

VIDEOCONFERENCE MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
RISK AND AUDIT COMMITTEE  
OPEN SESSION

ZOOM PLATFORM

THURSDAY, JUNE 3, 2021

9:31 A.M.

JAMES F. PETERS, CSR  
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APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chairperson

David Miller, Vice Chairperson

Margaret Brown

Fiona Ma, represented by Frank Ruffino

Betty Yee

BOARD MEMBERS:

Henry Jones, President

Rob Feckner

Theresa Taylor, Vice President

STAFF:

Marcie Frost, Chief Executive Officer

Marlene Timberlake D'Adamo, Chief Compliance Officer

Fritzie Archuleta, Deputy Chief Actuary

Robert Carlin, Senior Attorney

Pam Hopper, Committee Secretary

ALSO PRESENT:

Geoff Bridges, Segal Company

Nick Collier, Milliman

Mita Drazilov, Gabriel, Roeder, Smith and Company

David Driscoll, Buck Global

APPEARANCES CONTINUED

ALSO PRESENT:

Anne Harper, Cheiron, Inc.

Brett Hunter, Buck Global

David Kausch, Gabriel, Roeder, Smith and Company

David Kershner, Buck Global

Matt Larabee, Milliman

Tonya Manning, Buck Global

Mike Moehle, Cheiron, Inc.

Kim Nicholl, Segal Company

James Sparks, Gabriel, Roeder, Smith and Company

Rebecca Stouffer, Gabriel, Roeder, Smith and Company

Todd Tauzer, Segal Company

Daniel Wade, Milliman

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PROCEEDINGS

1  
2 CHAIRPERSON MIDDLETON: It's 9:31, so I think we  
3 should get started.

4 I would like to call the special meeting of the  
5 Risk and Audit Committee to order. Could we have a roll  
6 call, please.

7 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

8 CHAIRPERSON MIDDLETON: Present.

9 COMMITTEE SECRETARY HOPPER: Margaret Brown?

10 COMMITTEE MEMBER BROWN: Good morning.

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

13 ACTING COMMITTEE MEMBER RUFFINO: Present.

14 COMMITTEE SECRETARY HOPPER: David Miller?

15 VICE CHAIRPERSON MILLER: Present.

16 COMMITTEE SECRETARY HOPPER: Jason -- Shawnda  
17 Westly?

18 Betty Yee?

19 COMMITTEE MEMBER YEE: Here.

20 COMMITTEE SECRETARY HOPPER: Madam Chair, I have  
21 everyone in attendance with the exception of Shawnda  
22 Westly.

23 CHAIRPERSON MIDDLETON: All right. Thank you.

24 Next item, I would like to call for an Executive  
25 Report from Ms. Timberlake D'Adamo.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 Good morning, Madam Chair, Mr. Vice Chair,  
3 Committee members, and Board members. Marlene Timberlake  
4 D'Adamo, CalPERS team member.

5 The CalPERS Board of Administration has delegated  
6 to the Risk and Audit Committee the authority to conduct  
7 the selection of the Board's parallel valuation auditor  
8 and to recommend the finalist to the Board. On April  
9 15th, 2021, CalPERS released the RFP number 2021-9054 to  
10 seek vendor participation to perform parallel valuation  
11 and certification services to the Board for a three-year  
12 period beginning August 1, 2021. Today's agenda item is  
13 the solicitation for third-party valuation and  
14 certification of annual actuarial reports: finalist  
15 interviews and finalist selection.

16 The next Risk and Audit Committee meeting is  
17 Scheduled for June 15th, 2021 and includes the Office of  
18 Audit Services Plan for 2021-22, the independent auditor's  
19 annual plan, and the annual Compliance Report for 2021 --  
20 2020-2021.

21 Thank you, Madam Chair. This concludes my report  
22 and I would be happy to take any questions.

23 CHAIRPERSON MIDDLETON: All right. Are there any  
24 questions for Ms. Timberlake D'Adamo?

25 Seeing none. Thank you.

1           Today, the Risk and Audit Committee is  
2 interviewing finalists for the parallel actuarial  
3 validate -- valuation and certification services Request  
4 for Proposal number 2021-9054. In accordance with the  
5 RFP, the Committee will determine an interview score for  
6 each finalist using the trimmed average scoring  
7 methodology.

8           If there are other -- I see that there are other  
9 members of the Board who are present who are not a part of  
10 the Committee. We welcome you and we're glad that you are  
11 with us. Today's interviews will be a little different  
12 from the traditional Committee meeting. And I want to set  
13 expectations at the outset. During today's interviews  
14 with each of the firms, only Committee members will be  
15 asking questions. Non-Committee members are welcome to  
16 observe the interviews, but I'd ask that you please hold  
17 your comments and thoughts until all interviews are  
18 complete.

19           Once the Committee has finished interviewing each  
20 of the firms, we'll move on to scoring each finalist  
21 interview and selecting a finalist to recommend to the  
22 Board of Administration. At that point, it's appropriate  
23 for feedback and comment from non-Committee members.

24           At this time, I would like to Fritzie Archuleta  
25 Deputy Chief Actuary to provide a summary of RFP

1 activities to day dates and logistics of the interview  
2 process.

3 Ms. Archuleta.

4 DEPUTY CHIEF ACTUARY ARCHULETA: Thank you, Madam  
5 Chair. Fritzie Archuleta, CalPERS team.

6 CalPERS has received six proposals by the final  
7 filing date of May 20th, 2021. Five of the six proposals  
8 passed the technical proposal evaluations and had their  
9 feed proposal opened and scored. The five finalists, Buck  
10 Global LLC, Cheiron, Inc., Gabriel, Roeder, Smith and  
11 Company, Milliman, Inc., and the Segal Company were  
12 invited for the oral interviews as scheduled today.

13 I would like to take the time to update the  
14 Committee on the preliminary total scores of the firms  
15 based on the highest to lowest scores.

16 Buck Global received 140 points for their  
17 technical proposal score, 300 points for their fee  
18 proposal score, and 50 DVBE incentive points for a  
19 preliminary total of 490 points.

20 Cheiron, Inc. received 161 points for their  
21 technical proposal score, 230 points for their fee  
22 proposal score, and 30 DVBE incentive points for a  
23 preliminary total of 421 points.

24 Gabriel, Roeder, Smith and Company received 159  
25 points for their technical proposal score, 168 points for

1 their fee proposal score, and 50 DVBE incentive points for  
2 a preliminary total of 377.

3 Milliman, Inc. received 159 points for their  
4 technical proposal score, 195 points for their fee  
5 proposal score, and 50 DVBE incentive points for a  
6 preliminary total score of 404 points.

7 And The Segal Company received 170 points for  
8 their technical proposal score, 177 points for their fee  
9 proposal score, and zero DVBE incentive points for a  
10 preliminary total score of 347.

11 Each finalist will be allotted up to 30 minutes  
12 for the interview, five minutes for presentation, 20  
13 minutes for the interview questions for the Committee for  
14 questions and answers. All finalist will be given the  
15 same questions. If needed, the Committee will have an  
16 additional five minutes for clarifying or follow-up  
17 questions, based on the finalist interview responses.

18 At the conclusion of the interviews, the  
19 Committee will submit their separate scores via the email  
20 template that you should have already received from OSSD  
21 using the trimmed average scoring methodology.

22 Using the trimmed average scoring methodology --  
23 I'm sorry. Yeah -- will require all Committee members to  
24 submit a score on a scale from 0 to 5 for each finalist.  
25 Staff will remove the highest and lowest scores from the

1 Committee members, and find the trimmed average score of  
2 the remaining Committee member scores. The trimmed  
3 average will then be multiplied by 100 resulting in the  
4 finalist interview score for each firm. The maximum  
5 points is 500.

6 The interview scores will be collected and  
7 combined with the preliminary total scores to determine a  
8 total score for each finalist. The Committee will then be  
9 asked to make a motion recommending the Board award the  
10 contract to the finalist with the highest total score,  
11 subject to final negotiations and satisfaction of all  
12 requirements.

13 This concludes my report. I can answer any  
14 questions if avail -- if any come up. Thank you.

15 CHAIRPERSON MIDDLETON: Thank you, Ms. Archuleta.

16 Are there any questions for Ms. Archuleta?

17 All right. I want to remind the Committee that  
18 once we start we do ask that you stay through the entire  
19 process in order to be fair to all of the candidates. I  
20 would now ask that role be taken, so that the record  
21 reflects the Committee members present and participating  
22 in the interview selection process.

23 Ms. Hopper.

24 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

25 CHAIRPERSON MIDDLETON: Present.

1 COMMITTEE SECRETARY HOPPER: Margaret Brown?

2 COMMITTEE MEMBER BROWN: Here.

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

5 ACTING COMMITTEE MEMBER RUFFINO: Here.

6 COMMITTEE SECRETARY HOPPER: David Miller?

7 VICE CHAIRPERSON MILLER: Here.

8 COMMITTEE SECRETARY HOPPER: Shawnda Westly?  
9 Betty Yee?

10 COMMITTEE MEMBER YEE: Here.

11 COMMITTEE SECRETARY HOPPER: Madam Chair, all is  
12 in attendance with the exception of Shawnda Westly.

13 CHAIRPERSON MIDDLETON: Okay. For Committee  
14 members, we have seven standard questions that are to be  
15 asked. And I would like each one of us to have an  
16 opportunity to participate in asking questions. So I'm  
17 going to ask Mr. Miller to ask questions number two and  
18 six, Ms. Brown to ask question number three, Mr. Ruffino  
19 to ask question number four, and Ms. Yee to ask question  
20 number five. I will ask the first and the last questions.

21 Are there any questions on that?

22 All right. Thank you. Let me see.

23 All right. And we just got confirmation that  
24 Shawnda will not be joining us today.

25 So let me move to my book.

1 All right. We will now conduct the interviews in  
2 alphabetical order. Buck Global will be first; Cheiron,  
3 Inc. second; Gabriel, Roeder, Smith and Company third;  
4 Milliman, fourth; and The Segal Company will be the last  
5 interview.

6 Each finalist will have five minutes for a  
7 presentation and 20 minutes for a question and answer  
8 period. If needed, the Committee will have a five minute  
9 period for clarifying or follow-up questions based on the  
10 finalist interview responses.

11 The clock located in the Zoom meeting will show  
12 you the time remaining in each segment. It is each firm's  
13 responsibility to manage its own respective interview  
14 presentation questions or responses within the allotted  
15 time. Committee members please note that the questions we  
16 will be asking are included in item two of the finalist  
17 interview packet.

18 At this time, I would like to remind the  
19 finalists that each of your firms signed and submitted to  
20 CalPERS Board of Administration the interview form in the  
21 proposal. This form represents a pledge that each of you  
22 will not make any attempt to listen to or watch the  
23 interviews of the other finalist nor have anyone do so on  
24 your behalf. Failure to adhere to this requirement will  
25 result in your firm's disqualification from this

1 engagement.

2 Stores -- scores will be determined via the  
3 trimmed average scoring methodology as prescribed in the  
4 RFP after all finalists have been interviewed. To  
5 facilitate the scoring, each Committee member should have  
6 received a blank scoring email from OSSD prior to the  
7 meeting.

8 Committee members, please verify that you have  
9 received this scoring email?

10 I see one thumb going up. Has anyone not  
11 received it?

12 ACTING COMMITTEE MEMBER RUFFINO: Madam Chair, I  
13 don't think I have received it. I'm --

14 CHAIRPERSON MIDDLETON: Mr. Ruffino and Ms.  
15 Yee --

16 COMMITTEE MEMBER BROWN: 9:12 -- 9:12 a.m.

17 CHAIRPERSON MIDDLETON: Yeah. It did just come  
18 in earlier this morning.

19 COMMITTEE MEMBER YEE: I don't have it.

20 CHAIRPERSON MIDDLETON: Okay. Staff, could you  
21 resend that to Ms. Yee and Ms. -- Mr. Ruffino. And it  
22 will come from OSSD.

23 Do any Committee members have any questions?

24 I see none.

25 At this point, we will now begin the interview

1 process. If we could bring Buck Global forward.

2 Do we have everyone present from Buck Global?

3 MS. MANNING: (Nods head.)

4 CHAIRPERSON MIDDLETON: All right. Then I would  
5 like to give you five minutes for your presentation.  
6 There is a clock that is in the Zoom. Please monitor that  
7 clock. Following the five minute presentation, we will  
8 have approximately 20 minutes of Q&A for you.

9 And with that, thank you.

10 MS. MANNING: All right. Thank you so much. My  
11 name is Tonya Manning. And I'm going to kick things off  
12 for Buck to first tell you a little bit about Buck and a  
13 little bit about our team.

14 But very first, I'm going to thank you so much  
15 for this opportunity to bid for this work, and to meet  
16 with you, and present with you today. It is quite an  
17 honor.

18 At Buck, as I mentioned, I am Tonya Manning and I  
19 serve as the practice leader and Chief Actuary for the  
20 wealth practice. This is the practice that would be  
21 serving you, if we were honored to serve in this role that  
22 is being presented today.

23 Under me and part of the team we have with us  
24 today is David Driscoll. And David Driscoll is a fellow  
25 actuary and also a leader in the public plans actuarial

1 profession, both with regards to his public plan  
2 knowledge, as well as his attention and understanding of  
3 professionalism serving on the Actuarial Board of Council  
4 and Discipline, and has served in many roles. Regarding  
5 the Actuarial Standards Board and Professionalism. He has  
6 over 30 years of experience in the profession.

7 We also David Kershner, another fellow actuary  
8 who will be partnering with David to serve the account.  
9 And Brett Hunter who is an Associate Actuary, who will be  
10 supporting and overseeing the technical aspects of the  
11 work.

12 So a little bit about Buck. I just want to  
13 emphasize that we have been in the public plan work since  
14 our inception. So over a hundred years we have been  
15 devoting our service to the plans that are rewarding those  
16 who serve public entities. We have over 200 public plan  
17 clients that we have served. And we have multiple -- we  
18 have an average tenure with those clients of 22 years and  
19 3.7 million plan members served. So we've got a lot of  
20 experience and we're happy to say that we have previously  
21 served CalPERS for the assignment being considered today.

22 We want to also note that we have added to the  
23 team that has served CalPERS in this capacity before.  
24 Brett will continue on the team as well as some other  
25 folks to make sure that you have that continuity, which is

1 very important for something as complex and as important  
2 as this assignment. But we've added David Kershner - he  
3 would be new to the team - to provide an added layer of  
4 expertise and for a fresh perspective to make sure that  
5 you're getting all of the best ideas and work out of Buck  
6 for this assignment.

7           We have also reassigned our DVBE technology  
8 support for this as well. We want to make sure that you  
9 are getting that fresh look, but you're also getting the  
10 continuity and understanding of the work that we've  
11 already provided.

12           We also -- as my role as the executive sponsor  
13 for CalPERS, I will be making sure that everyone on the  
14 team is serving you appropriately, and that you're getting  
15 all that you need, and meeting with you if there is any  
16 issues or concerns. But as Chief Actuary, I'm also making  
17 sure that the team is following all of the standards, both  
18 for the profession and both internally for Buck, and they  
19 or meeting them or exceeding them, where appropriate.

20           In addition to us serving our clients, I just  
21 want to emphasize that we also are very adamant and  
22 passionate about serving the profession. I mentioned that  
23 David Driscoll is very much involved in the actuarial  
24 profession, particularly with public plans and  
25 professionalism.

1           And I have been quite involved as well supporting  
2 the professional aspect of the profession serving on the  
3 Actuarial Standards Board Pension Committee and other  
4 subgroups that have performed those tasks, and also  
5 serving as President of the Society of Actuaries.

6           So we are very devoted to CalPERS, we're very  
7 devoted to the profession, and we're devoted to giving you  
8 the best possible service. And we hope that you will be  
9 in agreement that we have served you well and allow us to  
10 continue to serve you.

11           We did, at the end of our prior contract, reach  
12 out to get specific feedback on how we performed in the  
13 services. And I was very happy to hear directly that  
14 the -- that the staff at CalPERS was very pleased with the  
15 service that we provided, noting in particular how quickly  
16 David was responding to any questions that they had. He  
17 is very quick to respond, and also pointing out that he  
18 did an excellent job of presenting very technical and  
19 complex information that was understandable at various  
20 levels of knowledge and understanding.

21           So with all of that, I hope that gives you a  
22 little bit of a sense of who we are and who Buck is. And  
23 we look forward to your questions and answers. Since  
24 David would be the lead actuary for this assignment, he is  
25 going to orchestrate us as we go through your questions.

1 Thank you so much. Appreciate your time.

2 CHAIRPERSON MIDDLETON: All right. Ms. Manning,  
3 thank you.

4 The first question that we have, confirm that  
5 your firm has read the proposed terms and conditions in  
6 the contract provided by CalPERS on April 15, 2021 in the  
7 RFP, and today is prepared to sign such terms and  
8 conditions if your firm is a successful proposer. If not,  
9 please elaborate.

10 MR. DRISCOLL: Well, I think I can confirm that  
11 we are willing to do that, but I will defer to the highest  
12 ranking member of Buck staff here, Ms. Manning, to provide  
13 official confirmation of such willingness.

14 MS. MANNING: Yes, I will absolutely provide  
15 official confirmation of that. We can do so very much  
16 affirmatively. Thank you.

17 CHAIRPERSON MIDDLETON: All right.

18 Mr. Miller.

19 VICE CHAIRPERSON MILLER: Yes. Please explain  
20 how your firm would reconcile differences between CalPERS  
21 calculation of normal costs, liabilities, or present value  
22 of benefits and your own calculation of those, if the  
23 difference were larger than five percent?

24 MR. DRISCOLL: Well, we've had a fair amount of  
25 experience in doing that because, of course, we were

1 fortunate enough to be awarded the earlier contract for  
2 parallel valuation and certification services. I think  
3 for an in-depth description of how we do that, I'm going  
4 to ask my colleague Brett Hunter to comment.

5 MR. HUNTER: Absolutely, David. Yes. So we  
6 received the data for all the CalPERS plans and we run the  
7 parallel valuations on our valuation system, which is  
8 ProVal, and we look at liabilities, normal costs, PVFB  
9 both on a plan level and on an individual level. So if  
10 we're within five percent on a plan level, that might  
11 still show that there is some inconsistencies on an  
12 individual level that are offsetting. So if we had half  
13 the people that were -- we had a significantly higher  
14 liability, half had a lower liability, that wouldn't  
15 necessarily mean that we had a good match.

