MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

WEDNESDAY, SEPTEMBER 20, 2017

9:00 A.M.

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

A P P E A R A N C E S

BOARD MEMBERS:

Mr. Rob Feckner, President

Mr. Henry Jones, Vice President

Mr. Michael Bilbrey

Mr. John Chiang, represented by Ms. Jeree Glasser-Hedrick, Mr. Matthew Saha

Mr. Richard Costigan

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. J.J. Jelincic

Mr. Ron Lind

Ms. Priya Mathur

Mr. Bill Slaton

Ms. Theresa Taylor

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Ms. Liana Bailey-Crimmins, Chief Health Director

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Douglas Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Donna Lum, Deputy Executive Officer

Mr. Brad Pacheco, Deputy Executive Officer

APPEARANCES CONTINUED

STAFF:

Mr. Scott Terando, Chief Actuary

Ms. Marlene Timberlake D'Adamo, Interim Chief Financial Officer

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Kara Buchanan, Board Secretary

Ms. Gretchen Zeagler, Assistant Chief, Legislative Affairs Division

ALSO PRESENT:

Mr. Dan Crowley, K&L Gates

Ms. Kerry Eden, City of Corona

Mr. Matthew Fortine, Corona Firefighters

Mr. Dane Hutchings, League of California Cities

Mr. Chris Jennings, Jennings Policy Strategies

Mr. Neal Johnson, Service Employees International Union Local 1000

Mr. Russ Leonard, Corona General Employees Association

Mr. Jason Perez, Corona Police Officers Association

Mr. Tony Roda, Williams & Jensen

Mr. Chirag Shah, Shah & Associates
(via teleconference)

Mr. Bryan Snow, Corona Police Officers Association

Ms. Karen Spiegel, City of Corona

I N D E X

INDEX CONTINUED

P R O C E E D I N G S

PRESIDENT FECKNER: Good morning, everyone. We'd like to call the Board of Administration meeting to order. The first order of business will be to call the roll, please.

BOARD SECRETARY BUCHANAN: Good morning.

PRESIDENT FECKNER: Good morning.

BOARD SECRETARY BUCHANAN: Rob Feckner?

PRESIDENT FECKNER: Good morning.

BOARD SECRETARY BUCHANAN: Henry Jones?

VICE PRESIDENT JONES: Here.

BOARD SECRETARY BUCHANAN: Michael Bilbrey?

BOARD MEMBER BILBREY: Good morning.

BOARD SECRETARY BUCHANAN: Jeree Glass-Hedrick for John Chiang?

ACTING BOARD MEMBER GLASSER-HEDRICK: Good morning.

BOARD SECRETARY BUCHANAN: Richard Costigan?

BOARD MEMBER COSTIGAN: Here.

BOARD SECRETARY BUCHANAN: Richard Gillihan?

BOARD MEMBER GILLIHAN: Here.

BOARD SECRETARY BUCHANAN: Dana Hollinger?

BOARD MEMBER HOLLINGER: Here.

BOARD SECRETARY BUCHANAN: J.J. Jelincic?

BOARD MEMBER JELINCIC: Here.

BOARD SECRETARY BUCHANAN: Ron Lind?

BOARD MEMBER LIND: Here.

BOARD SECRETARY BUCHANAN: Priya Mathur?

BOARD MEMBER MATHUR: Here.

BOARD SECRETARY BUCHANAN: Bill Slaton?

BOARD MEMBER SLATON: Here.

BOARD SECRETARY BUCHANAN: Theresa Taylor?

BOARD MEMBER TAYLOR: Here.

BOARD SECRETARY BUCHANAN: Lynn Paquin for Betty Yee?

ACTING BOARD MEMBER PAQUIN: Here.

PRESIDENT FECKNER: Thank you.

Item 2 is Pledge of Allegiance. If we all could please rise for the pledge of the flag, please.

Hand over heart.

(Thereupon the Pledge of Allegiance was recited in unison.)

PRESIDENT FECKNER: Item 3 is the Board President's Report. Good morning, everybody. Welcome.

