the phase in of the impact of the discount rate change from seven and a half to seven. And once we get to the end of that in the next two or three years, you know, the hope would be and the projections would be that the rates will begin to come down somewhat.

And, of course, that is very dependent on whether the discount rate changes, which would, you know, result in changes to all of these charts, if that were to happen.

COMMITTEE MEMBER RUBALCAVA: Thank you. I'm -- I don't want to sound like I'm insensitive, but I know that employers do have pressure -- financial pressures and they have competing demands and everything. But I'm trying to understand what's a realistic picture. Trustee Jason mentioned there was an article yesterday -- or two days in the Orange County Press about employers having pressures issuing -- to make their pension. And some people are -- and they -- I didn't read it completely, but I just skimmed it. And they were -- they mentioned some small employers, mostly special districts, that supposedly in a couple years, their contribution is going to double or something -- or even more so.

And that's hard to believe, so I'm not sure if they're confusing the rate with the total cost. And if they're small enough, I can see how that would happen.

But those special districts tend not to have the risk safety plans with the high UAAL[SIC] or high contributions. So did you get a -- how would you explain that article, or have you had a chance to see it, or -- I know -- I don't want to undermine that the -- under -- belittle that there is real pressure, especially in this pandemic situation, but I want to make sure we understand what's real, because we're going to -- I think one thing CalPERS has to do is we have to defend defined benefit plans. And we need to make sure they're sustainable. And that's why funding policy is very important.

But we also have to make sure to understand what's a true picture out there. So if you could speak to that article and --

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. Great question. And luckily, the reporter reached out to us for some information, so I an familiar with the article. And I think the cost that was being referred to was the contribution towards the unfunded liability. It wasn't the total contribution. And in some extreme cases, when we looked at it, based on getting questions from this reporter, an example of one that was likely to have this big increase was an agency that made a large discretionary payment to bring their unfunded liability way down several years ago.

And so they currently have a relatively small -- very small required UAL payment, because they paid off a big chunk of it a few years ago. And so what they will see, based on, you know, changes, for example, to the seven percent discount rate, is that they are going to seer as a percentage large increases in their UAL payment, because they're starting from a very small amount, right?

And so when we come along then and change the discount rate and add to their UAL payment, it appears that it's growing, and it is growing, much more rapidly than -- than the average plan, because they're starting from a very small -- almost recommend zero point for them because of the additional discretionary payment.

You're seeing on this slide averages across the system. They're not increasing typically at the rates that were referred to in that article. And the ones that were mentioned were special cases that seem to have reasonable answers.

COMMITTEE MEMBER RUBALCAVA: So they were extreme cases then, I guess.

DEPUTY CHIEF ACTUARY DZIUBEK: That's right. That's right.

COMMITTEE MEMBER RUBALCAVA: Just trying to understand the funding policy a little bit. You mentioned how mitigate -- one of the mitigating factors will be PEPRA and how the PEPRA employees will -- are less expensive than say the classic legacy employees.

I'm trying to understand how the other demographics play -- come into play. I know that in '37 Act counties, this -- every three years they do an experience study. And the demographic is a big factor that how you -- you know, mortality and all that. We get that, but other -- but how often is that done and do you see that really impacting, because a number of -- I guess, you did speak to it the number of retirees -- number of projected retirements, whether it changes or not, will impact the funded status and impacts the counts going forward.

So if you could just speak -- I think maybe I'm getting a little too off the risk thing here, but I just understand how does the -- the experience study weigh in on the CalPERS plan?

DEPUTY CHIEF ACTUARY DZIUBEK: Sure. We do a formal experience study every four years. We're going to do it next year in conjunction with the asset liability management process. We will look at all the assumptions you mentioned, mortality, retirements. The good news, I think, is that in most experience areas, our assumptions come out very close to what actually unfolds with actual experience. We have a very large data set.

And so just looking at past results and understanding how things are changing in the world, we can usually get pretty close to predicting a lot of that experience going forward.

Mortality used to be one that every time we looked at it, it had improved since the last study, right? And so it -- we would put in the new table and it would increase rates. But the good news with that assumption is that several years ago, we actually built in expected future improvements to mortality rates that we had not built in previously. So not only do our mortality rates reflect the current state of mortality, but also assumed improvements going forward.

So again, even with mortality, we don't expect, when we do an experience study, that we'll see that our results were very far off. The biggest factor is going to be the discount rate. You know, should that be required to come down for whatever reason? That can have a major impact on cost, because the costs come from the members, the employers, and investment return.

And if we believe we're going to be losing investment return, it has to be made up from employers and members. So that will be the biggest factor in determining whether costs will change significantly.

COMMITTEE MEMBER RUBALCAVA: Thank you very much. Really, really thank you.