16 So in addition to looking at things on a plan  
17 level, we look at things on an individual level. And this  
18 really allows us to reconcile those offsetting  
19 differences. It also helps to us -- helps is to select  
20 individuals that might be needed for additional sample  
21 life review.

22 So for this previous parallel valuation project,  
23 we would frequently ask for details on CalPERS  
24 calculations for individuals. And we'd look at those  
25 details, compared them against our details, and see where

1 we're different. Oftentimes, the issues are just  
2 differences in valuation systems and rarely there's some  
3 areas for refinements that we proposed, but in this  
4 previous project, never were we outside of the established  
5 thresholds.

6 CHAIRPERSON MIDDLETON: Thank you.

7 Ms. Brown.

8 COMMITTEE MEMBER BROWN: Thank you.

9 How long has the principal actuary been auditing  
10 pension plans, how -- has the principal actuary audited  
11 large public pension plans before, and what is the  
12 principal actuary's experience with State plans? Three  
13 parts.

14 MR. DRISCOLL: All right. Well, maybe the  
15 principal actuary should answer that directly, so that  
16 would be me. As Tonya mentioned in her introductory  
17 presentation, I've been doing public plan work for over 30  
18 years. And I have worked on audits of retirement systems  
19 ever since I joined Buck, obviously not continually.  
20 Nobody specializes in audits, but I have a fair amount of  
21 experience in doing them. I would be remiss if I don't  
22 cite the experience I've had in auditing CalPERS over the  
23 past five years, because, of course, we were awarded the  
24 2015 parallel valuation certification project. And I have  
25 been involved with State plans for close to a quarter

1 century at this point.

2 CHAIRPERSON MIDDLETON: All right. Thank you.

3 Mr. Ruffino.

4 ACTING COMMITTEE MEMBER RUFFINO: Yes. Thank  
5 you, Madam Chair. Good afternoon -- good morning. So  
6 I've got a multiple question here. Please describe your  
7 firm's culture and values. How do they align with CalPERS  
8 diversity and inclusion and what concrete steps and  
9 metrics is your firm using to ensure a diverse workforce?

10 MR. DRISCOLL: I think we can provide a very good  
11 answer to that. And I believe Tonya would have to be  
12 considered the most -- the most expert member of the panel  
13 today to talk to that issue.

14 MS. MANNING: I don't know if you noticed I was  
15 anxious and waiting to answer this, because it's something  
16 I'm very excited and actually very passionate about. We  
17 feel that our mission at Buck is very closely aligned with  
18 CalPERS, particularly on the diversity and inclusion. And  
19 I'm very happy to say that we have established employee  
20 service groups. And one of the groups we have is focused  
21 on our diversity.

22 And we've established a black leadership council,  
23 which has been directly connected to our executive  
24 leadership team, making sure that we are informed, and  
25 educated, and aware. And we have been having a series of

1 events over the last few years -- or the last year to make  
2 sure that we are getting that information and having those  
3 important conversations.

4 I personally am the executive sponsor for the  
5 women empowered at Buck, which is something I'm super  
6 passionate about having women in leadership roles. And I  
7 also chair the women in -- the women's community -- women  
8 in consulting community for the Conference of Consulting  
9 Actuaries with the same goal, but expanding on that in the  
10 actuarial community in the U.S. And I'm also leading a  
11 task force that's focused on diversity and inclusion for  
12 the international profession, as part of my role of  
13 leadership -- being past President for the International  
14 Actuarial Association.

15 All of my work is supported very much --  
16 supported very much by Buck. But we are very passionate  
17 about this. I am super passionate about it and we are  
18 very dedicated to making sure that we not only have a  
19 diversified company, but we have a diversified profession  
20 for actuaries as well.

21 So I hope that answers your question. I could go  
22 on, but David won't let me. I need to be mighty with my  
23 time.

24 Thank you.

25 CHAIRPERSON MIDDLETON: Ms. Yee.

1           COMMITTEE MEMBER YEE: Thank you, Madam Chair.  
2 Good morning. My question is as the Board's independent  
3 consultant, how do you ensure independence and yet  
4 maintain a collaborative working relationship with the  
5 CalPERS management and its team members?

6           MR. DRISCOLL: Well, I think we do that  
7 because -- it's actually somewhat easier to do that in  
8 this case than it is in a typical audit, because what  
9 we're auditing is not a competitor, but an internal  
10 actuarial operation, namely the CalPERS Actuarial Office.  
11 So there isn't the tension that sometimes exists in audit  
12 engagements between two -- a competitor that is auditing  
13 and a competitor that is being audited.

14           In terms of independence, you know, we state our  
15 own conclusions. We do share our conclusions with the  
16 Actuarial Office before we publish our report. They  
17 sometimes have things that they can say to us that help  
18 explain why we have differences, as Brett mentioned  
19 earlier. You know, we go through an elaborate process,  
20 something that really is above and beyond what is required  
21 by the terms of the contract, where we look at individual  
22 lives to make sure we're not missing something that  
23 doesn't show up in the aggregate, but shows up when you  
24 look at particular individuals.

25           But our accountability obviously is to the Board.

1 And ultimately, you know, we present what we think is a  
2 very fair characterization of the work of the Actuarial  
3 Office. We make a point of saying what we think is just  
4 very good about their work and there's certainly plenty  
5 that we've described in that regard. We've also said  
6 where we think there's room for improvement.

7 Our client -- feedback from the Actuarial Office  
8 and the Audit Office has been very positive. And from my  
9 experience in testifying in front of the Board, I believe  
10 that the answers that we've been able to provide to the  
11 general question of whether the actuarial work for CalPERS  
12 is being done well have been positive and satisfying.

13 CHAIRPERSON MIDDLETON: All right.

14 COMMITTEE MEMBER YEE: Thank you.

15 CHAIRPERSON MIDDLETON: Mr. Miller.

16 VICE CHAIRPERSON MILLER: Yes. CalPERS is  
17 constantly impacted by new laws and regulations. How will  
18 your firm ensure that your staff is up-to-date with  
19 regulatory requirements and costings for public pension  
20 systems. For example, is your system able to model  
21 liabilities associated with benefit plan provisions on a  
22 prospective-only basis, and do you see any issues in  
23 adjusting your software so that it can model prospective  
24 only benefit provisions?

25 MR. DRISCOLL: I think the short answer to that

1 question is yes. I'm going to turn to my colleague David  
2 Kershner who likes to get into the technical details of  
3 things and certainly has a lot of experience in dealing  
4 with regulatory change and public plans.

5 MR. KERSHNER: Thanks, David. Excuse me.

6 That's right. Our system -- as you know, most  
7 public sector plans State requirements require benefits be  
8 preserved sometimes not only for current employees for the  
9 past, but also current employees for the future. And some  
10 states -- many states consider pension plans as a contract  
11 between the State and the employees. And once the  
12 employee is hired, that contract cannot be changed. So  
13 when benefit changes are made, those are typically made  
14 prospectively by introducing a new tier or a new group.  
15 And we have experience working with complex plans like the  
16 plans of -- that are part of this project, that include  
17 multiple tiers with multiple plan provisions.

18 And essentially, as Brett can elaborate further,  
19 we -- we always create a new -- what we call a new benefit  
20 definition that matches up with the new tier. And that  
21 definition applies to the specific group of employees that  
22 are subject to prospective changes. So we have experience  
23 doing that. Our systems are all set up to do that. It's  
24 very rare to be able to make a retroactive change, so any  
25 changes are typically made prospectively.

1           CHAIRPERSON MIDDLETON: Let me ask the last of  
2 our patterned questions, which -- for your firm, you're  
3 currently serving as our parallel external actuary. What  
4 benefits and challenges do you believe that position  
5 presents in terms of your ability to perform successfully  
6 in the future in that role? How would you overcome any  
7 challenges?

8           MR. DRISCOLL: Well, I think it -- the benefits  
9 are that we're very familiar with your plans already. You  
10 know, we've achieved a high level of matching with your  
11 valuations, so we've obviously, we think, interpreted your  
12 plan provisions correctly and implemented the actuarial  
13 assumptions and methods employed by the CalPERS Actuarial  
14 Office accurately.

15           And as well, we're very used to dealing with your  
16 data security requirements. Brett, obviously of the four  
17 of us who are here today from Buck, knows in great detail  
18 in what format the data is provided. So there's very  
19 little in the way of a learning curve for us to climb.

20           The challenge, of course, as the incumbent is how  
21 do we maintain a kind of a fresh perspective on these  
22 matters? And I think there are two answers to that.  
23 First, the standard that we are applying in auditing your  
24 reports is not a static standard. Actuarial standards of  
25 practice are constantly changing. The primary standard of

1 practice that applies to pension valuations, ASOP number  
2 4, is in the process of revision. So the next time we  
3 audit your valuation report from CalPERS, we will likely  
4 be looking at anticipated or actually settled changes in  
5 the requirements of ASOP 4. So again, we're looking for  
6 new things.

7           The other thing that we do to maintain a fresh  
8 perspective, as Tonya mentioned in her introductory  
9 remarks, is that we've added some fresh sets of  
10 experienced and heavily credentialed eyes to this project.  
11 Mr. Kershner, as was mentioned earlier, is a fully  
12 credentialed actuary. He's a Fellow of the Society of  
13 Actuaries. He's a member of the Academy and so forth.  
14 And he has decades, almost as many decades as I, in  
15 performing actuarial work for pension plans, including  
16 some very large and complex ones.

17           The actuary for whom we would contract under the  
18 DVBE engagement is similarly a highly credentialed actuary  
19 with decades of experience, and experience that is heavily  
20 centered on public plans. So we think we present the best  
21 of both a fresh perspective and experience that provides  
22 efficiency without cutting any corners or bringing in  
23 repetitiveness that would compromise the purposes of the  
24 audit.

25           MS. MANNING: David, since I see we have time, I

1 think it's our last question, if you don't mind, I'll just  
2 add one point. An advantage to having continuity in your  
3 service provider is that we have understood the plan and  
4 what we're trying duplicate. So we can take out the  
5 noise, so you -- so to speak of what might not be clear to  
6 a new firm. We understand what it should be and how the  
7 plan works, so that if something is not looking right,  
8 it's not noise so to speak, it's differences in systems,  
9 we know when there is a real issue that is there, because  
10 we have figured out what to expect and what is not  
11 expected when we're comparing our system to the CalPERS'  
12 system.

13           So I see that actually as a big advantage. We  
14 have gotten through all of the this is how you do it and  
15 we do it, and we can match it up, so if there really is a  
16 difference in the thing that needs to have our special  
17 attention and your special attention, we can quickly get  
18 to that, because we've already gotten that baseline. But  
19 we don't want to sit and think of everything we did as the  
20 perfect answer. We do have David Kershner coming in. And  
21 David is no pushover. And he is going to be very involved  
22 in making sure that we are doing everything to his  
23 standards, as well as David's standards, Buck's standards,  
24 et cetera So thank you for allowing me to add to that  
25 response.

1 CHAIRPERSON MIDDLETON: Thank you.

2 MR. KERSHNER: If I may just add just one more  
3 comment. Throughout my career, which has spanned more  
4 than 35 years, I have been involved in different  
5 capacities of take -- transitioning new cases from prior  
6 actuaries, as well as doing the same work year after year  
7 as our -- as our firms retain work.

8 And I believe there's a fine balance between the  
9 need for consistency, especially if something is being  
10 done well, and properly, and efficiently, but I also  
11 believe that the motto that says, well, we've always done  
12 it that way, so let's just keep doing it that way, that  
13 doesn't always -- isn't always the best motto. And so you  
14 need to judge each situation on a case-by-case basis  
15 achieving consistency, but also introducing new and  
16 improved methods whether those are calculation methods or  
17 communication -- communications to the client or board.  
18 So it's a combination of both.

19 CHAIRPERSON MIDDLETON: Thank you.

20 We do have a few minutes left in the  
21 presentation. Are there any follow-up or clarification  
22 questions that any member of the Committee would like to  
23 ask?

24 Ms. Yee.

25 COMMITTEE MEMBER YEE: Thank you, Madam Chair. I

1 really appreciate the responses to the questions. I just  
2 was curious, you've had experience with CalPERS. And I  
3 think certainly that has really added to the -- your  
4 responses to the questions we've posed today. Had you not  
5 had experience with CalPERS, I'm just wondering is there a  
6 best practice with regard to looking at utilizing  
7 different firms, you know, after a certain period of time.  
8 I know when I do a lot of the audit space, and so there  
9 are some best practices around that. But with regard to  
10 the parallel external actuary services, is there kind of a  
11 best practice with respect to switching out firms or  
12 utilizing different firms?

13 MR. DRISCOLL: There's nothing I think comparable  
14 to what you see in the audit industry, where, you know,  
15 this is a recommendation to change providers at certain  
16 intervals. You know, as I say, we think here we bring  
17 still a fresh perspective, and expertise, and experience  
18 that's useful in getting the work done efficiently.

19 But no, there is -- a part -- I mean, the GFOA  
20 does have a suggestion about the frequency of audits of  
21 public pension plans, which some public pension plans  
22 follow and others do not. It's not a binding standard.  
23 But they say nothing at all about the frequency of  
24 changing providers. There's no recommendation at all  
25 along those lines.

1 COMMITTEE MEMBER YEE: Thank you.

2 CHAIRPERSON MIDDLETON: Are there any other  
3 questions, follow-up or clarification from members of the  
4 committee?

5 Okay. I would like to ask a question following  
6 up essentially question on a question that Ms. Yee asked.  
7 While there are no requirements to change actuaries on an  
8 interval basis, what are the kinds of steps that you would  
9 take to ensure that the individuals who would be  
10 performing the audit are looking at the issues and  
11 individuals with fresh and objective eyes?

12 MR. DRISCOLL: Well, I think we would do that,  
13 you know, in part by the staffing changes in the  
14 engagement from the prior contract that we've talked  
15 about. As well, we're certainly aware that we, you know,  
16 have to look at standards in place as we do each audit.  
17 So again, we're not -- we're not doing the same thing over  
18 again in any case.

19 Beyond that, there are some aspects of the  
20 process that lend themselves to being changed from the  
21 prior engagement. For example, in the public agency  
22 valuation, there's a sampling process that is used that  
23 has to be agreed upon by the actuary engaged to do the  
24 project and the Actuarial Office. If, for example,  
25 agencies that were randomly selected for inclusion in

1 tasks one and three -- or one and four rather of the prior  
2 engagement were to be excluded, so that you made sure that  
3 the ten randomly selected -- minimum of ten randomly  
4 selected agency valuations this time were different from  
5 those that were looked at last time, that could be a  
6 condition.

7           So there are a number of ways to build in  
8 freshness to the audit process, even if you're working  
9 with the firm that held the earlier engagement.

10           CHAIRPERSON MIDDLETON: Great. Thank you.

11           MS. MANNING: And there's differences in --  
12 differences in the system that's being used on our end  
13 versus yours, so that would be consistent. But there's  
14 also a difference in how you're selecting and how you're  
15 evaluating what is selected. And the selection process  
16 could be -- would be varied -- not could be, but would be  
17 varied as David indicated. That's just smart practice and  
18 that's just how we would operate. Whether we were new to  
19 CalPERS or different, we would make sure that we are  
20 providing a variance in the way that we're selecting the  
21 lives. That's just critical and that is just good  
22 practice.

23           As far as evaluating the lives, that's where we  
24 get into having an additional set of eyes and additional  
25 perspective on making sure that what Brett digs into we

1 find, and we are communicating, and identifying properly  
2 using David Kershner as another professional with his  
3 perspective.

4 So you'll have the same system going back and  
5 forth. And that gets to the efficiency, so that you are  
6 better narrowing in on what are real differences that  
7 really need to be understood, and then you have a  
8 different selection of the sample lives, and a different  
9 evaluation that provides that fresh perspective.

10 I do understand completely and I've been asked  
11 this before about the advantages of getting different  
12 firms, but I think that we would be very well positioned  
13 to provide you actually an elevated look at this, because  
14 we can use that baseline knowledge we already have.

15 I hope that's helpful. Thank you.

16 CHAIRPERSON MIDDLETON: Thank you.

17 Last opportunity for anyone on the Committee to  
18 ask any further questions?

19 Seeing none.

20 You've got a little over a minute left. You  
21 don't have to use every minute that is allotted to you,  
22 but if there's anything you would like to say in closing,  
23 please you're welcome to do so.

24 MR. DRISCOLL: Well, I think I would just that,  
25 you know, we've worked very well we feel with CalPERS over

1 the past five years in doing this type of work. You know,  
2 we think we can continue to do it well, bringing a fresh  
3 perspective, and also the advantages and efficiency in a  
4 short learning curve of incumbency. I do want to note  
5 that I think at least partly on the basis of the findings  
6 of the earlier audits, that the scope of the parallel  
7 valuation and certification audit contract that you're  
8 about to award has been scaled back somewhat.

9           So I think, in a way, the findings that we've  
10 been able to provide you with, both in terms of what is  
11 strong and what needed to be changed have led to the  
12 conclusion that you can scale back slightly, the frequency  
13 of the audits. So in a way, the good work that we've done  
14 has enabled you to save money while simultaneously  
15 providing you with the assurance that you have very, very  
16 good work coming from your Actuarial Office.

17           So, you know, we have a good success story to  
18 tell here and we hope to be able to continue it.

19           CHAIRPERSON MIDDLETON: All right. Thank you.  
20 Thank you, all, and we appreciate your time. We've got  
21 four more interviews to do today. So thank you.

22           MS. MANNING: Good luck with that. Thank you so  
23 much for the opportunity. Thank you.

24           MR. KERSHNER: Thank you.

25           CHAIRPERSON MIDDLETON: All right. So I have

1 been asked if we could take a short break. And given that  
2 we need to move one set of panelists out and another set  
3 of panelists in, why don't we take a very quick five  
4 minute break and I would like to start back on time at  
5 10:20.

6 (Off record: 10:15 a.m.)

7 (Thereupon a recess was taken.)

8 (On record: 10:20 a.m.)

9 CHAIRPERSON MIDDLETON: We are not going to move  
10 on to a presentation from Cheiron, Incorporated. And if  
11 we could bring the representatives from Cheiron forward.  
12 And my apology if I am mispronouncing the name.

13 MS. HARPER: Hello. That's okay. It is Cheiron  
14 and it is almost always mispronounced. It' mispronounced  
15 more than it's said correctly, so...