I want to begin by offering an important reminder to all of our members here in the auditorium and also those watching on our webcast today. We're currently in the middle of an election for two seats on this Board. And as you know, this Board makes important decisions that impact your retirement and health benefits. I strongly encourage each of you to take this opportunity to exercise your voice and vote for the candidate that you believe will represent you and your family the best.

If you want to learn more about the candidates, you can find information on our website, including the video of a candidate forum that we held here in this auditorium on September 7th. I know our CEO will be giving us an update on the voter turnout a little later.

I voted on-line. It was easy, took less than a minute. I hope you can afford to take a minute of your time and vote. If you're a CalPERS employer, please encourage your employees to vote. We have plenty of tools available for you to promote the election. Remember, the deadline to vote is October 2nd.

As Board members, we take our role and our fiduciary responsibility very seriously. We dedicate ourselves to continually learning about the financial markets, risk management, health care trends, and environment sustainability. This helps us to make well-informed decisions based and supported by our mission, values, beliefs, and policies.

Over the past six months, Board members have attended 29 different events and spoke at 20 different conferences. In the past two weeks alone, we presented on the role of our board and the governance structure we have in place to make decisions, our efforts to advocate for good corporate governance behavior, our successful Emerging and Transition Manager Program, and shared responsibility of public employee pensions.

We also value opportunities to spend time with our employer and member stakeholder groups, to listen to their concerns and hear firsthand the challenges that they face, and we can explain to them the challenges that CalPERS faces.

It's important for our stakeholders to know we are committed to the long-term sustainability of this system, so that we continue to pay the benefits that our members have been promised and so richly deserve. To give you an idea of how we've been engaging with our stakeholders, over the past six months, various Board members have attended 16 retiree council meetings, 13 active member meetings, and two CalPERS Benefit Education Events. I also personally have visited two of our regional offices in the last six months, in Orange as well as San Bernardino, to see firsthand the important work our team members do on the front lines every day.

After our Board meeting last month, some of our Board and team leaders paid a visit to our contact center in West Sacramento to scoop and serve ice cream as part of our annual ice cream social.

It gives us the great opportunity to celebrate the hard-earned accomplishments of all those team members, and thank them for all they do to serve our members and employers every day.

Also, last month, we had our first group outing at CalPERS night at the Major League Soccer, Republic FC, here in Sacramento. Great night. Had never experienced that before. CalPERS night was on Wednesday, August 23rd. It what a great night as our CalPERS chorus sang the National Anthem, and nearly 70 team members showed their CalPERS pride as they cheered on the Republic.

Unfortunately, the game ended in a tie. I'm sorry. I don't get games that end in a tie.

(Laughter.)

PRESIDENT FECKNER: But it's still a lot of fun, and we can certainly hope to make this an annual event.

Our October Board meeting. As a final reminder, we will not be holding October Board meetings this year. Our next scheduled meetings will be November 13th to the 15th and we hope to see you here.

That brings us to Agenda Item 4, Execute Reports, Chief Executive Officer Report. Ms. Frost, please.

CHIEF EXECUTIVE OFFICER FROST: All right. Good morning, Mr. President and members of the Board. I have a number of updates for you this morning about some of our important outreach activities that Ms. Lum reported on in the Pension and Health Committee, as well as some key initiatives that you've been discussing around our asset liability management process. And then finally, we'll take a look at some of the calendar of activities that are before you.

But first, I'd like to take an opportunity to let you know that Charles Asubonten has been selected as our new Chief Financial Officer. Charles comes to us with more than 20 years of experience in many facets of both finance and investments. He's worked in the energy, infrastructure, technology, and health care sectors just to name a few. He's also worked globally throughout America, Africa, Europe, Australia, and Asia, and has had -- has a great skill set, I think, to help us tackle the long-term sustainability of the fund for decades to come.

Most recently, Charles has been the managing director in a private equity firm in Maryland. And I'm confident that his experience, as well as his strong leadership capabilities will be a great asset as we continue to move CalPERS forward and identify new and innovative strategies that will strengthen our financial position.