VICE CHAIRPERSON MILLER: Okay. Thank you.

It looks like next we have Director Ortega.

BOARD MEMBER ORTEGA: Thank you, Mr. Chair. Thank you for a great presentation. Very clear and I really appreciate it. I wanted to return to the slide that is called maturity measures. Could you talk a little more about the factors that go into the information that we see here? I understand the point about the volatility or the richer benefit on the safety plans driving sort of a -- their higher position on the graph, but is there any of the number of employees who are coming into -- like newer employees coming in to sort start contributing to the system. Is that part of what we see on that chart as part of the maturity factor, aging plan factor.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. I don't know if we can -- there we go. So the lines represent the ratio of the market value of these plans to the active payroll. And, you know, maybe -- maybe one plan has a ratio of 10, you know, just to toss out an example. That just means their assets are ten times greater than their payroll.

And the ten by itself doesn't really mean anything. You know, there's not again a line of, you know, over this is bad and under this is good. It's just sort of a numerical indication of how volatile your future contributions may be going forward. And so as the system continues to build up assets, obviously we have 400 billion or so dollars of assets with -- and it just keeps growing. And, of course, all of that money is exposed to the market and volatility of the market.

So when an individual plan builds up a significant amount of assets, that's good. That's what we want to happen, but it does mean that they could experience a certain percentage increase in their contribution rate going forward more easily or more likely than if they had a lower amount of assets.

And so, yes, current members are always leaving and they're being replaced by newer members. But for now, the market value of all the plans is continuing to grow. And so this measure is continuing to grow. But, yes, when -- when the PEPRA members become the majority of the plan, because their benefits cost less, we won't need to build up the same level of assets and these lines will dip down a little bit beyond what we're showing here ending at 2025. So I hope that answered your question.

BOARD MEMBER ORTEGA: That helps. I think it helps me to refine my question a little bit. So is there an element of -- so as it relates to the payroll factor in this graph, do we see any or would we be able to find out if there's any factor of payroll declining, because not as many staff are being hired, or not at the same rate as they would have been.

I'm asking this question, because one of the things that you -- you might hear when people talk about pensions is the -- as the percentage of payroll grows for some of these classifications, it's essentially costing you one and a half times, right, for one person. So does that have an impact on that department's ability to hire -- so, you know, for a police department does that factor into their ability to hire new employees, because they're paying this higher cost on the pension side and does then a shrinking payroll factor into this maturity measure?

DEPUTY CHIEF ACTUARY DZIUBEK: That's a great question. And I'm not sure how well I'll answer it, but

I'm going to give it a try. It's a bit of -- it's a bit of a dilemma to look at required contributions as a percentage of payroll in the first place. We do it here for simplicity. But as you may know in our valuations, we separate the UAL payment from the normal cost. And we show the UAL payment as a dollar amount. We've just, for simplicity, added it to the normal cost and converted it to a percentage of pay, because people are used to looking at contributions as a percentage of payroll. They're comfortable with that presentation.

But, yes, we run into difficulties when we have a plan that for some reason the payroll is experiencing some abnormal growth or decline. You know, we have -- we have plans that, for example, may be a safety plan that had both police and fire and they decide they want to have their fire protection contracted out -- outside of their plan. And so now their fire people all become inactive and their payroll is now just a police payroll.

So they still have a very large plan with the benefits for those fire members, but now their contribution looks really high as a percentage of payroll, because they had a really sharp unexpected decline in their payroll.

So the fact that the payroll goes up or down doesn't impact the dollar amount of the volatility of the contribution as much as when it's expressed as a percentage of payroll. And again, it does cause confusion. You know some of our reports will show that we have some agencies who are making 70 percent or higher percent of payroll contributions. And again, when we drill down and look at them, there was this kind of unexpected decline in payroll, for a variety of reasons.

Does that help?

BOARD MEMBER ORTEGA: Yeah. Thank you.

DEPUTY CHIEF ACTUARY DZIUBEK: Okay.

VICE CHAIRPERSON MILLER: Okay. Thank you very much Mr. Dziubek and very illuminating again, and great discussion, and very helpful beneficial answers and responses.

So I've got a public comment on number 7a. And so I have no more questions or comments from the Board members, so I will go to public comment. Mr. Fox, do we have our commenter.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, sir, Mr. Chair. We have Mr. Bijan Mehryar from the League of California Cities

MR. MEHRYAR: Thank you, Mr. Fox.

Can you all hear me?

VICE CHAIRPERSON MILLER: Yes, sir. Go ahead

MR. MEHRYAR: So Board members, thank you very much for the lively discussion on this agenda item. As some of you may recall, at last year's meeting when this item was brought up, I was accompanied by five or six city managers from a diverse array of Northern California cities, who spoke to the challenges that they all faced in meeting their CalPERS obligations, despite at that time being in the middle of an economic expansion.