16 Anyway, good morning, everybody. I'm Anne Harper  
17 and I'm here with Mike Moehle Representing Cheiron. But  
18 before we get started, I'd like to say thank you to the  
19 Board for giving us this opportunity to present today for  
20 your actuarial review contract, where it's very much  
21 appreciated.

22 So in the next five minutes, I'm going to -- we  
23 are going to give an overview of Cheiron, going to  
24 introduce you to the proposed consulting team, and then  
25 Mike is going to talk briefly about his specialized role

1 within Cheiron and how he fits on our team.

2           So Cheiron was formed back in 2002 from a group  
3 of consultants from an international firm. We have  
4 over -- we have seven offices nationwide. And it's an  
5 employee-owned firm. There are two offices here in  
6 California, one in the Oakland area and one down in San  
7 Diego.

8           There are about a hundred employees and 70  
9 percent of those employees are credentialed actuaries,  
10 which is a high percentage in our industry. And this is  
11 due to the fact that 100 percent of our revenues come from  
12 actuarial consulting services. We don't do anything else.  
13 We -- that's what we specialize in and most of those  
14 consulting services are for public sector or jointly  
15 trusted pension plans.

16           Our proposed team is myself, Anne Harper, and I  
17 work in the San Diego office. Bill Hallmark and Graham  
18 Schmidt, who are not with us here today, but they -- Bill  
19 works in the Oregon office in Portland and Graham in the  
20 Oakland office. And then Mike Moehle will be leading the  
21 parallel valuation team.

22           And all of your consultants, we all have over 20  
23 years of actuarial experience. We consult on or have  
24 reviewed very large complex pension systems within  
25 California and nationally. We speak at CalPERS, SACRS,

1 and national conferences such as NCPERS and at the  
2 International Foundation. And specifically Graham Schmidt  
3 is one of the members on the California Actuarial Advisory  
4 Panel, the CAAP. So that's just a little bit of  
5 background on your proposed consulting team and you can  
6 find more information in our bios in the proposal.

7           So moving on. I wanted to speak to what really  
8 makes Cheiron's consultants unique is that is that we are  
9 very, very hands-on and are able to populate our models.  
10 Specifically, the consultant team that I've laid out for  
11 you, three of the four of us not only can run the  
12 valuation system, but we can also program code the  
13 assumptions, the benefit structures, and the liabilities.  
14 So we don't always have to just rely on junior staff to  
15 review and to look at the results of our coding for the  
16 pension system.

17           What this means is that our consultants do not  
18 operate in a black box. And so with that, I'm going to  
19 turn it over to Mike to talk specifically about his  
20 specialized role.

21           MR. MOEHLE: Hello. My name is Mike Moehle. I'm  
22 in the Cheiron office in Oakland, California. I have a  
23 somewhat unique role in our industry. My title is public  
24 pension oversight. I really lead the internal quality  
25 control team within Cheiron that runs independent parallel

1 valuations for all of our existing clients, but I also get  
2 involved in parallel valuations of the work of other  
3 actuaries and other actuarial systems.

4 I've been here ten years and I've seen so many  
5 variations on pension plan benefits. I've been exposed to  
6 such a wide range that I don't think setting up your plans  
7 on our systems would be very difficult. Certainly some  
8 parts are complex, but not overly so.

9 But I just wanted to stress that the role I have  
10 here is somewhat unique in our industry and it really  
11 helps us set up a team for the work on this project, if we  
12 were to be awarded it.

13 And with that, I'll turn it back to Anne.

14 MS. HARPER: Okay. So briefly, I just wanted to  
15 touch on some of our experience in doing value -- parallel  
16 valuation and replications. We have worked extensively  
17 with CalSTRS and with the University of California their  
18 retirement plans over the last three years.

19 Thank you.

20 CHAIRPERSON MIDDLETON: Thank you. And we are  
21 going to move forward to the second part of this process,  
22 which is a 20-minute question and answer. We've got seven  
23 standard questions that we will be asking. And depending  
24 on time, there will be an allowance for follow-up or  
25 clarification questions at the end.

1 I'll start with the first question. Can you  
2 confirm that your firm has read the proposed terms and  
3 conditions in the contract provided by CalPERS on April  
4 15, 2021 in the RFP and today is prepared to sign such  
5 terms and conditions, if your firm is a successful  
6 proposer? If not, please elaborate.

7 MS. HARPER: Yes. We have read the terms and  
8 conditions and we would be ready to sign today. Just to  
9 reiterate our fee quote was \$274,375. And we understand  
10 that the terms and the length of the contract would start  
11 on August 20 -- August 2021 through June 2024.

12 CHAIRPERSON MIDDLETON: All right. Thank you.  
13 Mr. Miller.

14 VICE CHAIRPERSON MILLER: Yes. Hello. Please  
15 explain how your firm would reconcile differences between  
16 CalPERS calculation of normal costs, liabilities for  
17 present value of benefits and your own calculation of  
18 those, if the difference were larger than five percent?

19 MS. HARPER: Well, we've done several audits.  
20 They're -- throughout Cheiron and usually when the  
21 reconciliation process occurs, the first thing that we do  
22 is we first internally double and triple check our  
23 calculations to make sure that there's -- that we are --  
24 can stand by them. And we do this, so that we don't want  
25 to waste any -- anyone else's time, like the CalPERS'

1 actuaries or getting, you know, anyone else involved. So  
2 we do that first and foremost.

3           And then, secondly then, what we would do is work  
4 with the CalPERS staff and alert them to the situation  
5 that we're having and maybe ask just more general  
6 questions around where we're finding our discrepancies and  
7 differences. And a lot of times, we can resolve those  
8 problems just with more communication with staff.

9           And then thirdly, I think it's helpful for us  
10 to -- and I don't know how much CalPERS would be willing  
11 to share their coding. So what we normally do if it --  
12 really we can't reconcile with those first two steps is we  
13 would provide CalSTRS with, you know, what our  
14 calculations look like on a very specified basis to see if  
15 we could pinpoint where the discrepancies were.

16           CHAIRPERSON MIDDLETON: Great. Thank you.

17           Ms. Brown.

18           COMMITTEE MEMBER BROWN: Thank you.

19           It's three parts. How long has the principal  
20 actuary been auditing pension plans, has the principal  
21 actuary audited large public pension plans before, and  
22 what is the principal actuary's experience with State  
23 plans?

24           MS. HARPER: Okay. So I am the principal actuary  
25 on this account. I have been auditing or reviewing large

1 systems since 2002 here in California. So some of the  
2 large systems that I have worked on I think I touched  
3 briefly in my introduction is worked on the University of  
4 California retirement plans. We did both the OPEB and the  
5 pension plan, with the OPEB is the retiree medical piece.  
6 We actually looked at also the 415(b), or it's called a  
7 415(m) access benefit plan. I've also worked on -- worked  
8 on -- with CalSTRS on their experience study and parallel  
9 valuation.

10 And as far as statewide plans, I've conducted  
11 several audits on the '37 Act systems. Just finished up  
12 with Kern. We've done Orange County, San Mateo County,  
13 San Diego County, San Bernardino County. And also just  
14 recently I was the lead on the Los Angeles Employees  
15 Retirement System parallel valuation.

16 MR. MOEHLE: I would just point out that I'm not  
17 the principal actuary on this work, but I've -- in the  
18 last two years, I've done parallel valuations for CalSTRS,  
19 all five of their plans, and then New York State Teachers'  
20 Retirement System.

21 CHAIRPERSON MIDDLETON: Okay. Thank you.

22 Mr. Ruffino.

23 ACTING COMMITTEE MEMBER RUFFINO: Thank you,  
24 Madam Chair. Good morning. I have a two-part question.  
25 Please describe your firm's culture and values. How do

1 they align with CalPERS diversity and inclusion and what  
2 concrete steps and metrics is your firm using to ensure a  
3 diverse workforce?

4 MS. HARPER: So our firm's culture and values is  
5 definitely very open and diverse. And I can speak  
6 specifically to being a woman and a high level consulting  
7 actuary in our firm. And we have almost 50/50 in terms of  
8 women-to-men ratio in our company. And we also have a  
9 large majority of our shareholders are also women, and so  
10 just speaking specifically to that.

11 We do -- in terms of recruiting, we follow all of  
12 the guidelines, the national guidelines where you cannot  
13 discriminate. And so -- and we do go to universities,  
14 which have a higher percentage of minorities, to do some  
15 of our recruiting. And so we definitely feel like that we  
16 would align with your values and your culture at CalPERS  
17 and being here in California as well.

18 CHAIRPERSON MIDDLETON: Ms. Yee.

19 COMMITTEE MEMBER YEE: Thank you, Madam Chair.  
20 Good morning.

21 I wanted to just ask, as the Board's independent  
22 consultant, how do you ensure independence, and yet  
23 maintain a collaborative working relationship with the  
24 CalPERS management and/or its team members?

25 MS. HARPER: So that's a good question. It's

1 interesting, because we have done so many audits and --  
2 or, you know, reviewed parallel valuation reviews of  
3 statewide systems that -- and we have this internal  
4 oversight committee that Mike Moehle leads that we have so  
5 much experience that typically we don't really even need  
6 to contact -- make contact with the staff in terms of  
7 making phone calls or anything like that. A lot of our  
8 work is just done through emails when we have questions.

9 But in terms of that independence, I think that  
10 that is key, in that we don't need to -- actually, in the  
11 past, have had to rely heavily on staff, for -- to conduct  
12 our work because we're so -- have so much expertise with  
13 these systems.

14 So -- but in the case where we would have to  
15 collaborate or maybe reconcile issues more to maintain  
16 independence, it would be helpful, and I think this is  
17 typical, is where any correspondence that we would have  
18 with staff, we would also CC the relevant members of the  
19 audit committee on those emails chains, so that there's  
20 kind of an oversight communication that's going on between  
21 us and CalPERS staff.

22 COMMITTEE MEMBER YEE: Madam Chair, is this  
23 appropriate for a follow-up or should I wait till the end.

24 CHAIRPERSON MIDDLETON: If you'd like to follow  
25 up now, I think we do have time for that.

1 COMMITTEE MEMBER YEE: Is that okay? Okay.

2 Great. So given the --

3 SENIOR ATTORNEY CARLIN: I'm sorry, Madam Chair.

4 COMMITTEE MEMBER YEE: Oh, I'm sorry.

5 SENIOR ATTORNEY CARLIN: This is Robert Carlin  
6 from the CalPERS Legal office. I think we should stick to  
7 the standard questions for this.

8 COMMITTEE MEMBER YEE: Okay.

9 SENIOR ATTORNEY KARLIN: And we will have an --  
10 all the firms have an opportunity for a follow-up five  
11 minute period of time, Ms. Ye. So you'll have the  
12 opportunity to ask that question when we come to that part  
13 of the presentation.

14 COMMITTEE MEMBER YEE: Great. Thank you, Mr.  
15 Carlin.

16 CHAIRPERSON MIDDLETON: Thank you.

17 So with that, we will go to Mr. Miller.

18 VICE CHAIRPERSON MILLER: Thank you.

19 CalPERS is constantly impacted by new laws and  
20 regulations. How will your firm ensure that your staff is  
21 up-to-date with regulatory requirements and costings for  
22 public pension systems? For example, is your system able  
23 to model liabilities associated with benefit plan  
24 provisions on a prospective-only basis and do you see any  
25 issues in adjusting your software, so that it can model

1 protective-only benefit provisions?

2 MS. HARPER: So to answer that question. Yes,  
3 our software definitely handles protective-only  
4 provisions. And I have def -- I myself have coded those  
5 types of benefit changes, not necessarily with California  
6 systems, because we know about the California rule  
7 currently. But going forward, that is something that is  
8 very easy to do in our system.

9 So in terms of the benefits, and the laws, and  
10 knowing and staying up-to-date with those, myself and  
11 Graham Schmidt both practice here in California. And as I  
12 mentioned earlier, Graham Schmidt is a California Advisory  
13 Panel member, where all of those discussions of the new  
14 laws get vetted. And so we're -- kind of seeped in the  
15 California's -- the Legislature, and the laws, and the  
16 benefit structures.

17 MR. MOEHLE: Yeah. I just wanted to add that  
18 our -- the system we use to run valuations is quite  
19 flexible and we have set up several plans where we're  
20 valuing prospective-only benefits. It's something we see  
21 quite a bit in our practice.

22 CHAIRPERSON MIDDLETON: All right. Thank you.  
23 The last of our patterned questions for you. I believe  
24 your firm has not previously served as CalPERS parallel  
25 external actuary. What benefits and challenges do you

1 believe that position presents in terms of your ability to  
2 perform successfully in that role? How would you overcome  
3 those challenges?

4 MS. HARPER: That's a very, very good question.

5 And as I have stated before, and Mike has stated,  
6 is that we have so much experience here in California.  
7 And Mike specifically with being this internal audit with  
8 all of our companies' pension plans, that he's seen a wide  
9 range of complex different structured plans, different  
10 benefit tiers. One of our '37 Act county plans has over,  
11 I think, 50 tiers alone with different benefit structures.  
12 So we do have the capability of handling that. And with  
13 our other large system audits, or valuation reviews, like  
14 UC California and CalSTRS, there sometimes would be  
15 challenges in terms of just the sheer size of the  
16 demographic data that we get and the size of the -- you  
17 know, the programming of our computers. So we are well  
18 equipped and have the ability to handle those, given the  
19 past experience that we've had with other systems.

20 MR. MOEHLE: Yeah, I can -- I will add that last  
21 year we finished a parallel valuation for Michigan MERS.  
22 And we -- and part of that process, there were 30 separate  
23 plans that were reviewed. And internally, we have a  
24 client that has over 700 different divisions. And I set  
25 up internal parallel valuations for those, all 700 of

1 them. So I think that puts us in a good place to conduct  
2 this review also.

3 CHAIRPERSON MIDDLETON: Thank you.

4 We have seven and a half minutes left in the 20  
5 minutes that we're allotted for our patterned questions.

6 After we complete this part of the process, we'll  
7 go to a five-minute session for follow-up and  
8 clarification questions.

9 Since we've exhausted all of the questions, are  
10 there -- is there any additional comments that you would  
11 like to make with regard to the questions that you've been  
12 asked so far?

13 MS. HARPER: No. I'm okay with moving forward.

14 MR. MOEHLE: Yeah.

15 CHAIRPERSON MIDDLETON: All right. With that, we  
16 will reset the clock then for five minutes, making it  
17 available for follow-up and clarification questions. And  
18 I will begin with Ms. Yee.

19 COMMITTEE MEMBER YEE: Thank you, Madam Chair. I  
20 wanted to just ask two questions actually. One is with  
21 respect to just working collaboratively with the CalPERS  
22 management and the team members. You know, as a new firm  
23 coming in and serving as the parallel external actuary,  
24 can you just describe like what that initial engagement  
25 would look like just to kind of set the tone for what that

1 working relationship will be going forward?

2 MS. HARPER: Sure. Yeah. So when -- whenever we  
3 have a contract like this or we win new consulting work,  
4 we have our team meet with like a Zoom call nowadays with  
5 the staff, and management, and would have a kick-off call.  
6 And on that kick-off call, what we typically do is we go  
7 through all of the timelines, the deliverables. And since  
8 this is a three-year contract, I don't -- I wouldn't  
9 envision us going through a whole three years of the  
10 timeline. Maybe take one project at a time, which the  
11 first one would be the public agencies, and just to  
12 establish what those deliverables would look like, when  
13 each group would be responsible for providing the  
14 deliverables, meaning when Cheiron would be responsible  
15 for providing results, and when they -- you know, maybe  
16 CalPERS staff would be responsible for when they would be  
17 giving us, you know, the data we would need to use. So  
18 that's all taken care of on this initial kick-off call  
19 that would occur.

20 COMMITTEE MEMBER YEE: Great.

21 MS. HARPER: Does that answer your question?

22 COMMITTEE MEMBER YEE: Yeah. I was just curious  
23 about just the expectation about any kind of ongoing  
24 collaboration in terms of the nature of the work and  
25 carrying out the tasks of the agreement, so...

1 MS. HARPER: Right.

2 COMMITTEE MEMBER YEE: Okay. And then secondly,  
3 in your experience in this industry, is there a best  
4 practice with regard to utilizing different firms? So in  
5 other words, is there kind of a period of time after which  
6 CalPERS ought to think about refreshing the firms that we  
7 use?

8 MS. HARPER: I'm not sure that there's  
9 necessarily a best practice. I think each board  
10 independently just, you know, makes decisions on who they  
11 will hire to perform these replication valuations. I do,  
12 however, feel that hiring new consultants or new actuaries  
13 does give you a fresh set of eyes looking at your plan,  
14 and a fresh set of eyes, you know, going through the  
15 process, and coding, and doing the calculations that can  
16 sometimes be invaluable just because sometimes when you  
17 have, you know, someone newer looking at it, you're not --  
18 I don't want to -- you know, maybe the other firms just  
19 start -- tend to go through the motions with whatever they  
20 have set up in terms of their programming.

21 So I think it is important to -- I think it's  
22 important to have a fresh set of eyes every so often to  
23 review.

24 COMMITTEE MEMBER YEE: Great. Thank you, Madam  
25 Chair.

1 CHAIRPERSON MIDDLETON: Other members of the  
2 Committee who would like to ask follow-up or clarification  
3 questions?

4 Seeing and hearing none.

5 Ms. Harper, Mr. Moehle, are there any comments  
6 that you would like to make? You still have two -- two  
7 and -- a little over two and a half minutes.

8 MS. HARPER: I'd just like to finish up and  
9 finalize by saying we would be very excited with the  
10 opportunity to work with your system with the Board, and  
11 with the staff, and would definitely have the expertise to  
12 tackle this challenge.

13 Thank you.

14 CHAIRPERSON MIDDLETON: Thank you.

15 All right. Well, thank you for your  
16 presentation, and the efficiency of your presentation, and  
17 seeing that there are no further questions, and that  
18 you've completed yours, we will conclude this interview  
19 two and a half minutes early.

20 Thank you.

21 MS. HARPER: Thank you.

22 MR. MOEHLE: Thank you.

23 CHAIRPERSON MIDDLETON: All right. Our next firm  
24 is going to be Gabriel, Roeder, Smith and Company. And if  
25 there's -- I'd like to move forward with that interview

1 directly. So if staff could bring forward Gabriel,  
2 Roeder, Smith and Company.

3 And Mr. Espino is bringing them forward. Hold  
4 on.

5 MR. SPARKS: Good afternoon, everybody.

6 CHAIRPERSON MIDDLETON: Mr. Sparks, is your team  
7 all assembled?

8 MR. SPARKS: I just assembled -- told them to  
9 join the meeting now and so it looks like they are  
10 starting to come on now.

