

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

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FECKNER AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

WEDNESDAY, JUNE 21, 2023

9:01 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chairperson

David Miller, Vice Chairperson

Fiona Ma, represented by Frank Ruffino

Jose Luis Pacheco

Ramón Rubalcava

Theresa Taylor

Yvonne Walker

BOARD MEMBERS:

Malia Cohen, represented by Lynn Paquin

Kevin Palkki

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Matthew Jacobs, General Counsel

Michele Nix, Acting Chief Financial Officer

Emily Zhong, Supervising Health Actuary

ALSO PRESENT:

J.J. Jelincic

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PROCEEDINGS

1
2 CHAIRPERSON MIDDLETON: Good morning. I'd like
3 to call to order the Finance and Administration Committee
4 meeting for June 21st, 2023. The first order of business
5 is to call roll.

6 BOARD CLERK TRAN: Lisa Middleton?

7 CHAIRPERSON MIDDLETON: Present.

8 BOARD CLERK TRAN: David Miller?

9 VICE CHAIRPERSON MILLER: Here.

10 BOARD CLERK TRAN: Frank Ruffino for Fiona Ma?

11 ACTING COMMITTEE MEMBER RUFFINO: Present.

12 BOARD CLERK TRAN: Jose Luis Pacheco?

13 COMMITTEE MEMBER PACHECO: Present.

14 BOARD CLERK TRAN: Ramón Rubalcava?

15 COMMITTEE MEMBER RUBALCAVA: Present.

16 BOARD CLERK TRAN: Theresa Taylor?

17 COMMITTEE MEMBER RUBALCAVA: She's here.

18 BOARD CLERK TRAN: Yvonne walker?

19 COMMITTEE MEMBER WALKER: Here.

20 CHAIRPERSON MIDDLETON: Thank you.

21 Next order of business is the executive report.

22 Michele Nix

23 ACTING CHIEF FINANCIAL OFFICER NIX: Good
24 morning, Madam Chair and members of the Committee Michele
25 Nix, CalPERS team member.

1 The Finance and Administration Committee doesn't
2 normally meet in June, but we felt that it was important
3 to present a semi-annual health plan financial report to
4 you to help inform you on the status of the fund before
5 the preliminary rate discussions happen in the PHBC.

6 The Next Finance and Administration Committee is
7 scheduled for September 2023 in Sacramento.

8 Thank you, Madam Care. That concludes my report.
9 I'd, be pleased to take questions.

10 CHAIRPERSON MIDDLETON: All right. Are there any
11 questions for Ms. Nix?

12 Seeing none, we'll move on to Item 3, which is
13 action consent items. Approval of the June 21 Finance and
14 Administration Committee timed agenda, and approval of the
15 April 17, 2023 Admini -- Finance and Administration
16 meeting minutes.

17 COMMITTEE MEMBER PACHECO: Move approval.

18 CHAIRPERSON MIDDLETON: Move approval from Mr.
19 Pacheco.

20 COMMITTEE MEMBER TAYLOR: Second.

21 CHAIRPERSON MIDDLETON: Second by Ms. Taylor.

22 All in favor, please say aye?

23 (Ayes.)

24 CHAIRPERSON MIDDLETON: Any opposed?

25 Any abstentions?

1 not in the scope of this report.

2 As a reminder, the Health Care Fund Reserve
3 Policy was adopted in 2018 and provides a framework for
4 maintaining the appropriate actuarial reserve level for
5 the PPO and for managing the surpluses or deficits that
6 accumulate in the PPO and HMO subaccount. And last
7 November, I shared with the Committee the deficits the
8 basic PPO subaccount as of the end of June 2022. In the
9 next couple slides, I will give you an update on the basic
10 PPO performance for the second half of 2022.

11 Next slide, please.

12 --o0o--

13 SUPERVISING HEALTH ACTUARY ZHONG: This slide
14 present the recent Health Care Fund performance for HMO
15 Basic and PPO Medicare and Basic plans. Starting with the
16 HMO Basic plan, the estimated fund balance at the end of
17 2022 was 144 million. The next column shows the HMO basic
18 estimated claim liability of 155 million, with the last
19 column show a deficit of 11 million.