They talked about the challenges of balancing the need not just to provide critical services to their communities, but also in terms of hiring, and retention, and the ability to give raises because of the demands of their CalPERS obligations.

While -- and what we think that you all should take away from this report is that the support for employers, the ability to make sure that they can keep making their employer contributions is really the lens that you should apply when you go through the ALM process, where you're making decisions about the asset allocation and the discount rate is really asking and having the educated discussion about what the impact to employer contributions will be.

Furthermore, two points that I want to make is that on the PEPRA front, while we can appreciate in the long term that bringing on PEPRA members may lower the obligations in the outyears, the fact is is that many employers are either furloughing or laying off staff and won't be able to rehire and reap the benefits of that PEPRA membership because of the impacts on the pandemic-induced recession.

And secondly, with regard to the State Auditor's dashboard, we strongly would caution you at using that report to make any judgments about the ability of cities to meet their obligations or their financial management, because that report, for example, penalized cities and their financial ranking if they had low reserves, regardless of the fact that perhaps the reserves were low, because they were using that money to make ADPs or to set up a 115 Trust so that they could further support their CalPERS obligations. And so as always, the League of Cities is always there to work with you, to support you, and to be a partner in any of the endeavors necessary to make sure that we have an affordable and sustainable pension system.

Thank you very much.

VICE CHAIRPERSON MILLER: Thank you. I do not believe we have anymore public comments, do we, Mr. Fox?

STAKEHOLDER RELATIONS CHIEF FOX: Not on this item, Mr. Chair. We do have one under the public comment 7c.

VICE CHAIRPERSON MILLER: Okay.

So I believe that wraps up this item and we go to -- let's see, I've lost my screen here, so Committee Direction.

CHIEF FINANCIAL OFFICER COHEN: Yes, sir.

VICE CHAIRPERSON MILLER: Committee Direction, Mr. Cohen.

CHIEF FINANCIAL OFFICER COHEN: Yes, I've got three items. First is the breakdown of the investment, personal and other, administrative expense item that we've provided for you in the past. We'll do that again.

Second was the discretionary payments. I think you saw that on slide 7 of Randy's presentation. I also wanted to point you to page 68 of the financial statements attachment 1 from that item. I will leave it to Board Member Middleton if she wants to reach out for additional information, we're obviously happy to pull that together. And then the third item was further work on protecting privacy information, Social Security numbers in particular, as it relates to the election item, both in the short term as well as the long term. We will bring you back additional information as appropriate on that one.

VICE CHAIRPERSON MILLER: Okay. Sounds right to me.

I see no questions or comments.

So we'll move to item 7c, public comment. Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We do have one caller on Item 7c. We're having some difficulty on the screening, so standby for just a moment.

VICE CHAIRPERSON MILLER: Standing by.

MS. PETITE: Hello. Can you hear me?

VICE CHAIRPERSON MILLER: Go ahead.

MS. PETITE: Hello?

STAKEHOLDER RELATIONS CHIEF FOX: Yes, ma'am.

MS. PETITE: Hello. How are you?

My name is Serena. I am contacting the Finance and Administration Committee today, because I am a right of way acquisition agent for the City of Tulsa Engineering Department in Tulsa, Oklahoma? And I'm reaching out in hopes of possibly getting the correct contact information for the person or group who can authorization a payment from the City of Tulsa to the retirement system in the amount of $32 -- I'm sorry, $32,527 for a utility easement on property that is owned by CalPERS. An existing stormwater pipe needs to be replaced in the parking lot of two retail businesses who lease retail space in a building that exists on property you own in Tulsa, Oklahoma.

I had reached out to your property manager that is on file with the local tax assessor office. However, I have not received a response from them in about nine weeks. The easement requested is for 3,097 feet. CalPERS would remain owner of the entire property. I'm just looking for contact information, if someone can help me.

VICE CHAIRPERSON MILLER: Okay. Thank you, ma'am. I will see if I can direct staff to follow up with this caller and see, you know, what's going on. Does that sound reasonable, Mr. Cohen?

CHIEF EXECUTIVE OFFICER FROST: Yeah. Mr. Miller, if the public commenter can just remain on he line, we could have Mr. Fox get her the appropriate contact information.

VICE CHAIRPERSON MILLER: Great. Thank you.

CHIEF EXECUTIVE OFFICER FROST: Um-hmm.

VICE CHAIRPERSON MILLER: I think that about does it for Finance and Administration committee for today. So we will adjourn. And I believe Risk and Audit will begin let's say at 4:00 o'clock.

Take a short break.

Okay. We are adjourned. Thank you, all.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 3:45 p.m.)

CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of November, 2020.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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