11 CHAIRPERSON MIDDLETON: We'll give -- I think  
12 we're running a little bit early, so we want to make sure  
13 we give you time to bring everyone together.

14 MR. SPARKS: Yeah. Thank you.

15 CHAIRPERSON MIDDLETON: Mr. Sparks, if you'd let  
16 me know when you've got everyone present.

17 MR. SPARKS: Yeah. Currently, I see two out of  
18 the three. Just waiting for one more to join.

19 CHAIRPERSON MIDDLETON: Okay. Thank you.

20 MR. SPARKS: Thank you.

21 And there he is.

22 CHAIRPERSON MIDDLETON: All right. So I would  
23 like to welcome you. Your firm was asked not to view the  
24 interviews that preceded. Can you confirm that to the  
25 best of your knowledge, your firm did not view any of

1 those interviews?

2 MR. KAUSCH: Yes, we confirm that. To the best  
3 of our knowledge, we did not attend any of those  
4 interviews.

5 CHAIRPERSON MIDDLETON: All right. Thank you.

6 Gabriel, Roeder, Smith and Company, you're going  
7 to have five minutes to give your presentation.  
8 Afterwards, there will be a 20-minute time for seven  
9 patterned questions, and we will conclude with the third  
10 part of our process that will be a five-minute opportunity  
11 for clarification and follow-up questions from the  
12 Committee.

13 With that, staff will start the clock and we  
14 would like to see your five-minute presentation.

15 (Thereupon a presentation.)

16 MR. KAUSCH: Thank you very much for this  
17 opportunity to bid on this work my name is David Kausch.  
18 I'm the Chief Actuary of Gabriel, Roeder, Smith.

19 Could I have the next slide, please.

20 --o0o--

21 MR. KAUSCH: I'd like to tell you a little bit  
22 about our company, Gabriel, Roeder, Smith and Company. We  
23 are the public sector experts. Our firm is a national  
24 actuarial consulting firm established in 1938. We're a  
25 hundred percent employee owned. We operate all over the

1 country. In terms of our people, we have 135 employees  
2 with 66 public sector focused credentialed actuaries.  
3 That is the largest number of public sector actuaries I  
4 believe in any consulting firm in the United States.

5 Our expertise is the public sector. The public  
6 sector is our core business. We specialize in pension,  
7 OPEB, retirement, technology, and health care specifically  
8 for the public sector, which again differentiates us from  
9 our competitors. That is our sole business.

10 Next slide, please.

11 --o0o--

12 MR. KAUSCH: I'm going to pass it on to Mita  
13 Drazilov to tell you a little bit more about our industry  
14 support.

15 Mita.

16 MR. DRAZILOV: Thank you, David, and hello,  
17 everyone. We think our clients are extremely important.  
18 But as a -- the leader in public sector consulting  
19 nationally, we think it's also very important for our firm  
20 to support the industry. And we do so both at an  
21 actuarial level, as well as a system participation level.

22 So, for example, David Kausch, who you have just  
23 heard from serves on the Pension Committee of the  
24 actuarial Standards Board. I did from 2007 until about  
25 2014. I also served on the full Actuarial Standards Board

1 for three years as a pension member. David participated  
2 in RPEC on the Society of Actuaries, which produces  
3 national mortality tables. We also have representatives  
4 both on the Conference of Consulting Actuaries Board, as  
5 well as the Public Pension Committee and the Retirement  
6 Benefits Subcommittee of the American Academy of  
7 Actuaries.

8 Next slide, please.

9 --o0o--

10 MR. DRAZILOV: So even though we do support for  
11 actuarial organizations, we know that we are -- our  
12 systems are very important to us, so we also provide  
13 industry support with NASRA, the National Association of  
14 State Retirement Administrators, the Governmental  
15 Accounting Standards Board, the Governmental Finance  
16 Officers Association, as well as local agencies, for  
17 example the Michigan Association of Public Employee  
18 Retirement Systems.

19 We consider ourselves thought leaders in the  
20 actuarial -- public sector actuarial community. And we  
21 try and do as best we can to give back to the community  
22 that's given so much to you us.

23 Next slide, please.

24 --o0o--

25 MR. DRAZILOV: And I'll turn it back to David at

1 this point.

2 MR. KAUSCH: Thank you, Mita.

3 So I wanted to introduce you to the team, some of  
4 whom are here today. As I mentioned, I'm the Chief  
5 Actuary of Gabriel, Roeder, Smith. I will be serving the  
6 role of the principal actuary as defined in the RFP. And  
7 you've just heard from Mita Drazilov who's going to be the  
8 support actuary. We're going to both be overseeing the  
9 work should we be selected.

10 We have resource actuaries listed. Judy Kermans  
11 and Brian Murphy are both senior consultants at Gabriel,  
12 Roeder, Smith, the current and past president of Gabriel,  
13 Roeder, Smith, and then we have our actuarial support, two  
14 of whom are here with us today. Actuarial support is Kurt  
15 Dosson, Rebecca Stouffer, who's on the call today, Shana  
16 Neeson, and James Sparks, who's on the call today.

17 Again, we have -- as I mentioned, we are the  
18 public sector experts. We work on public sector plans  
19 across the country, so we are very familiar with the  
20 actuarial audit process, the type of work that you're  
21 requesting. We also have specific CalPERS experience.  
22 Mita, Brian, and James have been working on a projects  
23 with CalPERS regarding the experience study. And others  
24 of us have familiarity with the scope of the project as  
25 well.

1 Next slide, please.

2 --o0o--

3 MR. DRAZILOV: Thanks, David. And David  
4 mentioned this briefly. So what differentiates GRS from  
5 the other firms that you're considering?

6 Well, I think part of the reason is we're  
7 currently working with the CalPERS Actuarial Office to  
8 audit the experience study, which is going to be very  
9 important for at least two of the parallel valuations.  
10 Brian and myself have experience with CalPERS back in the  
11 late nineties. We worked on the actuarial valuation  
12 system. The middle box there, GRS is just the industry  
13 leaders. We just are.

14 We have internal software valuation -- and I see  
15 our time is up, so I want to adhere to the rules.

16 CHAIRPERSON MIDDLETON: All right. And thank you  
17 for cutting off at the time limit. We will move on to the  
18 pattern questions that we have for you. That's going to  
19 be a 20-minute process. At the end of that, there will be  
20 an additional five minutes of opportunity for follow-up  
21 and clarification questions.

22 First question for you. Confirm that your firm  
23 has read the proposed terms and conditions in the contract  
24 provided by CalPERS on April 15, 2021 in the RFP and today  
25 are prepared to sign such terms and conditions, if your

1 firm is the successful proposer? If not, please  
2 elaborate.

3 MR. DRAZILOV: David, I think I'll take this  
4 question. We had our internal corporate staff look at the  
5 proposed terms and conditions. We had received no  
6 indication that we would not be willing to sign the  
7 proposed contract. So to the best of my knowledge, I  
8 think the answer to that question is yes.

9 CHAIRPERSON MIDDLETON: All right.

10 We've -- Mr. Miller is having some issues with  
11 his microphone, so I will cover for him and ask the second  
12 question.

13 Please explain how your firm would reconcile  
14 differences between CalPERS calculation of normal costs,  
15 liabilities, and present value of benefits and your own  
16 calculation of those, if the difference was larger than  
17 five percent?

18 MR. DRAZILOV: David, let me start off with the  
19 answer and others can elaborate. We would have  
20 discussions with CalPERS staff on -- no two firms are  
21 going to have the same actuarial valuation software or  
22 modeling, even if they're using the same branded actuarial  
23 valuation software.

24 And even the application of assumptions and  
25 different methodologies can be differently applied by

1 different actuaries. So it would not be uncommon to  
2 sometimes have a situation where we found an instance  
3 where we're off by more than five percent. We would reach  
4 out to CalPERS staff and ask for some more detailed  
5 calculations, where we think certain items would warrant  
6 attention. We would take a look at those additional  
7 calculations, ensure that our calculations are right.  
8 That process should be completed before we reach out to  
9 CalPERS. Ensure that there's diff -- not different  
10 methodologies or just errors in the calculations that  
11 CalPERS is developing.

12           If during those discussions, we still can't  
13 reconcile our differences, in some instances in the past  
14 where we've worked with either other actuarial firms when  
15 we've been audited or we've audited other actuarial firms,  
16 if CalPERS would like to see their calculations, we're  
17 more than happy to provide those calculations to CalPERS.

18           So I do think it's a back-and-forth dialogue to  
19 ensure that everybody is on the same page. And it might  
20 be that just, you know, one of the reasons that the Board  
21 thinks that this is an important endeavor is to ensure  
22 that the calculations by the Actuarial staff is correct.

23           So if we, after the reconciliation process, still  
24 believe that the results are outside of the five percent  
25 tolerance level, then we would report that as such.

1 David, did you have any additional thoughts  
2 there?

3 MR. KAUSCH: I would just reiterate those  
4 thoughts that what I would add is one of the other things  
5 that can result in differences can be interpretations of  
6 either the benefit provisions themselves or administrative  
7 procedures that CalPERS may have or other things that are  
8 not directly related to the assumptions themselves, but  
9 how we are to interpret the plan. And again, we would use  
10 the same collaborative process. Our goal is to  
11 understand, if there's a difference. First of all, we  
12 want to understand what CalPERS is doing and what their  
13 interpretations of these various events are, and then make  
14 sure that we understand that and can reasonably replicate  
15 it. And again, any differences that occur, we just want  
16 to know why the differences occur, so that we can report  
17 back on the results.

18 CHAIRPERSON MIDDLETON: Okay. Thank you.

19 Ms. Brown.

20 COMMITTEE MEMBER BROWN: Thank you.

21 How long has the principal actuary been auditing  
22 pension plans, has the principal actuary audited large  
23 public plans before, and what is the principal actuary's  
24 experience with State plans?

25 MR. KAUSCH: I have been a practicing actuary for

1 over 25 years. I have been at Gabriel, Roeder, Smith for  
2 15 years. I have audited plans all of that time. I  
3 didn't start in the public sector till I came to GRS 15  
4 years ago. So to answer the first question, I have been  
5 auditing public plans for 15 years. I have experienced  
6 auditing statewide systems all across the country, audited  
7 Mississippi, audited Iowa, numerous audits across the  
8 country.

9 In terms of my experience with statewide systems,  
10 I am the actuary for statewide systems currently and  
11 previously. Right now, I'm the actuary for Michigan  
12 Municipal Employees Retirement System an agent multiple  
13 employer plan. Significantly smaller in assets than  
14 CalPERS, but it's similar in terms of complexity of scope.

15 New Hampshire Retirement System is my client.  
16 I've also worked for the Missouri State Employees'  
17 Retirement System, New Mexico -- that's New Mexico PERA,  
18 Illinois State Employees' Retirement System, numerous  
19 statewide systems across the country.

20 And I forget if there was a third aspect to your  
21 question. I think I hit all three.

22 COMMITTEE MEMBER BROWN: You did. Thank you.

23 MR. KAUSCH: Okay.

24 CHAIRPERSON MIDDLETON: All right. Thank you.

25 Mr. Ruffino.

1           ACTING COMMITTEE MEMBER RUFFINO: Thank you,  
2 Madam Chair. My question is a two-part question. Please  
3 describe your firm's culture and values. How do they  
4 align with CalPERS diversity and inclusion and what  
5 concrete steps and metrics is your firm using to ensure a  
6 diverse workforce?

7           MR. KAUSCH: That's a good question. Our company  
8 culture is a very inclusive culture. Being an  
9 employee-owned company, we are sort of a large family  
10 business. So we have a culture of openness and respect  
11 across the company. In terms of diversity and inclusion,  
12 we are an equal opportunity employer. We constantly  
13 monitor our equal opportunity employment and our  
14 recruiting efforts. We are engaged with a local high  
15 school actually for -- in the State of Michigan for  
16 diversity recruitments -- actually diverse training of  
17 high school students essentially to, you know, try to  
18 build a pipeline and expand our recruiting and outreach  
19 efforts.

20           Our president of our company, Judith Kermans, is  
21 a participant of the Conference of Consulting Actuaries,  
22 previously on the board of the Conference of Consulting  
23 Actuaries, very actively involved in the actuarial  
24 community on diversity and equity employment initiatives  
25 in the industry in terms of leading that.

1           Our executive staff -- the majority of our  
2 executive staff are women. And this is a high priority  
3 for us as a firm in general. I don't know if others have  
4 other comments to add.

5           MR. DRAZILOV: I think that was very well said.

6           CHAIRPERSON MIDDLETON: Ms. Yee.

7           COMMITTEE MEMBER YEE: Thank you, Madam Chair.

8           Good morning. My question is as the Board's  
9 independent consultant, how do you ensure independence  
10 while maintaining a collaborative working relationship  
11 with the CalPERS management and/or its team members.

12           MR. DRAZILOV: Let me start off on that response.  
13 I take that role very seriously. I work with very large  
14 statewide plans across the country and have very good  
15 relationships with my contacts. At the end of the day, I  
16 fully understand that I work for the board of trustees and  
17 all GRS actuaries understand that, if that is our  
18 consulting arrangement.

19           There are some very difficult conversations that  
20 you have to have with Board members, especially when  
21 there's not agreement with let's say major contacts,  
22 either at statewide retirement systems or municipal plans.  
23 But at the end of the day, I think it's in everyone's best  
24 interest to have a solid dialogue with the best  
25 information possible. I've seen too many situations where

1 actuaries have avoided having difficult conversations with  
2 boards of trustees because it would make it easier on  
3 their lives.

4           And I've been in this -- today is actually my  
5 30th anniversary at GRS. And the notion that  
6 inappropriate decisions can be made with the actuary's  
7 blessing, I'm hoping those days are over, but yet, I think  
8 I see that still too frequently. I think we have a very  
9 good working relationship with the CalPERS Actuarial  
10 Office. That's not to say that if we were to find  
11 something, that it's -- it is our duty to report that to  
12 the Board of Trustees. We don't work for the CalPERS  
13 Actuarial Office. We would work for the CalPERS Board of  
14 Trustees.

15           CHAIRPERSON MIDDLETON: All right. Mr. Miller.

16           VICE CHAIRPERSON MILLER: Yes. CalPERS is  
17 constantly impacted by new laws and regulations. How will  
18 your firm ensure that your staff is up to date with  
19 regulatory requirements and costings for public pension  
20 systems? For example, is your system able to model  
21 liabilities associated with benefit plan provisions on a  
22 prospective only basis and do you see any issues in  
23 adjusting your software so that it can model  
24 prospective-only benefit provisions?

25           MR. DRAZILOV: Becky, why don't you take this one

1 just so that you get the opportunity for everybody to  
2 speak.

3 MS. STOUFFER: Yep. Sure. Can everyone hear me?

4 All right. Good. Our software, as David  
5 mentioned, we work for Michigan MERS, which is also an  
6 agent multiple employer. I am one of the signing  
7 actuaries on that client account as well. We have worked  
8 with them extensively for quite a while. And they have a  
9 fair number of plans that actually have prospective  
10 benefit changes where they tier their multiplier or their  
11 COLA down at a date in the future. So our software  
12 already handles and accommodates that type of tiered  
13 structure, where we're changing benefits prospectively,  
14 and we can handle different treatments of that for  
15 purposes of funding valuation, developing results, and  
16 also the nature of your funding methodology that's  
17 required under GASB treatments as well.

18 CHAIRPERSON MIDDLETON: Okay. Thank you.

19 It's my understanding you've worked with CalPERS  
20 previously, but not in the role of a parallel external  
21 actuary. Would you please explain the benefits and what  
22 the challenges are to that position in terms of your  
23 ability to perform successfully in that role? How would  
24 you overcome those challenges?

25 MR. DRAZILOV: The challenges in performing

1 services that we haven't performed in the past for  
2 CalPERS?

3 CHAIRPERSON MIDDLETON: That's correct.

4 MR. DRAZILOV: Okay. As David mentioned, as  
5 Becky mentioned, the experience of the people on the  
6 proposed team here with agent multiple plans, there is no  
7 other firm in the opportunity that would have that  
8 expertise. David has the expertise, David and Becky, with  
9 Michigan MERS. I have that expertise with Missouri  
10 LAGERS. Brian Murphy has that expertise with the Illinois  
11 Municipal Retirement Fund. They are very similar in  
12 structure to the public agency plans and CalPERS.

13 For the State and schools valuations, as David  
14 mentioned, he's a signing actuary on many statewide plans.  
15 I'm the signing actuary on two of the larger plans in the  
16 country, the Ohio Public Employees' Retirement System and  
17 the Michigan Public School and all the State of Michigan  
18 statewide retirement systems, whose assets together are  
19 somewhat approaching CalPERS, but still not at that level.

20 There is, I don't think, any benefit provision  
21 that we haven't seen in the public sector. We are

22 (Off record: 11:16 a.m.)

23 (Thereupon the video froze.)

24 (On record: 11:23 a.m.)

25 CHAIRPERSON MIDDLETON: ....for Milliman to be

1 available to us for their presentation.

2 SENIOR ATTORNEY CARLIN: This is Robert Carlin  
3 from the Legal Office, Ms. Middleton. I think we did give  
4 estimated times to all the firms, but we also made it  
5 clear to them that they should be prepared for an earlier  
6 or later participation, just depending on how these ran.

7 But that being said, I am getting some reports  
8 that there may be some technical difficulties with the  
9 livestream being reported out from CalPERS. So we're  
10 all -- we're all seeing everything fine as well as the  
11 firms that are being interviewed. So I think it might be  
12 appropriate at this point, if took a 10-minute break just  
13 to see if we could make sure everything is running  
14 smoothly and then resume at that point, if that sounds  
15 good to you.

16 CHAIRPERSON MIDDLETON: All right. Thank you. I  
17 will take that very sound advice. We will take a  
18 10-minute break. It's 11:23. We will resume at 11:33.  
19 And if staff could arrange for Milliman to be available to  
20 us at 11:33.

21 Thank you.

22 (Off record: 11:24 a.m.)

23 (Thereupon a recess was taken.)

24 (On record: 11:33 a.m.)

25 CHAIRPERSON MIDDLETON: ....back, but could I get

1 Ms. Hopper to confirm that we have everyone. I see the  
2 faces now. Okay. We have everyone from the Committee  
3 back, so we will move to the next interview, which will be  
4 Milliman. And I would ask staff to invite the  
5 representatives of Milliman to be present with us.