Charles will officially join CalPERS on October

2nd, but he's here today right behind me. So please join me in congratulating Charles and welcoming him to the CalPERS team.

(Applause.)

CHIEF EXECUTIVE OFFICER FROST: I'd also like to take an opportunity to thank Marlene Timberlake-D'Adamo for her stepping in to take on the Chief Financial Officer position for the last 10 months -- almost 10 months. She's done a wonderful job in leading the team and managing the work in the Finance Office. And I think her -- hearing from her at the Finance and Administration Committee on the work that's been done on the employer termination processes and the strengthening of those steps, and the additional member communication that has been happening is certainly a product of her work.

So I want to take again a moment to thank her and that we are grateful for her service and her leadership. So if we could give her also a hand of applause.

(Applause.)

CHIEF EXECUTIVE OFFICER FROST: And before I move on into the other updates, Ms. Lum did report out on some work that we had been doing with our members who were impacted due to the extreme events happening in Florida, Georgia, the Houston areas regarding the hurricanes and the floods that were happening again in those areas.

At the end of August, as you know, Houston was hit by a hurricane. And we were very concerned that our retirees who lived in that area would not be able to access their pension check. We had found out that several postal codes were basically inactive, that the postal service was unable to deliver checks. What was very important and what was on the minds of the team was that we needed to get money in the hands of our retirees.

So the team proactively began reaching out to those members who lived in those particular areas, and was able to contact a number of people. The first individual that they spoke with was very grateful, was very surprised that CalPERS was reaching out so directly, and quickly converted her paper check over to direct deposit.

Less than two weeks later when Florida was then hit by Hurricane Irma, I think the team responded quite well again, taking on some of the lessons that they had learned from the events in the Houston area, and they called 166 members, first asking if they had received their warrants, and then asking them if we could assist in think way in setting up their direct deposit.

Of those that we did reach in Florida and Georgia, 12 agreed to switch to direct deposit beginning with the October 1 payroll, and the remaining will go in the November payroll.

I'd like to recognize our teams from three areas, the Customer Service team, the Information Technology team, and the Financial Office for their outstanding efforts to make this happen. They're here in the auditorium today, and I'd like to ask them to stand and be recognized.

(Applause.)

CHIEF EXECUTIVE OFFICER FROST: So I think -- you know what -- the point I think with this is it's really a commitment that this team shows every day in putting the member and the customer first, and going out of their way, outside of the normal processes to make sure that that member's need is being addressed.

I'd like to move on now to another event, an outreach event that happened this week on Monday. We had a group of individuals who had convened a meeting at Stanford University, and we had Board Member Richard Costigan, we had our Chief Actuary Scott Terando, we had a couple of other team members attend that event. And it was a workshop entitled understanding the public employee pension debate.

And both Richard and Scott appeared on different panels to talk about the discount rate, to talk about board governance, and the issues around pension reform. And the reason I mentioning this particular event out of the many that we attend and the many that the President referenced in his report is that I think it highlights our efforts to deal directly with those who are critical of the work we do, and critical of defined benefit plans in general.

This is not a forum that was particularly overly friendly to CalPERS or defined benefits plans, but I think both Richard and Scott did an amazing job in sharing the facts, sharing the data, sharing our views on these various topics, and I'd like to thank them for their participation in that event.

We have a powerful message to tell on behalf of California pensioners and public employees, and we won't shy away from expressing those views. And so again, I want to thank the two of them for their willingness to engage and thoughtful debate, and speak on behalf of CalPERS. And I'd actually like to thank the organizers of the event for reaching out to us directly and inviting us to participate.

Moving on now to one of the action items on today's agenda involving two agencies who have voluntarily terminated and are seeking to terminate their CalPERS contracts through the Board process. Those agencies are the Niland Sanitary District and the Trinity County Waterworks District. Both organizations really made their decision to terminate, not because of CalPERS pensions, but because of a business need that they were trying to address.