20 On the PPO side starting with PPO Medicare, the
21 estimated fund balance at the end of 2022 was 128 million
22 with an estimated liability and required actuarial reserve
23 level of 127 million for a surplus of one million. For
24 the PPO Basic plan, the estimated fund balance as of -- as
25 of the end of 2022 was 93 million, after including

1 estimated claim liability and required actuarial reserve
2 of 530 million. The PPO Basic plan has a deficit of 437
3 million. The overall Basic PPO status worsened by about
4 104 million from the end of June 2022.

5 Next slide, please,

6 --o0o--

7 SUPERVISING HEALTH ACTUARY ZHONG: The decrease
8 in the Basic PPO fund balance in the second half of 2022
9 was primarily driven by the higher-than-expected medical
10 and pharmacy costs, as well as the 2022 premium buydown
11 and investment cost. There was about 67 million lost on
12 medical costs in the second half of 2022, primarily for
13 two reasons. First, as COVID-19 related costs begun to
14 stabilize, the high medical trend was primarily driven by
15 the increasing costs in labor for medical service and
16 members seeking care after delaying and deferring it for
17 the past two years.

18 Second, the as Basic PPO premium increased, PPO
19 plan become less attractive for healthy new members and
20 more healthy members move from PPO to HMO for seeking more
21 affordable health care alternative. This unanticipated
22 member migration further increased costs for Basic PPO
23 member compared to the prior year. The overall Basic PPO
24 Medicare cost in 2022 increased about 10 percent from
25 2021. The increased cost was most reflected in the second

1 half of the year due to the seasonality of medical
2 expense. For the PPO Basic plans, the medical claim
3 pattern typically run on a schedule that is opposite to
4 PPO Medicare plans. Medical claims are lower in the
5 beginning of the year as members satisfy their annual
6 deductible and increase in the second half of the year.

7 For pharmacy, while we have the best-in-market
8 pricing under our Optum contract --

9 CHAIRPERSON MIDDLETON: Excuse me, Emily, could
10 you speak a little closer into the microphone, please.

11 SUPERVISING HEALTH ACTUARY ZHONG: All right.
12 Sorry. So for pharmacy, while we have the best-in-market
13 pricing under our current Optum contract, the high
14 utilization and more use of the high cost specialty drugs
15 contribute to about nine million loss for the second half
16 of 22022.

17 Now, regarding investment. Two factor contribute
18 about 11 million toward the deficits. First, interest
19 earning from the Health Care Fund will project it into
20 premium from the rate development. And in 2022, the
21 projected interest return did not materialize. And on top
22 of that, the Health Care Fund is invested primarily in
23 bonds and ended a negative performance in 2022 as well.
24 The overall Basic PPO status worsened by an additional 104
25 million. Combining with the beginning 333 million

1 deficits from June 2022, the total deficits for the Basic
2 PPO was 437 million at the end of December 2022.

3 Next slide, please.

4 --o0o--

5 SUPERVISING HEALTH ACTUARY ZHONG: Here we can
6 see the Basic PPO deficits component, including medical,
7 pharmacy, premium buydown, investment, and changing
8 require reserves. The first bar shows the components of
9 the deficits as of the end of 2021 with the deficits of
10 292 million. The middle bar shows the component that
11 contribute to the deficits over the course of 2022 for an
12 overall increase to the deficits of 145 million.

13 Although the deficits continue to grow in -- over
14 2022, it has slowed down substantially compared to 2021.
15 The far right bar shows the combined deficits component
16 between the carryover from 2021 and the change in 2022 for
17 a total PPO Basic deficits of 437 million at the end of
18 2022.

19 As the deficits continue to grow in 2022 and
20 amount in 2023, we must make sure there is sufficient
21 funds in the Health Care Fund to pay for the incoming
22 medical and pharmacy claims, as well as replenishing the
23 required reserve. The need for sustainability in the
24 Basic PPO program become more crucial than ever before.