6 Okay. I don't want to presume whose the lead  
7 person from Milliman, but when you have everyone present  
8 from your firm, would you someone please acknowledge  
9 you're all here.

10 MR. COLLIER: This is Nick Collier and I  
11 acknowledge we have all our team members here.

12 CHAIRPERSON MIDDLETON: Wonderful. Thank you.  
13 Your firm was asked not to view the interview that  
14 preceded you. Can you confirm to the best of your  
15 knowledge that your firm did not view those interviews?

16 MR. COLLIER: Yes, that is correct.

17 CHAIRPERSON MIDDLETON: Okay. Thank you.

18 You're going to have five minutes to provide a  
19 initial presentation. There will then be a 20-minute time  
20 period for seven patterned questions that we are asking  
21 every firm that is making a presentation. After that 20  
22 minutes is concluded, there will be a five-minute  
23 opportunity for Committee members to ask follow-up or  
24 clarification questions.

25 So with that, I will turn it over to you for your

1 five-minute initial presentation.

2 (Thereupon a slide presentation.)

3 MR. COLLIER: Thank you. Good morning, all.

4 It's a pleasure to be here with you, albeit  
5 virtually. I'm Nick Collier and I have with me Daniel  
6 Wade and Matt Larabee. We're with Milliman.

7 Next slide, please.

8 --o0o--

9 MR. COLLIER: So just a quick introduction about  
10 myself. My role in this project would be to serve as the  
11 principal actuary. I've been with Milliman for about 30  
12 years and have been performing actuarial audits for more  
13 than 20 of those years. My retained clients include  
14 CalSTRS, the Los Angeles County Employees' Retirement  
15 Association, and the Texas County District Retirement  
16 System an agent employer plan with over 800 employers.

17 I'll turn it over to Daniel to talk a little bit  
18 about Milliman and introduce the rest of the team.

19 MR. WADE: Hi. Yes. Milliman is a global firm  
20 of actuaries and consultants. We have been in business  
21 for over 70 years. And one of our very first clients was  
22 a statewide public employee retirement system. We  
23 continue to have a strong presence consulting the public  
24 sector retirement plans across the country from Washington  
25 State, to California, to Florida.

1           Now, a little bit more information about the  
2 proposal team for this engagement. Underneath Nick, we  
3 have me as support actuary. I work on public sector  
4 pension and retiree medical plans. I have extensive  
5 experience with actuarial audits, including statewide  
6 systems in both Washington State and Texas, as well as  
7 many California counties.

8           When not working on actuarial audits, I'm a lead  
9 technical actuary for the Florida Retirement System as  
10 well as lead consultant for the Tacoma ERS.

11           On the left on this chart, we have Matt Larabee,  
12 who is here with us today. He is our peer review actuary.  
13 He'll be providing quality assurance both on today's call,  
14 as well as on the project team. Matt is lead actuary for  
15 Florida as well as for Oregon PERS.

16           Aaron Shapiro will provide the team with  
17 additional support. He is a relatively new addition to  
18 the firm. In his recent past life, he did work on the  
19 actuarial audit for CalPERS, so he will bring that  
20 knowledge and experience to the team.

21           We have a very strong team working with the four  
22 of us, a team that includes Julie Smith, evaluation  
23 actuary for CalSTRS. She is one of 50 credentialed  
24 actuaries in employee benefits in the west region. The  
25 team we've assembled for you has a proven record for

1 large, complex, public retirement systems with 30 audits  
2 in the past 10 years.

3 Now, Nick will talk more regarding why you should  
4 select Milliman.

5 Next slide.

6 --o0o--

7 MR. COLLIER: So this slide shows some of  
8 Milliman's strengths. I know you've just heard from  
9 several other actuarial firms, so I'm going to take a wild  
10 guess that you've heard a lot of the same things, so I  
11 just want to highlight a few points starting on the orange  
12 ring in the diagram.

13 Working the California market, we obviously have  
14 some familiarity with CalPERS, but we have not audited you  
15 before. We believe that having a fresh but experienced  
16 set of eyes would provide CalPERS the greatest confidence  
17 in the results.

18 I'll move clockwise from here to experience. Our  
19 proposed team has extensive experience with both systems  
20 in and outside of California. I think this gives us a  
21 balanced perspective. Looking at actuarial expertise, one  
22 thing that Milliman has that other firms may not is  
23 investment specialists. You can give -- they can give us  
24 additional understanding and analysis of the investment  
25 return assumption.

1 I'd also highlight our ability to work well with  
2 other actuaries. Even in cases where there have been  
3 differences, we've been able to reach an understanding  
4 with a retained actuary, so there isn't a dispute of fact  
5 between the two actuaries when we present our results.

6 Lastly, although I can't speak as much to other  
7 firm's oral communications, I definitely feel that our  
8 written communication is better than the other actuarial  
9 audit reports I've seen. Ultimately, of course, the best  
10 source is our references.

11 Next slide, please.

12 --o0o--

13 MR. COLLIER: Milliman as a firm has a long list  
14 of actuarial audits we've performed. Since I would serve  
15 as the principal actuary, I just wanted to briefly expand  
16 on my experience. As I previously mentioned, I have over  
17 20 years of experience working on actuarial audits, which  
18 I believe is more than any of the other individuals you  
19 will be hearing from today. This slide has a list of  
20 states where I've done actuarial audits with the number of  
21 individual audits in parentheses. I should note that  
22 Daniel was part of the team on most of these.

23 The point I really want to highlight is the  
24 breadth of experience. I have extensive experience, both  
25 in California and nationally. Although I think actuaries

1 in California are generally doing things right, it is  
2 informative to see what is being done in other states to  
3 get additional perspective.

4           Additionally, for both my retained and audit  
5 clients, I have experience working with large, complex,  
6 agent employer systems and systems with internal actuarial  
7 staffs.

8           That concludes our formal presentation and we  
9 look forward to your questions.

10           COMMITTEE MEMBER BROWN: I don't see our Chair.

11           (Laughter.)

12           SENIOR ATTORNEY CARLIN: Yeah, it looks like Ms.  
13 Middleton may have just dropped off, Ms. Brown. Let's  
14 take a -- let's take just a moment to see.

15           VICE CHAIRPERSON MILLER: Yeah. I can go ahead  
16 and get things started.

17           COMMITTEE MEMBER BROWN: We need to wait for her.

18           VICE CHAIRPERSON MILLER: Okay.

19           SENIOR ATTORNEY CARLIN: Let's wait just a  
20 moment, yeah.

21           There we go. Can you hear us, Ms. Middleton?

22           CHAIRPERSON MIDDLETON: I can hear you. Can you  
23 hear and see me?

24           SENIOR ATTORNEY CARLIN: Yep. We're good.

25           CHAIRPERSON MIDDLETON: Everything seems to be

1 working, although I still have a item in the middle of my  
2 screen asking me to leave the meeting. So I'm going to  
3 try to ignore that for now, but -- and I'll try to behave  
4 myself in the future.

5 First question for you, can you confirm that your  
6 firm has read the proposed terms and conditions in the  
7 contract provided by CalPERS on April 15th, 2021 in the  
8 RFP, and today are prepared to sign such terms and  
9 conditions, if your firm is the successful proposer? If  
10 not, please elaborate.

11 MR. COLLIER: Yes, I can confirm we have read the  
12 terms and conditions. We had it reviewed by our legal  
13 folks. And I would note that we -- in our proposal, we  
14 have a few changes that we are asking for. I would note  
15 that as a large firm, you know, we have -- our legal staff  
16 is probably more aggressive guarding against risk to our  
17 firm than some of the smaller firms.

18 That being said, we understand that actuarial  
19 audits have lower risk, and therefore we have greater  
20 flexibility in contract terms. Most importantly, what I'd  
21 add is we've always been able to reach an acceptable  
22 agreement on actuarial audits.

23 CHAIRPERSON MIDDLETON: All right. Thank you.  
24 Mr. Miller, I believe you get the next question.

25 VICE CHAIRPERSON MILLER: Yes. Thank you.

1 Please explain how your firm would reconcile differences  
2 between CalPERS calculation of normal costs, liabilities,  
3 or present value of benefits and your own calculation of  
4 those, if the difference were larger than five percent?

5 MR. COLLIER: Yeah. I'll take that question.

6 So if the five percent threshold isn't met or  
7 there are other material -- outstanding material issues,  
8 the first thing we would do is review sample lives for a  
9 number of individuals. You've heard -- probably heard  
10 about this from the other firms, but sample lives show the  
11 detailed calculations from the CalPERS valuation system  
12 for an individual member. And our understanding that  
13 these would be made available to us.

14 So if this analysis yields individuals with a  
15 material difference that we can identify, that's probably  
16 likely a cause of the aggregate difference. So we would  
17 then take the calculations from our valuation system and  
18 replicate them in Excel for those individuals, or at least  
19 the key calculations where the difference is.

20 We would then send the Excel files, including the  
21 formulas, to the CalPERS actuarial staff so that they  
22 could see exactly how we were doing our calculation. This  
23 way CalPERS actuarial staff should be able to more easily  
24 identify the differences. We would then discuss the  
25 difference and the reasons for them with the actuarial

1 staff and decide how to proceed from there.

2 In the case we were not observing any differences  
3 on the individual calculations, we would take the more  
4 extreme step, which is to request a full file showing  
5 significant results for each individual. We would then  
6 match them up with our valuation results. We would then  
7 identify individuals where there were material  
8 differences, in which if were off in aggregate, this would  
9 necessarily have to occur, then we would request detailed  
10 calculations for some of the identified individuals. And  
11 then we would basically go back to step one and go through  
12 the process again.

13 I just add one additional comment on the  
14 reconciliation process. We would use the five percent  
15 threshold as the guideline, but wouldn't view it as an  
16 absolute. For a simple example, if our calculated  
17 liability values were 10 percent higher on retirees, but  
18 10 percent lower on active members, we might be close in  
19 aggregate, but we feel this type of difference should be  
20 further investigated.

21 That summarizes our approach.

22 CHAIRPERSON MIDDLETON: Thank you.

23 Ms. Brown.

24 COMMITTEE MEMBER BROWN: Thank you.

25 How long has the principal actuary been auditing

1 pension plans, has the principal actuary audited large  
2 public pension plans before - I know you've already told  
3 us a lot about this - and then what is the principal  
4 actuary's experience with State plans?

5 MR. COLLIER: Okay. I guess I've got to take  
6 this one again too.

7 COMMITTEE MEMBER BROWN: Yes.

8 MR. COLLIER: So, yes, you're right. Hopefully,  
9 I've touched on those, but obviously I have a lot of  
10 experience -- over 20 years of experience working with  
11 actuarial audits. So I really feel that gives me a lot of  
12 perspective on this. Definitely a lot of experience with  
13 a statewide system. I'm currently working on the  
14 retirement systems of Alabama, and Ohio PERS, one of which  
15 is a agent employer plan. I've done work a number of  
16 other systems, including the State of Washington. You  
17 know, Matt works with the State of Oregon and I review  
18 that work. So hopefully that last slide gave you a good  
19 flavor for my experience.

20 CHAIRPERSON MIDDLETON: Mr. Ruffino.

21 ACTING COMMITTEE MEMBER RUFFINO: Thank you,  
22 Madam Chair.

23 A two-part question. Please describe your firm's  
24 culture and values. How do they align with CalPERS  
25 diversity and inclusion and what concrete steps and

1 metrics is your firm using to ensure a diverse workforce?

2 MR. COLLIER: All right. Thank you for that  
3 question. I think I'm going to turn that one over to  
4 Matt. Can you handle that one?

5 MR. LARABEE: Sure, I'll do my best to answer it.

6 Thank you for the question, Mr. Ruffino. So in  
7 terms of our firm's -- to give you an overview initially  
8 of Milliman's diversity. If we look across, we have about  
9 3,200 employees in the United States. In terms of our  
10 gender diversity, it's about 57 percent male, 43 percent  
11 female. While that skews a little bit to the male side,  
12 bear in mind that, you know, when you think about  
13 actuaries, you're thinking about folks that have math  
14 degrees. If you went and looked at national science  
15 foundation data for mathematics undergraduate degrees to  
16 conferred, over the last 10 years, it's between 40 and 45  
17 percent female. So our -- in terms of gender split, our  
18 population is very similar to kind of the broad United  
19 States population for mathematics undergraduates.

20 In materials of Milliman's kind of ethnic and  
21 cultural diversity and our commitment to diversity,  
22 equity, and inclusion, our makeup of our employee  
23 population in the United States is about 75 percent White,  
24 about 10 percent Asian, about five percent Black, five  
25 percent Hispanic, and three to four percent other or

1 undisclosed. That skews a little bit more White than the  
2 rest of the country.

3           Also, bear in mind, we are a west coast firm  
4 headquartered in Seattle. Our largest office by far is  
5 our headquarters in Seattle and our diversity of our firm  
6 in the U.S. looks very similar to the ethnic demography of  
7 Washington state. So we do try to be representative and  
8 are of the communities in which we tend to have most of  
9 our employee populations. Our firm has a significant  
10 commitment to diversity, equity, and inclusion. We make a  
11 lot of commitments to -- and donations of both time and  
12 money to progressive social causes, including at our  
13 client conferences having our attendees of our annual  
14 client conference vote on sort of progress -- on  
15 organizations committed to diversity, equity, and  
16 inclusion that -- to which we make contributions of money,  
17 in addition to our time commitment and scholarship  
18 commitment to underserved communities.

19           MR. COLLIER: Yeah. And I'd just add in addition  
20 to what Matt said - obviously a pretty comprehensive  
21 response - we do have relationships with the Black  
22 Actuarial Association and the Latino Actuarial Association  
23 to help Milliman achieve more diversity.

24           CHAIRPERSON MIDDLETON: Thank you.

25           Ms. Yee.

1 COMMITTEE MEMBER YEE: Thank you, Madam Chair.

2 My question is as the Board's independent  
3 consultant, how do you ensure independence and yet  
4 maintain a collaborative working relationship with the  
5 CalPERS management and/or the team members?

6 MR. COLLIER: Well, I think the first thing we do  
7 is we're going to do the work and we try to -- as you  
8 said, we try to do it as independently as possible. So  
9 our first step is going to be, you know, obviously we're  
10 going to have some interaction initially with CalPERS to  
11 get the information, but we will try to independently do  
12 our replication work. That's one area that Aaron Shapiro  
13 could come in -- as Dan -- Daniel said, he has worked with  
14 CalPERS before. So if we were at a point where we weren't  
15 understanding something, we would probably go to him first  
16 to try to understand it before starting to ask questions  
17 of the actuarial staff.

18 So I think that's kind of our primary thing is to  
19 try to do things as much independently as possible before  
20 going back to discuss further with the actuarial staff.

21 MR. WADE: I think I have a few things to add  
22 there is that I think we strike a pretty good balance  
23 between the independence and the ability to work with the  
24 other Actuarial Office. We do our best to try to  
25 understand the perspective of the Actuarial Office. We

1 may have disagreements and we'll let you know if there are  
2 disagreements. It will get their way to the report and  
3 we'll do that.

4           At the same time, we want to make sure we  
5 understand the Actuarial Office's perspective and why  
6 they've chosen to do the things that they've done. Even  
7 if we don't have all of the same results at the end, we do  
8 have an understanding of the facts. I think Nick talked  
9 about that in his opening, that we do want to make sure we  
10 have all the facts in agreement, and then from there,  
11 we'll try to understand their perspectives, and we won't  
12 go in with a, hey, we're the smartest. We have all the  
13 answers. You're doing it wrong. That won't be the  
14 mentality that we take to it. But at the same time, we  
15 will maintain our independence. And we think we strike a  
16 good balance and we think that's a good thing that we  
17 bring to the table.

18           MR. LARABEE: And I would like to add on to the  
19 answer to that questions. So I think that any sort of  
20 engagement that you do is really, you know, the approach  
21 to services provided is going to be driven by the  
22 principles of the firm and the principles of the  
23 individual providing the services. And really our core  
24 principles, in terms of any sort of engagement is to be  
25 understandable.

1           So, you know, the other parties need to  
2 understand the work that we're doing and where we're  
3 coming from. We need to be patient in terms of explaining  
4 our work, and listening to questions, and providing good  
5 dialogue. We need to be forthright. That's a key tenet  
6 of independence. We're going to tell an entity what we  
7 feel like they need to hear based on our professional  
8 opinion and experience, even if at times it will differ  
9 from what someone might like to hear. And most  
10 importantly, we have to be respectful. We respect that,  
11 you know, different people have different approaches to  
12 the work. Different people have different perspectives,  
13 objectives, and goals. And in any sort of communication  
14 that we do, be it written or verbal, we try to uphold  
15 those four principles.

16           CHAIRPERSON MIDDLETON: Thank you.

17           Mr. Miller.

18           VICE CHAIRPERSON MILLER: Yes. CalPERS is  
19 constantly impacted by new laws and regulations. How will  
20 your firm ensure that your staff is up-to-date with  
21 regulatory requirements and costings for public pension  
22 systems? For example, is your system able to model  
23 liabilities associated with benefits plan provisions on a  
24 prospective-only basis and do you see any issues in  
25 adjusting your software so that it can model prospective-

1 only benefit provisions?

2 MR. COLLIER: I'll answer the latter question  
3 first, because that's an easy question. Yes, we  
4 definitely -- our software can definitely handle  
5 prospective-only changes. I've got -- as I talked about  
6 my Texas county system, they can make changes every year.  
7 And at least about a hundred employers make changes every  
8 year and some of them are prospective only and some of  
9 them aren't. And our software has no problem with that.  
10 And I'd say so we don't foresee any problems there.

11 As far as your question about staying up on the  
12 regulatory environment, obviously, you know, working with  
13 CalSTRS, and LACERA, and other California entities, we do  
14 try to keep up with what's going on. Obviously, there's  
15 more out there than just PEPRA. You know, tangentially,  
16 obviously, we do keep a little bit aware of what CalPERS  
17 is do -- you know, legislation that affects CalPERS.  
18 Obviously, we'd want to do -- stay up a little bit more on  
19 that and refresh ourselves if we were selected to do this.

20 And I would mention that we also have an employer  
21 resource group in Washington D.C. that stays up on  
22 national legislation.