When this happens, Board policy requires that agencies need to be fully funded before the members can go into the Terminated Agency Pool. And if that -- if the full unfunded liability or the termination liabilities are not paid at the time of the termination, then the members do see a reduction in their benefits.

In both cases, unfortunately, it does mean that there will be a reduction in the member's benefits. However, the team continues to work with both Niland and Trinity to determine how much additional funds can come into the organization to help offset the reduction to those benefits. I think both employers have indicated they are unable to make the full payment toward the termination -- the liabilities, but they are willing to make some additional payments before the termination is completed.

And I think, as indicated in the quarterly employer health report, and again that some work that Marline spent much of her time on in the last months, what you see in that report is the majority of the contracted employers are making their payments on time and both Niland and Trinity are more unique in their situation.

So one of the ways that we continue to work with our employer partners is through the annual Education Forum. And this month -- or this year's forum will take place between October 23rd and October 25th in Rancho Mirage, which many -- I know you -- many of you will be attending as well.

The theme of this year's forum is titled *Shared Purpose*. We helped develop this in concert with our employers to help understand the shared responsibility that pensions really mean, that CalPERS has its role, but the employers have a role and the employees also have a role, and we work together toward retirement security.

There are more than 40 educational sessions that have been developed combined with one-on-one consultations. I know our actuary's booth was very popular last year in working with the employers to understand their valuation reports. We also have exhibitors who will be in the exhibition room. And they will be able to provide the attendees with meaningful information to help them make decisions about their benefits.

Currently, we have over 750 attendees registered, and I look forward to interacting with many of the employer partners, as do you, I'm sure, alongside those of you who will be attending.

Excuse me.

So at our November meeting, we will engage in the final steps in our asset liability management process. The Board will be holding a workshop in November, in which the Investment Office will be discussing the various risk scenarios related to candidate portfolios. And our Actuarial Office will also be discussing the results of the most recent experience study, which plays a role in determining both the asset allocation mix, as well as ultimately the discount rate.

You'll also be getting a first reading of the amortization policy that you heard about this week in the Finance and Administration Committee. And in December, the Board will have the opportunity to make the final decisions about the asset allocation and the amortization policy.

On to open enrollment. As you know, this is an important time of year, since our annual open enrollment period has begun. Between now and October 6th, members will have a chance to review their health care options and make any changes that they'd like for 2018.

By now, members have received their personalized health benefit statements along with other open enrollment materials. They can get those on-line through my|CalPERS. The statement provides information about which health plan a member is currently enrolled in, who is covered under their plan, and the premium rate for the current and the following calendar year.

Only members who opted to receive materials by mail last year will have received a full packet of materials by mail this year.

And to help sort through all the available options and determine which plan is best, a new health plan comparison tool has been created and is available in my|CalPERS. Its called, *Find a Medical Plan*, and it will perform customized searches for side-by-side comparisons of plan features and their relevant premiums.

Another important event under way is the CalPERS Board election process. As the President indicated earlier, the voting processes are easier than ever now that members can vote by mail, by phone or through an on-line feature, an on-line tool. So far, 94,000 ballots have been cast. Of those, the 94,000, 75,000 ballots have come in by mail, a little over 2,000 by phone, and 17,273 on-line.

There are 12 days left to cast your vote, so encourage everyone to participate. And for anyone who's curious to see which method of voting our members are using, or to get updated statistics on the number of ballots received, you can go on the CalPERS website in the

Board of Administration area.

Some other upcoming events. Next week, the CalPERS Diversity Outreach Program will host its annual diversity and inclusion day on Thursday, September 28th. And that is titled, *Real Talk, Real Connections*. After employees will be able to attend the D&I Educational Fair located in the CalPERS cafe corridor featuring more than a dozen nonprofit vendors from the Sacramento region to foster a more inclusive work culture.

This annual D&I event supports our workplace culture to understand how different perspectives make the organization more successful and more representative of the members we serve. It's one of the many traditions here that helps to build our reputation as a destination employer.