25 Next slide, please.

1 --o0o--

2 SUPERVISING HEALTH ACTUARY ZHONG: We will be
3 discussing PPO program more in Pension and Health Benefits
4 Committee later today. In the meeting, the CalPERS team
5 will present options to address the long-term PPO
6 sustainability as a part of the 2024 rate development
7 process.

8 Lastly, later this year, we will be conducting
9 the solicitation for a new five-year PPO contract from
10 2025 to 2029. We will be assessing broader changes to the
11 PPO, including potential intervention, to curb short-term
12 and long-term costs.

13 That conclude my presentation. Mr. Mould and I
14 are available for any question.

15 CHAIRPERSON MIDDLETON: All right. Thank you.
16 Are there questions?

17 All right. There being no questions, we move on
18 to 5b, which is summary of Committee direction, which I
19 don't think is going to take terribly long.

20 ACTING CHIEF FINANCIAL OFFICER NIX: No, I've got
21 no Committee direction from this meeting.

22 Thank you.

23 CHAIRPERSON MIDDLETON: All right. Thank you.

24 Next, we'll move on to Item 5c, which is public
25 comment. I have one public comment that's been requested

1 in person. Mr. Jelincic.

2 Good morning.

3 MR. JELINCIC: Good morning. J.J. Jelincic
4 speaking for myself.

5 Yesterday, at the Investment Committee, Mr.
6 Jacobs said that I said that bifurcating the policy on
7 insider trading between those who have inside information
8 and those who don't was illegal. I said no such thing.
9 The first time the policy went to a meet and confer, the
10 union actually proposed a bifurcation. That wasn't what
11 management wanted and CalPERS Legal Office said it was
12 illegal. Now, they want the bifurcation, and CalPERS
13 Legal Office says it is legal. I think the CalPERS Legal
14 Office is right this time and was wrong the first time.

15 He also stated that I misrepresented the insider
16 trading case that I wrote. Well, my response is well
17 prove it. I would strongly encourage him to make
18 available to everybody, but the Board in particular, the
19 adverse action, the settlement, the two SEC notices, all
20 of which are public documents. And if I misrepresented
21 that I was punished for my discussion of that illegal
22 action, then I will again make the request that the Bill
23 Slaton charges, written by Matt Jacobs, held in private
24 secret court by Feckner, be made public. I had requested
25 a public hearing. I was denied a public hearing. I,

1 again, say make the issue -- the charges public.

2 I would also like to offer a little help to staff
3 as they work on the policy. If someone in the public
4 markets unit has insider information -- you know, we're
5 talking to a firm about its environmental issues and they
6 happen to mention they're getting rid of a coal plant and
7 going to replace it with hydro, that's material
8 information, and the people would not be allowed to trade
9 on it. But you get in the ironic situation where somebody
10 could engage -- do the insider trading, be violating the
11 law, but be consistent with the policy. I think that's a
12 little thing that ought to be fixed in the policy.

13 I thank you.

14 CHAIRPERSON MIDDLETON: Thank you, Mr. Jelincic.
15 Are there any other public comments?

16 Is there anyone online?

17 BOARD CLERK ANDERSON: (Shakes head).

18 CHAIRPERSON MIDDLETON: All right, thank you.

19 With that, we will adjourn the Finance and
20 Administration Committee meeting. The next scheduled
21 meeting is the Pension and Health Committee. And what
22 time will that be beginning?

23 COMMITTEE MEMBER RUBALCAVA: Five minutes.

24 CHAIRPERSON MIDDLETON: Five minutes. All right.
25 So we will stand adjourned and reconvene at 9:20 with the

1 Pension and Health Committee meeting.

2 Thank you.

3 (Thereupon the California Public Employees'
4 Retirement System, Board of Administration,
5 Finance & Administration Committee meeting
6 adjourned at 9:15 a.m.)

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CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of June, 2023.

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