23 MR. LARABEE: And if it's all right, I'd like to  
24 add on to the answer to your question, Mr. Miller. So,  
25 you know, if I was looking -- you know, to further kind of

1 demonstrate our ability to handle complexity modeling,  
2 legislative challenges, if I was in CalPERDS' shoes, I  
3 would look to, okay, who has handled the work for what is  
4 in CEM Benchmarking's considered the second most complex  
5 administrative pension system in North America after  
6 CalPERS and that is Oregon PERS.

7           And, you know, our team has handled that work  
8 ably for the past 10 years and we've become -- have very  
9 close working relationships during legislative sessions,  
10 in particular but also into the run up of the session with  
11 the legislative policy liaisons from the agency to make  
12 sure that nothing is catching either the agency or the  
13 actuary off guard.

14           CHAIRPERSON MIDDLETON: Thank you.

15           Last of the patterned questions that we have for  
16 you. Your firm has never served as CalPERS' parallel  
17 external actuary. What benefits and challenges do you  
18 believe that position presents in terms of your ability to  
19 perform successfully in that role? How would you overcome  
20 those challenges?

21           MR. COLLIER: Well, you're not going to be  
22 surprised to say this, but, you know, we feel having a  
23 fresh set of eyes in an actuarial audit is really a good  
24 thing, because somebody is going to kind of look at it for  
25 possibly a different angle. And also if there was an

1 issue with where the prior problems were being replicated  
2 by the audit actuary, in all likelihood, they would be  
3 replicated again the next time.

4           So having a fresh set of eyes is, I think, very  
5 beneficial in the add audit process, not necessarily among  
6 the retained actuary. But as far as how we would address  
7 the challenges, obviously, CalPERS is not the most vanilla  
8 plan. So as Matt talked about, we have a lot of  
9 experience working with complex retirement systems. So  
10 our valuation system is well equipped to be flexible, to  
11 address those issues. As I said, I mean, I think our  
12 intent is to -- Dan and I to work with Actuarial staff.  
13 Dan referenced Julie Smith, who I'm not sure -- Betty is  
14 one person who could maybe attest to how complicated  
15 CalSTRS is, outside of the fact there's only really --  
16 there's not nearly as many tiers as there are employers.  
17 There are some really complex scenarios. We have to run  
18 hypothetical valuations. Julie Smith is our person who  
19 takes care of all that and we have a lot of faith in her.

20           In the case, if we were running into issues, as  
21 we said we have Aaron Shapiro as a resource. So we could  
22 discuss some of that, because he does have some experience  
23 working with CalPERS. So that would kind of be our  
24 approach. I don't know if, Dan or Matt, if you to want  
25 add anything to that?

1 MR. LARABEE: No.

2 MR. WADE: I think you handled it well. Thanks.

3 CHAIRPERSON MIDDLETON: All right. We have about  
4 six and a half minutes left to you, if there is anything  
5 that you would like to add in relationship to the seven  
6 patterned questions that have been asked. You're not  
7 under any obligation to use that time, but it is there.

8 Once we've completed this part of the process, we  
9 will reset the clock at five minutes for follow-up and  
10 clarification questions.

11 MR. COLLIER: Yeah. I don't have anything to  
12 add, except for we appreciate the questions. Good  
13 well-rounded questions that definitely put us through our  
14 paces, so we appreciate that. I don't know, Matt or Dan,  
15 do you have anything to add?

16 MR. LARABEE: The only think I have to add is if  
17 I have a 30-minute agenda item or 20-minute agenda item  
18 and it finishes six minutes early, I'm appreciative, so  
19 I'll leave it at that.

20 (Laughter.)

21 CHAIRPERSON MIDDLETON: All right. Thank you,  
22 gentlemen.

23 With that, I'll ask staff to reset the clock at  
24 five minutes. And we will invite members of the Committee  
25 to ask follow-up or clarification questions.

1           And I see Controller Yee, if you would like to go  
2 forward.

3           COMMITTEE MEMBER YEE: Sure. Thank you, Madam  
4 Chair. And thank you for the responses to our questions.  
5 I just had one question and it really has to do with kind  
6 of this whole fresh eyes kind of perspective. But just  
7 from your per -- from your perspective and experience, is  
8 there a best practice in the industry about boards like  
9 CalPERS and funds like CalPERS to look at essentially  
10 utilizing different firms at certain intervals? So in  
11 other words, is there kind of a best -- a rule of thumb  
12 about when we should be thinking about refreshing the  
13 firms that we bring in to do this external -- this  
14 parallel external actuary work.

15           MR. COLLIER: There isn't that I'm aware of.  
16 There's definitely guidance as far as doing actuarial  
17 audits. You want to do them every cycle, maybe four --  
18 every three to five years. That's pretty well defined.  
19 But we don't have any guidance on whether to rotate them  
20 or not. As I talked about some of the reasons to rotate  
21 them. Obviously, I'm going to say that, but that's -- I  
22 don't think there's -- there's not any specific guidance.  
23 Matt, did you have anything to add or...

24           MR. LARABEE: No, I think -- I think there  
25 isn't -- you know, there isn't anything promulgated from

1 the Actuarial Advisory Panel, or GFOA, or the Academy of  
2 Actuaries, but there is just kind of more of a common  
3 sense aspect to it, right, that, you know, if you think  
4 about kind of if somebody is going to continue the project  
5 from what they did before, they're probably going to pick  
6 up where they left off and kind of use -- build that as  
7 the basis. Whereas, if you're bringing in a new  
8 organization, you are, you know, kind of guaranteed to get  
9 a -- kind of a guarantee of kind of intellectual curiosity  
10 and a fresh -- a fresh look at the work hopefully from a  
11 set or sets of experienced eyes.

12 COMMITTEE MEMBER YEE: All right. Thank you.

13 CHAIRPERSON MIDDLETON: Is there anyone else from  
14 the Committee who has a follow-up question or a  
15 clarification question?

16 I don't see anyone stepping forward.

17 Gentlemen, is there anything that you would like  
18 to add?

19 MR. COLLIER: Appreciate your --

20 CHAIRPERSON MIDDLETON: The floor is yours and  
21 you have this time available to you.

22 MR. COLLIER: Sorry. As Matt said, there's never  
23 been a tear shed over a short actuarial presentation. So  
24 I would just say we appreciate your time and consideration  
25 and we hope you all have a great day.

1 CHAIRPERSON MIDDLETON: All right. Thank you.

2 MR. COLLIER: Thank you.

3 MR. LARABEE: Thank you.

4 MR. WADE: Thank you.

5 CHAIRPERSON MIDDLETON: If I could be indulged  
6 with taking a 10-minute break. I've received a phone call  
7 that -- on a family matter that I need to respond to. It  
8 is 12:02. We will begin back at 12:10 and I appreciate  
9 the indulgence of the Committee and everyone else.

10 (Off record: 12:03 p.m.)

11 (Thereupon a recess was taken.)

12 (On record: 12:11 p.m.)

13 CHAIRPERSON MIDDLETON: Are you on the line?

14 Thank you. All right. Then we can proceed. And  
15 I've been advised that Segal is available to join us. And  
16 again my apology for needing to take a break.

17 With that, I'd like to invite everyone from Segal  
18 to join us. And if a representative from Segal would  
19 advise us when you have all of your team members present.

20 MR. TAUZER: Good afternoon, members of the  
21 Committee. My name is Todd Tauzer. I represent Segal and  
22 we have our three members present here today.

23 CHAIRPERSON MIDDLETON: All right. Thank you.

24 The interviews previous to yours you have agreed  
25 to you did not view any of those to the best of your

1 knowledge. Is it true that you -- no -- you and no one on  
2 your team observed any of the prior interviews?

3 MR. TAUZER: Yes, this is true.

4 CHAIRPERSON MIDDLETON: Okay. Thank you.

5 With that, we're going to have a three-part  
6 process. We will give you a five-minute opportunity to  
7 make an opening presentation. There will be a 20-minute  
8 session that will allow Committee members to ask seven  
9 patterned questions that have been asked of every  
10 competitor, and then we will conclude with a five-minute  
11 opportunity for follow-up and clarification questions from  
12 the Committee.

13 And with that, I'll ask staff to start the clock  
14 and turn it over to the representatives of the Segal firm.

15 MR. TAUZER: All right. Well, thank you. Good  
16 afternoon. Again, my name is Todd Tauzer with Segal.  
17 It's my pleasure -- it's our pleasure to be here today  
18 with all of you. Thank you for the opportunity to share  
19 our company, your team, and our services.

20 (Thereupon a slide presentation.)

21 MR. TAUZER: So I'd like to start by introducing  
22 our team as we believe our team is one of our strongest --  
23 or one of our greatest strengths. We have four FSAs in  
24 total, fellows of the Society of Actuaries dedicated to  
25 this project which is the highest credential and actuary

1 can obtain. We believe this displays our commitment to  
2 CalPERS. And I also have with me here today two members  
3 of the Segal team, Kim Nicholl and Geoff Bridges. And I'd  
4 like both Kim a Geoff to introduce themselves briefly.

5 MS. NICHOLL: Good afternoon. My name is Kim  
6 Nicholl and I'm here representing Matt Strom. Matt and  
7 Todd, Geoff and I, and the other teams work very closely  
8 together on actuarial audits. Matt's role will be as a  
9 support actuary. In effect, he is a backup to Todd and  
10 he's going to help Todd in leading and organizing the  
11 audit and communicating the results to CalPERS, to you.

12 In addition, Matt has another role, which is  
13 supervising actuary. He's going to manage the team to  
14 oversee the products, the deliverables, and to make sure  
15 that we maintain the timelines.

16 Geoff.

17 MR. BRIDGES: Good afternoon. I'm Geoff Bridges.  
18 I'm an actuary in Segal's Chicago office. And I will be  
19 doing -- as the lead actuary, I will be doing a lot of the  
20 work in terms of actually managing the project and  
21 overseeing all the actuarial work that goes on. And I've  
22 been with Segal for about four years, before that with  
23 some other firms, and doing public sector work for many  
24 years. And that's me.

25 MR. TAUZER: All right. Thanks Geoff. And as I

1 said, my name is Todd Tauzer. I'm Segal's national public  
2 sector retirement practice leader and then will be the  
3 principal actuary for our team. In a prior life, I had  
4 the privilege of working as an actuary in the CalPERS  
5 Actuarial Office for just short of ten years. Included in  
6 that time, I worked on both the special projects side of  
7 the house and in valuation services, and was a signing  
8 actuary for about 350 different public agencies at one  
9 point in time. And I was also part of the State and  
10 schools team. I was a signing actuary there as well.

11 I also helped build the actuarial calculations  
12 that we put into myCalPERS when that was first going up,  
13 and helped with the original designs of the actuarial  
14 valuation software rebuild that the Actuarial Office uses  
15 today.

16 So the point here is our team is very familiar  
17 with the culture, the processes, and the complex mechanics  
18 of the CalPERS actuarial valuations, including, you know,  
19 non-pooled and risk pooling for public agencies, direct  
20 rate smoothing of contributions, amortization policy  
21 changes that have been many implemented, the asset  
22 liability management cycle that CalPERS is going through  
23 right now, the Terminated Agency Pool, et cetera.

24 CalPERS is very -- extremely complex and we  
25 believe our team is best suited to provide a rigorous and

1 informed review and certification of your actuarial  
2 results.

3 So if we go to the next slide.

4 --o0o--

5 MR. TAUZER: Here, we display our actuarial  
6 consulting services to states and large cities across the  
7 nation. There's a lot of detail here, but the main point  
8 is that between retirement, health, and defined  
9 contribution plans, we consult to 36 states, and all of  
10 the ten largest cities. And our retirement practice in  
11 particular is displayed here by the pink diamonds, which  
12 is well represented across cities and states.

13 So really just a graphic to show our depth of  
14 engagement and expertise across the nation.

15 And now going onto the next slide --

16 --o0o--

17 MR. TAUZER: -- beyond ongoing actuarial  
18 consulting services, here we've narrowed down on recent  
19 audits that we've done, similar to the parallel actuarial  
20 valuation and certification services required by CalPERS.  
21 On the left, we've provided similar services in various  
22 State and national systems across the United States. And  
23 on the right, you can see how many actuarial audits we  
24 performed right here in the state of California. These  
25 audits show our California expertise at the city, county,

1 and statewide levels.

2 And this sets up my final slide, where we want to  
3 conclude our initial presentation --

4 --o0o--

5 MR. TAUZER: -- by illustrating Segal's  
6 dedication to the State of California. Here, we display  
7 our California public sector clients, most of which we do  
8 ongoing actuarial consulting for. And specific to public  
9 pensions, we provide actuarial services to 12 of the 20  
10 independent county systems, the 1937 Act county plans,  
11 including Sacramento County Employees' Retirement System  
12 right in Sacramento. And we also partner with a number of  
13 cities including all of the Los Angeles City retirement  
14 plans.

15 So altogether, I hope we've demonstrated that  
16 Segal has national expertise and that we bring that  
17 expertise for the required services for CalPERS.

18 CHAIRPERSON MIDDLETON: Thank you.

19 That concludes the time that you had available  
20 for introduction. We'll move on to the seven patterned  
21 questions that we have and a 20-minute total time frame is  
22 available for that.

23 I'll start with the first question. Confirm that  
24 your -- that your firm has read the proposed terms and  
25 conditions in the contract provided by CalPERS on April

1 15, 2021 in the RFP and today are prepared to sign such  
2 terms and conditions, if your firm is the successful  
3 proposer. If not, please elaborate.

4 MR. TAUZER: Yes, I could confirm that we read  
5 through the contract in detail and we sent it to our legal  
6 department. We did have a few proposed minor  
7 modifications to the contract to our legal department  
8 that -- but none of them were essential in our eye. So we  
9 are prepared to sign the contract, but we believe in good  
10 faith that we may be able to figure out slightly better  
11 language, where appropriate, if CalPERS is amenable to it.

12 CHAIRPERSON MIDDLETON: All right. Thank you.

13 Then we'll move on to Mr. Miller.

14 VICE CHAIRPERSON MILLER: Yes. Please explain  
15 how your firm would reconcile differences between CalPERS  
16 calculation of normal costs, liabilities, or present value  
17 of benefits and your own calculation of those, if the  
18 difference were larger than five percent.

19 MR. TAUZER: Yes, we'd be happy to. And Jeff,  
20 I'll toss this to you to start our response.

21 MR. BRIDGES: Surely. So I think generally what  
22 we would do is one of the places we'd want to start is to  
23 look at individual members, so we'd be wearing what we  
24 call test lives, various other terms we use, and we would  
25 want to run our calculation and then compare it with

1 CalPERS' calculation. And that should help us to identify  
2 any -- anything where there's something different about  
3 how the plan provisions are being applied, or how the  
4 assumptions are being applied to enable us to figure out  
5 any differences.

6           If we're looking en -- if we're looking at sample  
7 lives and we're coming up with a very good match, and then  
8 still in some sort of aggregate measurement we're having  
9 issues, then typically that would mean we would want to  
10 take some additional sample lives to dig into a bit  
11 deeper. But the service starts with the individual  
12 participants and just looking at -- making sure that we're  
13 valuing the same assumptions and plan provisions that the  
14 CalPERS' actuaries are.

15           CHAIRPERSON MIDDLETON: Okay. Ms. Brown.

16           COMMITTEE MEMBER BROWN: Thank you.

17           My question is in three parts. How long has the  
18 principal actuary been auditing pension plans, has the  
19 principal actuary audited large public pension plans  
20 before, and what is the principal actuary's experience  
21 with State plans?

22           MR. TAUZER: So, yes, I'll try to answer that in  
23 order. So how long I've been auditing large plans is an  
24 interesting question, because I spent a large majority of  
25 my time working for CalPERS, in-house at CalPERS. So in

1 that realm, we certainly did review and -- of our own work  
2 there at CalPERS, but we're not, of course, in the  
3 business of going out and auditing other pension systems.  
4 So I'm very familiar with CalPERS and that gets into the  
5 idea of statewide systems, and how much I've worked with  
6 statewide systems.

7 I moved from CalPERS to a rather non-traditional  
8 role. I worked for S&P global ratings as their Director  
9 of Municipal Pensions. So S&P got in mind that they  
10 wanted to better understand pension risks and the  
11 trajectory of pension plans across the United States for  
12 their credit rating process. So they ended up hiring me  
13 and they asked me to build a risk framework to identify  
14 and evaluate pension plans across all 50 states.

15 So in that role, I trained a team of over a  
16 hundred municipal analysts on how to better understand  
17 pension mechanics and pension risks. And then we went out  
18 and evaluated all state plans across all 50 states to  
19 bring it into our credit rating process, to understand  
20 what the ramifications would be for municipal budgets and  
21 for credit evaluations.

22 So that's a bit of a non-traditional approach.  
23 It's not exactly an actuarial audit during my time there,  
24 but we reviewed these plans across all 50 states. And  
25 then in the last couple years, since I joined Segal in

1 2019, I've been working on the team here in California,  
2 where we've worked on ongoing consulting for actuarial  
3 plans and audits within the state of California.

4 Does that fully answer the question?

5 COMMITTEE MEMBER BROWN: I think so. Thank you.

6 MS. NICHOLL: Can I add a bit to that  
7 representing Matt Strom who is the support actuary and  
8 basically a backup principal actuary. Matt and I have  
9 performed actuarial audits for state retirement systems,  
10 in Wisconsin, Illinois, Kentucky, Alaska. We audited  
11 CalSTRS twice, replication audits. Our team that we're  
12 proposed -- we have proposed to do the work, the -- you  
13 know, the actual auditing piece of the project is a team  
14 that performs at least two to three audits per year. And  
15 the list that Todd showed earlier in our presentation, the  
16 majority of those were completed by the Chicago office.

17 COMMITTEE MEMBER BROWN: Thank you.

18 CHAIRPERSON MIDDLETON: Thank you.

19 Mr. Ruffino.

20 ACTING COMMITTEE MEMBER RUFFINO: Thank you,  
21 Madam Chair.

22 Mine is a two-part question. Please describe  
23 your firm's culture and values. How do they align with  
24 CalPERS diversity and inclusion and what concrete steps  
25 and metrics is your firm using to ensure a diverse

1 workforce?

2 MR. TAUZER: So our mission statement at CalPERS  
3 is to provide trusted advice that improves life. And  
4 based on that are culture values. It's -- what our  
5 retirement practice is focused on is providing and  
6 securing benefits for all of -- all of the members of all  
7 of the plans that we work on. So that is our central  
8 drive for Segal.