Jumping ahead to Tuesday, October 2nd, we will host our annual Emerging Transition and Diverse Manager Day. The event allows upcoming fund managers who submitted investment proposals through our emerging and diverse manager proposal process the opportunity to meet with our senior asset class investment teams in 45-minute increments. This is an opportunity for those who have submitted proposals to get direct feedback from the team, and representatives from both private equity and global equity will be available to meet with those individuals.

And that will be followed by our recognition of National Customer Service Week, which takes place October 2nd through October 6th. Customer service is our top priority at CalPERS, and one of the key leadership principles that I certainly have emphasized with our teams.

Our job at CalPERS is to make sure that our members have the benefits they've earned while in public service. And in order to deliver on those promised benefits, our team focused -- focuses their efforts every day in addressing those member needs.

And thinking about our customers as -- thinking about our members as customers I think has had a positive impact on how our employees ego about taking care of their expectations.

And now, I'd like to give you a brief update on the performance of the Public Employees' Retirement Fund as of July 31st, 2017. In our first month since the new fiscal year, we can report that the total fund performance is 1.7, the three-year return is 5.5, the five-year return is 8.9, the 10-year return is 4.7, and the 20-year return is 6.4. All asset classes are within their policy ranges, and the total fund assets are valued at $329.8 billion as of July 31st, 2017.

That concludes my remarks, Mr. President. I'd be happy to take any questions before closing with a special video.

PRESIDENT FECKNER: Very good. I do have two requests.

Mr. Jelincic.

BOARD MEMBER JELINCIC: I have a point of personal privilege, but I can easily wait till after the video.

PRESIDENT FECKNER: Okay. Ms. Mathur.

BOARD MEMBER MATHUR: Yeah. I am just so proud, but not at all surprised, by the extraordinary efforts of our team in trying to help those of our members who are -- live in hurricane affected areas. I've heard enumerable stories over the years of the efforts of our members to -- of our team members to ensure that our members get the kind of service that they -- and fulfill all of their requirements in terms of retirement and otherwise, all the way to visiting people in hospital beds to ensure that all their paperwork gets filed.

So I am just always impressed and proud of the work that our team does. So I just wanted to thank everyone and thanks for being with us this morning.

CHIEF EXECUTIVE OFFICER FROST: Thank you.

PRESIDENT FECKNER: Okay.

CHIEF EXECUTIVE OFFICER FROST: Okay. So I'd like to end --

PRESIDENT FECKNER: Wait. We have one more.

Mr. Costigan.

BOARD MEMBER COSTIGAN: I'm just going to pile on a little bit of what Priya said --

CHIEF EXECUTIVE OFFICER FROST: Okay. Sure.

BOARD MEMBER COSTIGAN: -- but just slightly different.

Donna, you and your team great work on the hurricane. But I also want to tell you I hear all the time from folks that work in the Capitol and throughout State government that over and over just talk about the great work from the call centers and others. So I think what you guys did with the folks and the hurricane, it's great because it's out there and it's something to point to, but you go that each and every day. And I don't think that that gets enough reflection.

So out of tragedy came the positive of the great work that you all do. But again, I hear every day of the incredible work that our call center and our folks do, so thank you.

CHIEF EXECUTIVE OFFICER FROST: Thank you, Mr. Costigan.

PRESIDENT FECKNER: Thank you.

Okay.

CHIEF EXECUTIVE OFFICER FROST: All right. So I'd like to end my report this morning by sharing the annual employee music video that was shown at our most recent CalPERS Live event last month. The showing of this video at the end of each year's event is something our team really looks forward to, and this year was no different. This year's theme was *Serving With a Purpose*. And so if we could roll the video, please.

(Thereupon a video was played.)

(Applause.)

CHIEF EXECUTIVE OFFICER FROST: And just a final closing comment. This video and all of its associated production is done completely by our internal team members. So I'd like to thank them as well.

PRESIDENT FECKNER: Well done. Thank you.

Mr. Jelincic.

BOARD MEMBER JELINCIC: Before I start my point of personal privilege, I would encourage you to put that video up on our website. It would do a couple of things. It would encourage other agencies to step up their game, and it also might make them a little jealous.