9 Now, as for our internal workforce and the  
10 diversity of our -- of our own company, we have an ongoing  
11 diversity, equity, and inclusion project, where we're  
12 looking internally to assess and discuss with different  
13 employees across our practice how well we're doing in  
14 these areas, surveying results, building -- bringing in  
15 outside consultants to help us discuss and analyze these  
16 results, so that we can ensure that we are in a best  
17 place, a top tier position of providing diversity, equity,  
18 and inclusion for all of our members.

19 Would you have anything to add to that, Kim?

20 MS. NICHOLL: Yes. We have a formal project  
21 underway, which is Workforce 2023, which has a number of  
22 components to address the diversity and inclusion issue  
23 that, you know, the majority of firms face and it's  
24 multi-pronged, both in training, recruiting, and  
25 developing internally people. We also participate with

1 the International Association of Black Actuaries. We  
2 recruit there, along with Latino Actuarial Group. It's  
3 very front and center in our -- as our President likes to  
4 say, DEI is in our DNA, so it's front and center as it  
5 should be with our firm.

6 CHAIRPERSON MIDDLETON: Okay. Ms. Yee.

7 COMMITTEE MEMBER YEE: Thank you, Madam Chair.

8 My question is as the Board's independent  
9 consultant, how do you ensure independence and yet  
10 maintain a collaborative working relationship with the  
11 CalPERS management and/or team members?

12 MR. TAUZER: Sure I'll start by passing this to  
13 Kim and then I'll provide some comments as well.

14 MS. NICHOLL: So we -- in maintaining  
15 independence, our work is to be auditing the CalPERS'  
16 plans. And we will not -- we take our -- we very  
17 professionally inclined we are required to adhere to the  
18 Actuarial Standards of Practice, which would forbid us  
19 from any sort of collusion with -- or any sort of -- not  
20 depends on CalPERS staff.

21 We are professionals. Be -- if, in fact, there  
22 were some issue that were to -- if actuaries find that  
23 they're in a position that they find uncomfortable,  
24 there's an organ -- there's a group within the actuarial  
25 community called the ABCD group, where we can call and get

1 recommendations and advice. But we certainly are going to  
2 do our work independently. We are setting up -- we  
3 have -- actually, we do have some programs already set up.  
4 We've set up our own programs for CalPERS and we will be  
5 doing that independently from anybody at CalPERS.

6 MR. TAUZER: Yeah. Thanks, Kim. And so I'll add  
7 to that, that as Kim mentioned in our profession, we have  
8 robust standards of practice. We're a self-policing  
9 organization. And those are put on primarily through the  
10 American Academy of Actuaries -- an organization called  
11 the American Academy of Actuaries.

12 And I can speak to my current role right now. I  
13 sit as the Chair of the American Academy of Actuaries  
14 Public Pensions Committee. So overseeing the kinds of  
15 information that comes out of -- out of the public pension  
16 space, which is of course what we're discussing here, I  
17 sit as Chair. And so not only do we have this high  
18 standard of practice across -- high standards across the  
19 organization, but that applies specifically to the work  
20 that I oversee there at the Academy.

21 CHAIRPERSON MIDDLETON: Mr. Miller.

22 VICE CHAIRPERSON MILLER: Yes. CalPERS is  
23 constantly impacted by new laws and regulations. How will  
24 your firm ensure that your staff is up-to-date with  
25 regulatory requirements and costings for public pension

1 systems? For example, is your system able to model  
2 liabilities associated with benefit plan provisions on a  
3 prospective-only basis. And do you see any issues in  
4 adjusting your software, so that it can model  
5 prospective-only benefit provisions?

6 MR. TAUZER: Yes, so I'll start and I know we'll  
7 have more to say on this as well. Yeah, we work with  
8 pension plans across the nation. And so we have a lot of  
9 experience in what's going on at the local, the State, and  
10 the national level. We have no problem modeling out  
11 different kinds of benefits that are provided on a  
12 prospective only basis. In fact, we here at Segal, we  
13 create our own actuarial proprietary software. So we've  
14 built our actuarial software from the ground up in-house.  
15 And what that means for us is we have a lot of flexibility  
16 in terms of whatever the needs of our clients are, we're  
17 able to take those needs and work with our programming  
18 team to build it within that software, so we're not  
19 limited by some kind of off-the-shelf software that  
20 someone else controls somewhere else.

21 I think it's also important to note that because  
22 we operate in a wide spectrum -- in a wide sphere, I  
23 should say, we operate in retirement, we operate in  
24 health, defined contribution, et cetera, we also have  
25 additional services that sometimes we're able to bring to

1 bear for our clients. In this case, we have -- we have a  
2 national team that's based on compliance. So looking  
3 at -- looking at what's going on at the national level and  
4 being able to discuss regulations and compliance issues  
5 for all of our public sector clients. And we have a  
6 specific team member, Melanie Walker, who's listed on our  
7 proposal, who's a -- who's the national public sector  
8 retirement leader. And so she is a resource that we would  
9 bring with our team for this proposal for CalPERS to  
10 manage -- to be able to look at and evaluate particular  
11 regulations and changes, and discuss compliance issues.

12 Anything to add, Geoff or Kim?

13 MS. NICHOLL: Yeah, I would --

14 MR. BRIDGES: I would just -- go ahead, Kim.

15 MS. NICHOLL: Go ahead, Geoff.

16 MR. BRIDGES: I was just going to say, I  
17 mentioned in the introduction that I've worked for a  
18 couple of different firms over the years. And I've worked  
19 with a lot of different valuation software systems and  
20 Segal has a top-notch system, very flexible, and we can  
21 program a lot of different kind of plans in there. We  
22 deal with a lot of different kinds of plans. We've talked  
23 about a number of the statewide, but also in other spheres  
24 we do a lot of work with variable annuity plans and  
25 things that -- some of which have very complex structures,

1 so -- including being able to model prospective plan  
2 changes as was mentioned in the question. So I'm very  
3 confident in our ability to our -- our software's ability  
4 to handle any challenge we throw at it.

5 MS. NICHOLL: And I would add that Melanie's  
6 role not only is to inform our clients, but her role is  
7 also to inform the team to be -- the teams across the  
8 company to ensure that we're up to date on all compliance  
9 and legislative issues. For a number of our clients,  
10 Melanie has a standing quarterly call where we meet with a  
11 client and go over any new -- anything new in Legislation,  
12 which interestingly has uncovered some things that clients  
13 need to address, so we're on top of that.

14 And I just want to second what both Jeff and Todd  
15 said about our software. We have many clients with many  
16 tiers, very unique funding methodologies, very unique and  
17 different tiers of employees and projections that are done  
18 to produce the valuation results. So we can -- we can  
19 handle anything.

20 CHAIRPERSON MIDDLETON: Okay. Last question that  
21 we have for you. To the best of my knowledge, Segal has  
22 not previously served as the parallel external actuary for  
23 CalPERS. What benefits and challenges do you believe that  
24 that position presents in terms of your ability to perform  
25 successfully in that role and how would you overcome those

1 challenges.

2 MR. TAUZER: Yes. So this is a good question.  
3 It's an interesting one. I think what's interesting about  
4 our team is, as we showed earlier, we have provided  
5 actuarial services and specifically audit and parallel  
6 valuation services to other State plans across the nation.  
7 So we clearly have experience there. And our team in  
8 particular has provided this -- a similar kind of audit a  
9 couple different times to CalSTRS, which is, of course,  
10 the neighboring system here in California.

11 So on the experience side, I think it's well  
12 established that we have that experience. In addition to  
13 that, I bring, of course, as I've already described, my  
14 internal expertise of knowing the CalPERS systems, knowing  
15 how the pooling is set up for public agencies versus the  
16 non-pooling, having worked on the State and schools  
17 valuation before. So beyond the general expertise that we  
18 have in our team, we have very specific insight and  
19 information into how the CalPERS system operates. And we  
20 would bring that -- we'd bring that into the audit  
21 process.

22 Any thoughts here, Kim?

23 MS. NICHOLL: I would add too that I think it's  
24 good to -- we see with our clients many times, the ones  
25 that we audit, that audits are performed, you know,

1 periodically every five years, or every 10 years. Some  
2 clients we do repeat audits for, because they like the way  
3 we find things that could be improved and just the way we  
4 can get the job done on time and present a good report.  
5 But then other times, clients like to switch up auditors,  
6 because it could be that, you know, if you use the same  
7 auditor year after year, then there might be something  
8 that doesn't get caught, because a fresh set of eyes is  
9 always good -- a good look to make sure that the  
10 processes -- another viewpoint on what's in the valuation  
11 report itself, another viewpoint on assumptions. So I  
12 think it's beneficial to pull in a fresh set of eyes once  
13 in a while.

14 MR. TAUZER: And I think to Kim's point and to  
15 the prior question about independence, I mean, it does  
16 speak to that how we bring in this fresh set of eyes that  
17 is independent and has never -- this team has never fully  
18 audited this specific data set. So we're going to bring  
19 that independence and that clear line of thinking into the  
20 evaluation process to make sure we can validate and  
21 certify the results that are coming out of CalPERS.

22 CHAIRPERSON MIDDLETON: Thank you. That  
23 concludes the seven questions that we were going to ask.  
24 There is still time available, if there is anything that  
25 you at Segal would like to elaborate on in further

1 answering the questions that you've already been asked.  
2 You may do so. You're not required to use up the entire  
3 20 minutes that was made available to you. At the time  
4 that you are -- conclude, we will move on to a new setting  
5 of the clock at five minutes for follow-up and  
6 clarification questions.

7 MR. TAUZER: Sure. I wouldn't mind following up  
8 on one of the questions was asking about the independence  
9 versus the benefits that we would be providing to CalPERS.  
10 And I did get to spend a little bit of time in the  
11 introduction about our dedication to the State of  
12 California, and all of the work that we do within the  
13 State. I do want to mention on top of that, that I've had  
14 the opportunity to get involved in retirement benefits  
15 leadership within the state. So I represent the speaker  
16 of the Assembly on the California Actuarial Advisory  
17 Panel, which is there to provide objective information and  
18 best practices to municipalities across the state of  
19 California.

20 I also partnered with the California State  
21 Auditor on her high-risk local government advisory team,  
22 and I sit on the Board of the California Society of  
23 Municipal Analysts. And I operate there as their program  
24 chair and pension expert.

25 And one last thing to mention here is I live

1 in -- 20 minutes away in Davis, California. So in terms  
2 of accessibility, I'm fully accessible to the staff and  
3 the Board in person at almost a moment's notice throughout  
4 this engagement.

5 So I think both our team as a whole of showing  
6 both our national and our local expertise within  
7 California, and the California focus that our team's  
8 leadership brings to this project would be of an advantage  
9 to CalPERS as we would go through the work offered here.

10 CHAIRPERSON MIDDLETON: And if there's nothing  
11 further, then we will ask staff to reset the clock for  
12 five minutes to provide an opportunity for follow-up and  
13 clarification questions.

14 Is there any member of the Committee who would  
15 like to ask a follow-up or clarification question?

16 Controller Yee.

17 COMMITTEE MEMBER YEE: Thank you, Madam Chair.  
18 And thank you for all of the responses to our patterned  
19 questions. And maybe with respect to clarification. So  
20 with the Segal Company not having served previously as the  
21 parallel external actuary, I was wondering how would you  
22 initiate the engagement, if you were selected? In other  
23 words, how would you kind of set the tone and the  
24 expectations of what that relationship would look like?

25 MR. TAUZER: Sure. So we would start right away

1 by as soon as we have the engagement by getting in touch  
2 with staff and making sure that we set an understanding  
3 right up front of what requirements were on both sides of  
4 the page, what the deliverables are, what the expected  
5 timeline is. And then, of course, the first task within  
6 this process is looking at public agencies. And so that's  
7 where we would start.

8 We would discuss with staff the understanding of  
9 looking at public agencies. Within the proposal, it talks  
10 about how we should look at the ten largest public  
11 agencies, which makes complete sense. Those would be  
12 non-pooled public agencies. And then we should look at a  
13 random sampling of ten other public agencies. And I don't  
14 think it can be quite random, because it's important that  
15 the sampling -- that we'd be sure that it covers various  
16 CalPERS processes and covers a diverse set of agencies.  
17 So we would discuss with CalPERS staff how maybe the ten  
18 that are not part of those ten largest -- the ten -- the  
19 then others are part of the pooled plan, since the initial  
20 ten are a non-pooled plan.

21 We would want to make sure to cover both of  
22 CalPERS large pools, so we'd probably look at five from  
23 the miscellaneous pool and five from the safety pool. And  
24 then we would want to make sure even within that selection  
25 of five from the miscellaneous and five from the safety

1 that we're going to cover different agencies that have  
2 different member classifications, and different benefit  
3 structures, and, of course, PEPRA and non-PEPRA.

4 So we'd be discussing up front all of this just  
5 to set up the process in this first year of the public  
6 agency valuation. Of course, we would do similar for the  
7 tasks in the outlying years where we'd make sure we're on  
8 the same page, and make sure we covered the most diverse  
9 set of information, and understand deliverables, and lines  
10 of communication to work with CalPERS staff.

11 Geoff or Kim, any thoughts beyond that?

12 MS. NICHOLL: No. I think that covers it. I  
13 think that, you know, we are -- we like to have good  
14 relationships with our clients. We're very open, honest,  
15 professional, and accessible. And so, you know, you're  
16 not -- because it's such a large group of FSAs on the  
17 team, there will always be somebody available to answer an  
18 immediate question. We communicate very well within our  
19 own team and we communicate very well with our clients.

20 COMMITTEE MEMBER YEE: Great. Thank you. Madam  
21 Chair, if I could, just another brief questions for  
22 clarification. In the bucket of statements made about  
23 fresh pair of eyes, is there an industry standard or a  
24 best practice in your experience that is employed with  
25 respect to different funds -- or with funds utilizing

1 different firms? In other words, are -- is it a best  
2 practice or is there a rule of thumb about when we should  
3 be thinking about refreshing, you know, firms?

4 MS. NICHOLL: I don't know about a rule of thumb.  
5 I don't -- or a best practice rather. I think it really  
6 depends upon the relationship that the client has with its  
7 current auditor. You know, having done audit work more  
8 than one time for a client, I always like to get hired --  
9 we always like to get hired again. But then on the other  
10 hand, you know, it's -- from my perspective, from an  
11 actuary's perspective, it's always good to have a new  
12 challenge to be able to dig in and put a fresh set of eyes  
13 on the work that has been done previously.

14 So I think it's really CalPERS' call as to  
15 whether -- you know, whether or not it's time for a fresh  
16 set of eyes. Obviously we would prefer that you decide to  
17 do such a thing. And we would obviously, you know, do our  
18 very best job that we can do.

19 MR. TAUZER: Yeah. And I would add to that.  
20 CalPERS is a bit unique in that it has its own Actuarial  
21 Office that is fully housed internally. For most of the  
22 plans we work with, they hire a consulting actuarial firm  
23 just to do the baseline actuarial calculations and then  
24 they hire a second consulting firm to then go and audit  
25 the work that's being done by the ongoing consulting

1 actuary.

2           And that's not the case with CalPERS, of course.  
3 So with these other systems, typically you see the ongoing  
4 actuary usually staying around for quite a bit of time,  
5 because they have the history, the background. But then  
6 with the auditing firm, that's where you see -- you see  
7 more turnaround. Like Kim said, it's not necessarily a  
8 turnaround every time, but you see more turnaround,  
9 because there's not the need necessarily of an ongoing  
10 relationship. There's more a need to check the work, and  
11 examine what's going on, and dig into the results. And  
12 that's harder to do when you've already been doing it for  
13 a number of years.

14           So we see a lot more turnover on the auditing  
15 side compared to the ongoing consulting side, even though  
16 again there's not some standard out there stipulating how  
17 it should be done.

18           MS. NICHOLL: And I would say that the norm is to  
19 change. It's kind of unusual with all the audits we've  
20 done. We've done a couple more than once, but generally  
21 we do them once and then -- you know, if we do it again,  
22 it might be five or 10 years later.

23           COMMITTEE MEMBER YEE: Thank you.

24           CHAIRPERSON MIDDLETON: We have only a few  
25 seconds left. Are there any other questions from the

1 Committee members?

2           Seeing none.

3           Is there anything that you would like to add in  
4 the last few seconds we have available?

5           MS. NICHOLL: Related to audit -- related to the  
6 audit too, we were hired by a retirement system for the  
7 third time to do the work. And we purposely, when we  
8 submitted our proposal, we used a completely different set  
9 of retirement actuaries and said we're proposing with the  
10 same Segal, but you've got a new group of actuaries who  
11 are going to start from scratch and we were successful in  
12 that -- in winning that work.

13           CHAIRPERSON MIDDLETON: All right.

14           MR. TAUZER: And also just thank you for your  
15 time. We appreciate being here today and being able to  
16 speak with all of you.

17           CHAIRPERSON MIDDLETON: We thank you for your  
18 time. Thank you for the presentation. This does conclude  
19 Segal's interview and we'll ask you to step away from the  
20 Zoom.

21           It actually also concludes all of our interviews  
22 and we will now be moving onto the scoring process.

23           MS. NICHOLL: Thank you.

24           CHAIRPERSON MIDDLETON: Thank you.

25           So we have concluded the interviews. We now move

1 on to scoring. Committee members, please make sure you  
2 have your blank scoring email handy and remember that we  
3 are individually assigning a score from 0 to 5.

4 I've got just a couple of questions that I was  
5 going to ask Mr. Carlin or others from staff may jump in  
6 to provide an answer, but just for clarification. We can  
7 score any of the competitors from 0 to 5 and we can give  
8 more than one competitor the same score, is that correct?

9 SENIOR ATTORNEY CARLIN: That is correct, Ms.  
10 Middleton, yes.

11 CHAIRPERSON MIDDLETON: Okay. And it's my  
12 understanding that the highest and lowest score given to  
13 each competitor will be thrown out?

14 SENIOR ATTORNEY CARLIN: That is correct. So  
15 given that there's five of you from the Committee  
16 participating, the way it would work is the highest and  
17 lowest score would be removed. The remaining three scores  
18 would then be added together, and the average of those  
19 three would be calculated to determine the score for the  
20 interview.

21 CHAIRPERSON MIDDLETON: All right. And we will  
22 hold a public discussion. We will be inviting not only  
23 Committee but other members of the Board to participate in  
24 that discussion. Ultimately, it is the Committee members  
25 alone that will be scoring the -- doing so by email. And

1 it is my understanding that it is up to each individual  
2 member of the Committee as to whether or not they are  
3 public with what they're score is for any individual  
4 competitor, is that correct?

5 SENIOR ATTORNEY CARLIN: Correct. There's no  
6 obligation to say how you intend to vote. You're also not  
7 prohibited from doing so. If you wanted to talk about the  
8 rating you think a firm is entitled to, your -- it's  
9 within your purview to discuss that in open session.

10 CHAIRPERSON MIDDLETON: All right. Thank you.  
11 That exhausts the questions I had. I see Ms.  
12 Brown had a question.

13 COMMITTEE MEMBER BROWN: Yes. Some of the firms  
14 that we interviewed talked about either wanting minor  
15 changes to the contract or maybe a little more changes to  
16 the contract. And it's my understanding that we can take  
17 that into consideration, is that true Mr. Carlin?

18 SENIOR ATTORNEY CARLIN: That's correct. I think  
19 the intention with all the questions was to give you a  
20 well-rounded sense of the firms, what they were bringing  
21 to the table. And you're allowed to consider all the  
22 information you received as part of the interview in  
23 evaluating the score you're going to give them.

24 COMMITTEE MEMBER BROWN: Right. And my concern  
25 was if a company says we aren't going to want any changes,

1 let's say, and we all rank them the highest, so they end  
2 up being number one, and then they come back to  
3 negotiations and they want changes, I would assume that  
4 they're not -- they're not forbidden from asking for  
5 changes, correct, even though they said they wouldn't?

6 SENIOR ATTORNEY CARLIN: I would say that's  
7 correct in an absolute sense. So if they were to come for  
8 a change, we wouldn't say, sorry, you've foregone the  
9 opportunity to do that. There might be some, for example,  
10 that are just technical. They really wouldn't change the  
11 substance.

12 But to be -- to your point, Ms. Brown, we  
13 certainly would use their representation to this Committee  
14 and to the Board as leverage in negotiating any contracts.

15 COMMITTEE MEMBER BROWN: Yeah. In my -- in my  
16 not so recent past, and that's happened to me before,  
17 where consultants when they submitted say we agree to the  
18 terms, and then you get down and you select them, a board  
19 approves them, and then they want changes to the terms.  
20 Yeah, so that's -- I've just had some personal experience  
21 with that. All right. Thank you.

22 CHAIRPERSON MIDDLETON: Thank you.

23 Are there any other questions?

24 Ms. Yee -- Controller Yee, excuse me.

25 COMMITTEE MEMBER YEE: Okay. Thank you.

1           My question had to do with how concerned should  
2 we be about -- and this might be my oversight, but just  
3 about the team that's actually going to be assigned from  
4 each firm to this particular work with CalPERS? There  
5 were some names mentioned that I don't believe I saw  
6 backgrounds on. And so -- and part of why I was concerned  
7 was because I'm kind of looking at diversity of the teams.  
8 And there was one name that was mentioned that I didn't  
9 see any background on. Melanie Walker. Did I miss that?  
10 Yeah, so I'm -- can we -- and I don't -- and I guess I  
11 could look it up on my own, but...

12           SENIOR ATTORNEY CARLIN: I suppose what I would  
13 say, and maybe this will answer your question, Controller  
14 Yee, is that certainly the composition of the team, who  
15 they presented, and what backgrounds were provided as  
16 well, which were -- are available to the Committee  
17 members, those are things you can consider. Just as --  
18 along with the other things that you've heard or seen  
19 here. So the absence is also something that you could  
20 consider.

21           COMMITTEE MEMBER YEE: Yeah. Okay. All right.  
22 Thank you.

23           CHAIRPERSON MIDDLETON: Other process questions  
24 for staff?

25           VICE CHAIRPERSON MILLER: Yes. This is David

1 Miller. I just want to be clear that the 0 to 5 is the  
2 discontinuous or is it continuum? So could we give them a  
3 3.5 or does it have to be whole number increments?

4 SENIOR ATTORNEY CARLIN: That's an excellent  
5 question. I would say, you're not forbidden from going to  
6 decimal, if you'd want to. Although I think we'd  
7 probably -- for the sake of staff, we'd want to hold it to  
8 maybe one or two decimal places at most, just to make the  
9 calculation as easy as possible.

10 VICE CHAIRPERSON MILLER: Thank you.

11 CHAIRPERSON MIDDLETON: All right. I actually do  
12 have one other clarification question. The phrase fresh  
13 set of eyes came up many times during the course of the  
14 conversations today. It's my understanding that we do not  
15 have a policy that would require us to change the parallel  
16 reviewing actuary at any period of time. Are we  
17 individually allowed to consider whether or not we believe  
18 a fresh pair -- set of eyes to be something that would be  
19 advantageous?

20 SENIOR ATTORNEY CARLIN: I think absolutely you  
21 certainly can consider that, and that was definitely part  
22 of the intention between -- behind including that  
23 question, because since there's not a formal policy about  
24 that, that was designed to elicit information that would  
25 allow the Committee to consider that, and you can

1 certainly use that as part of the basis for your score  
2 that you assign to a firm.

3 CHAIRPERSON MIDDLETON: All right. Thank you.

4 If there are no other questions regarding  
5 process, then I believe we should move into our public  
6 discussion of the interviews that we heard. Is there any  
7 member of the Committee that would like to start?

8 Controller Yee.

9 COMMITTEE MEMBER YEE: I'm sorry, Madam Chair. I  
10 just want to be clear about the scoring. So will our  
11 score -- is the expectations that we would just email our  
12 scores back in response to the email? Is that --

13 SENIOR ATTORNEY CARLIN: (Nods head.)

14 COMMITTEE MEMBER YEE: Okay. All right.

15 SENIOR ATTORNEY CARLIN: That's exactly right.

16 Yeah.

17 COMMITTEE MEMBER YEE: Thank you.

18 SENIOR ATTORNEY CARLIN: So you'll send it right  
19 back --

20 COMMITTEE MEMBER YEE: Okay.

21 SENIOR ATTORNEY CARLIN: -- and staff from OSSD  
22 will then take all those and come back to the Committee  
23 with the final numbers.

24 COMMITTEE MEMBER YEE: Okay. Thank you.

25 CHAIRPERSON MIDDLETON: We will, after we submit

1 the scores, take a short break to give staff time to do  
2 their calculations and at then reconvene.

3           Okay. Is there anyone who on the Committee that  
4 would like to begin the discussion of the interviews that  
5 we've heard?

6           VICE CHAIRPERSON MILLER: This is David Miller.  
7 Just two things that I noticed. When it came to the  
8 discussion of reconciliation of differences, it seemed  
9 like Milliman and Segal, in particular, gave very specific  
10 answers that were really kind of like what I would have  
11 been looking for and the others didn't quite, in varying  
12 degrees, answer that as clearly and specifically in terms  
13 of looking at sample lives, test lives, and everything.  
14 So that was one thing that did strike me about the  
15 responses there. A lot of the other responses were -- in  
16 terms of the size and scope of their experience and the  
17 partner's experience and everything, most of them were  
18 very strong on most of the other questions. So that  
19 was -- that was the one thing that stood out to me.

20           CHAIRPERSON MIDDLETON: Very good. Other  
21 committee members?

22           Controller Yee?

23           COMMITTEE MEMBER YEE: Thank you, Madam Chair. I  
24 agree, Mr. Miller, that was one of the distinctions I  
25 certainly noted as well. Although, I think maybe the way

1 the question was phrased, I'm not so sure that it  
2 necessarily suggested that they go granular about the  
3 approach, so -- but another area that struck me, and I'm  
4 trying to weigh just how to consider this, and that has to  
5 do with the systems employed by each of the firms.

6 And to the extent that firms have proprietary  
7 systems, and -- I'm not kite sure how to evaluate that  
8 with respect to certainly the ability to accommodate some  
9 of the changes that Mr. Miller, I think, you encompassed  
10 in your question. So that was another difference that I  
11 spotted among the firms and something I'm going to give  
12 some thought to as well.

13 CHAIRPERSON MIDDLETON: Mr. Ruffino, Ms. Brown,  
14 do either of you want to comment?

15 COMMITTEE MEMBER BROWN: (Shaked head.)

16 ACTING COMMITTEE MEMBER RUFFINO: (Shakes head.)

17 CHAIRPERSON MIDDLETON: Then let me open it up to  
18 any member of the Board that is on the call that would  
19 like to comment.

20 All right. Ms. Brown.

21 COMMITTEE MEMBER BROWN: Sorry. I did want to  
22 make a comment about the fresh set of eyes. I like  
23 that -- I personally favor that idea of having someone new  
24 come in and take a look at that. Although Buck Global  
25 gave a fabulous interview and they scored very highly,

1 it's my preference that we bring a new set of eyes in to  
2 look at this.

3           And I think GRS even sort of said something is  
4 coming from our auditors or they're going to be changing  
5 the valuation methodology. They sort of hinted at that  
6 and then they pulled back and said, wait, we should  
7 probably let them tell you this. So it makes me a little  
8 concerned and curious.

9           But I know in school district business  
10 management, you know, a lot of times we just switch  
11 partners. We keep the same firm over and over again,  
12 and -- but we switch partners. And then I've seen it  
13 where when we bring in a new firm, there are new  
14 discoveries that we find. And so I think, in my opinion,  
15 it's good to have a new set of eyes.

16           Thank you.

17           CHAIRPERSON MIDDLETON: Let me add that I thought  
18 all five interviews were strong firms. And I found myself  
19 favorably impressed by each interview, sometimes a little  
20 bit differently in terms of the qualifications that they  
21 were bringing, but the -- each interview was very strong.

22           I -- and I -- I'm struggling as to who I thought  
23 was the strongest of the interviews, but I would concur  
24 with Ms. Brown that I think after five years, that there  
25 is a benefit to be had by bringing a different firm in. I

1 know that is not a requirement that we have. And given  
2 the quality of the interview that Buck provided us, I am  
3 certainly pleased that we had an opportunity to hear from  
4 them.

5 But when I look at some of the strengths that  
6 some of the other firms brought in, I was particularly  
7 impressed with the California connections of Segal and  
8 Cheiron, as they've both done work with CalSTRS, with the  
9 UC system, in Cheiron's case with a number of counties.  
10 We also saw that with Segal in terms of their  
11 relationships with cities and counties across the state of  
12 California, and there are advantages to that.

13 GRS certainly comes across with an incredibly  
14 strong presence from the two leaders that were primarily  
15 responsible for their presentations. It's not surprising  
16 that either one of them have national reputations.

17 Is there any one else that would like to offer a  
18 comment?

19 So hearing none, what we now have an obligation  
20 to do as Committee members is to email to OSSD our scores.  
21 Again, you can score any of the competitors with the same  
22 score or with a different score. The score needs to be  
23 from 0 to 5. And Mr. Carlin has indicated that if you  
24 want to add a decimal point to that score between 0 and 5,  
25 you may do so.

1           It will take staff approximately 20 minutes to  
2 cleat scoring, so I ask you to very promptly provide to  
3 OSSD your scores. So why don't we give the Committee  
4 members until 1:05 to submit your scores, and we will  
5 reconvene at 1:25 to hear the compilation of the scores  
6 and to announce a winner.

7           With that, thank you.

8           (Off record: 1:02 p.m.)

9           (Thereupon a recess was taken.)

10          (On record: 1:26 p.m.)

11          CHAIRPERSON MIDDLETON: We now reconvene. The  
12 staff has completed calculating the scores. At this time,  
13 I would like Fritzie Archuleta, our Deputy Chief Actuary,  
14 to please announce the final score for each finalist.

15          DEPUTY CHIEF ACTUARY ARCHULETA: Thank you, Madam  
16 Chair. I will now read the interview scores for each  
17 finalist in alphabetical order.

18          Buck Global received 350 points for their  
19 interview score. Cheiron, Inc. received 293 point for  
20 their interview score. Gabriel, Roeder, Smith and Company  
21 received 433 points for their interview score. Milliman,  
22 Inc. received 350 points for their interview score. And  
23 the Segal Company received 380 points for their interview  
24 score.

25          Combined with their preliminary total score, Buck

1 Global received a total score of 840 points, Cheiron, Inc.  
2 received a total score of 714 points. Gabriel, Roeder,  
3 Smith and Company received a total score of 810 points,  
4 Milliman, Inc. received a total score of 754 points, and  
5 the Segal Company received a total score of 727 points.

6 Madam Chair, the finalist with the highest total  
7 score is Buck Global.

8 CHAIRPERSON MIDDLETON: Okay. Thank you. I will  
9 now entertain a motion for a recommendation to the full  
10 Board.

11 VICE CHAIRPERSON MILLER: So moved.

12 CHAIRPERSON MIDDLETON: Is there a second?

13 COMMITTEE MEMBER YEE: I will second that motion,  
14 Madam Chair.

15 CHAIRPERSON MIDDLETON: Okay.

16 Is there discussion?

17 Ms. Brown.

18 COMMITTEE MEMBER BROWN: So that's the same firm  
19 we've been using. And so do we have to select them, since  
20 they were the highest rated. Maybe that's a -- maybe  
21 that's question for our law firm and we could look at  
22 number two.

23 SENIOR ATTORNEY CARLIN: This is -- this is  
24 Robert Carlin from the Legal Office. So I did hear the  
25 commentary from Committee members about interest in a

1 fresh set of eyes. And you're correct, Ms. Brown, this is  
2 the firm that has previously been doing the work for us.  
3 The RFP requires that we award the contract to the highest  
4 scoring firm. We're not obligated to award a contract,  
5 but my recommendation at this juncture would be that the  
6 Committee recommend the highest score to the full Board.  
7 And then that could be a decision that the full Board  
8 would make, but the RFP does require us to go by who  
9 scored the highest overall.

10 COMMITTEE MEMBER BROWN: Would you give that same  
11 talk to the full Board that they recommend that the full  
12 Board -- is that -- or does the full Board have a choice.

13 SENIOR ATTORNEY CARLIN: So the full Board is  
14 also bound by the terms of the RFP, but let me hasten to  
15 add, I will not be addressing the full Board of this when  
16 it comes back in June at the regular meeting. That will  
17 be my boss, Mr. Jacobs. So I don't want to presume to  
18 speak on his behalf, but that's my two cents right here as  
19 I'm sitting here with all of you.

20 COMMITTEE MEMBER BROWN: Well, I would certainly  
21 hope that legal advice is legal advice, regardless of who  
22 you get it from. It should be the same.

23 SENIOR ATTORNEY CARLIN: Absolutely. I don't  
24 think it would change, but --

25 COMMITTEE MEMBER BROWN: Thank you. I want to

1 make sure that we're all clear on that.

2 All right. Thank you.

3 CHAIRPERSON MIDDLETON: Controller Yee.

4 COMMITTEE MEMBER YEE: Thank you, Madam Chair. I  
5 share Ms. Brown's perspective on this as well. And I did  
6 also understand, per Mr. Carlin's statement that we're  
7 bound by the RFP requirements. But I would ask that when  
8 this does become -- come before the full Board that we  
9 actually have Mr. Jacobs bring us some options, should the  
10 Board want to entertain looking at a different firm --  
11 other than the highest scoring firm. I do share the  
12 concern about the firm having been doing this work for  
13 CalPERS for a while. I think we are at a juncture where  
14 there are going to be some new considerations that should  
15 be factored in about the -- I guess, the wisdom of looking  
16 at potentially a new firm coming in. So I would just ask  
17 that we have all of our options before us, when we talk  
18 about this in June before the full Board.

19 CHAIRPERSON MIDDLETON: All right. Are there any  
20 other comments from any members of the Committee? I will  
21 echo the comments of Controller Yee and Ms. Brown that I  
22 would like to see the full Board have options. I do  
23 believe all of the candidates that we reviewed today were  
24 qualified to do this. And we have a process that was put  
25 forward that everyone competed equally on.

1           There is a issue that I think the Board may want  
2 to consider in the future as to whether or not we have a  
3 rule regarding the length of time that an individual firm  
4 could compete for a contract such as this.

5           So are there any further comments from members of  
6 the Committee?

7           And are there any members of the Board who are  
8 present that would like to speak?

9           Seeing none.

10          If we could have a roll call vote, please.

11          SENIOR ATTORNEY CARLIN: And, Madam Chair, I just  
12 want to jump in quickly and just -- with the suggested  
13 motion, just the language for -- both for the public and  
14 the Committee members. You're free to alter this, but  
15 this was just the suggested language.

16          The motion would be that the Committee recommend  
17 to the Board that the Board award the contract to the  
18 highest scoring firm, which here would be Buck, as the  
19 highest ranking finalist subject to final negotiations and  
20 satisfaction of all requirements, and direct staff -- this  
21 would obviously be after the Board's approval, but direct  
22 staff to begin contract negotiations for the contract with  
23 the finalist. If staff, in its discretion, concludes that  
24 negotiations are unsuccessful, staff would begin contract  
25 negotiations with the next highest scoring finalist.

1           So I just put that for the -- for your  
2 consideration.

3           CHAIRPERSON MIDDLETON: Is that acceptable to the  
4 maker and to the second?

5           VICE CHAIRPERSON MILLER: Yes, ma'am.

6           COMMITTEE MEMBER YEE: I'm fine with that as it  
7 relates to the firm, yes.

8           CHAIRPERSON MIDDLETON: Okay. Roll call vote,  
9 please.

10          COMMITTEE SECRETARY HOPPER: Margaret Brown?

11          COMMITTEE MEMBER BROWN: No.

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

14          ACTING COMMITTEE MEMBER RUFFINO: Aye.

15          COMMITTEE SECRETARY HOPPER: David Miller?

16          VICE CHAIRPERSON MILLER: Aye.

17          COMMITTEE SECRETARY HOPPER: Shawnda Westly  
18 excused.

19          Betty Yee?

20          COMMITTEE MEMBER YEE: Aye.

21          COMMITTEE SECRETARY HOPPER: Madam Chair, we have  
22 three ayes, one no made by Margaret Brown. The motion  
23 being made by David Miller, seconded by Betty Yee.

24          CHAIRPERSON MIDDLETON: All right. Thank you.  
25 The motion is approved.

1 I will remind all members of the Committee and  
2 the finalists of the restricted contract[SIC] policy under  
3 Government Code section 20153. We will bring forward to  
4 the full Board a recommendation, as stated by Mr. Carlin,  
5 and I won't repeat it again.

6 With that, the business of the Committee for  
7 today is concluded and we will stand adjourned.

8 (Thereupon the California Public Employees'  
9 Retirement System, Board of Administration,  
10 Risk & Audit Committee open session  
11 meeting adjourned at 1:34 p.m.)

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