(Laughter.)

BOARD MEMBER JELINCIC: I still have not received charges from Bill Slaton. The public published agenda for the September 2016 Investment Committee closed session lists action items 4, Asset Allocation Performance and Risk; A, Interim Asset Allocation Targets. And here's the agenda. It's up on the website.

At the November Investment Committee, after discussing the election results, Ted Eliopoulos said quote, "For now we do not see any reasons to change our investment allocation or profile, which we recently adjusted and will be discussing at our December meeting".

The next day, in the minds of Bill Slaton, as planted by his Roy Cohn, Matt Jacobs, I gave away State secrets when I said, Given the last four allocations this Board has made, including one made in closed session in October, applying the, what I think are, realistic expectations and they're higher than our consultants are currently giving us, but given our current asset a location, I do not think we can justify a discount rate above six and a quarter.

I've been subjected to unspecified public allegations of leaking information. The Board, acting through the Board President, has publicly found me guilty of unidentified violations. I have not been given an open hearing, or even the ability to expose the charges, let alone the opportunity to publicly defend myself.

I'm now being investigated by the CFA Institute. I do not even have the ability to tell them what the charges are, let alone defend myself. In the name of accountability and fairness, I call upon this Board to waive the attorney-client privilege and let me expose and defend against the charges.

Thank you.

PRESIDENT FECKNER: Thank you.

Agenda Item 5 is the consent items. I do want to make a note on 5b, you'll note Ms. Hollinger has a travel request in there that was postdated. It was not because her request was untimely. Her request was in on time. We changed our process of paying for registration fees for all conferences that we attend. So as result of that, we put it on the agenda after the fact to make sure that it was in line with everything else.

So is there anything else on Agenda Item 5 on the consent calendar?

VICE PRESIDENT JONES: Move approval.

BOARD MEMBER MATHUR: Second.

PRESIDENT FECKNER: Moved by Jones, seconded by Mathur. All opposed -- or all in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, no?

Motion cares.

Item 6 is the information consent items. Having no requests to move anything off, move on to Item 7, Committee Reports.

The first, 7a, is the Investment Committee. For that, I call on the Chair, Mr. Jones.

VICE PRESIDENT JONES: Thank you, Mr. President.

The Investment Committee met on September the 18th, 2017. The Committee discussed and approved the resignation of StepStone effective September the 30th, 2017, and authorized staff to engage and contract with Meketa Investment Group to assume the responsibilities of the infrastructure consultant for the remainder of the contract term.

The Committee received reports on the following topics:

The Global Equity and Global Fixed Income Annual Program reviews; consultant reviews of the Global Equity and Global Fixed Income Programs; the first reading of the Public Asset Class Investment Policies; the Wilshire Public Fund Universe Comparison Report.

The Committee heard public comment on the public notice of the September closed session agenda.

I would like to share some highlights of what to expect at the November Investment Committee meeting:

Reviews of the Public Equity and Real Assets Program and Investment Policies; a second reading of the Public Asset Class Investment Policies; a presentation on the strategic asset allocation, use of leverage; and Wilshire review of CalPERS' divestments.

The next meeting of the Investment Committee is scheduled for November 13, 2017 in Sacramento, California.

And that concludes my report, Mr. President.

PRESIDENT FECKNER: Thank you, Mr. Jones.

Item 7b, Pension and Health Committee Report. For that, I call on the Chair, Ms. Mathur.

BOARD MEMBER MATHUR: Thank you, Mr. President. The Pension and Health Benefits Committee met yesterday on September 19th, 2017. The Committee received a couple of reports.

The first on CalPERS Long-Term Care Program, and the second on the Self-Funded Preferred Provider Organization Basic Plans and Value-Based Insurance Design Health Plan approaches.

The Committee also received public comment from four individuals regarding concerns with OptumRx: Tim Behrens from the California State Retirees; Larry Woodson also from the California State Retirees; Cathy Jeppson from the California Faculty Association; and Donna Snodgrass from Retired Public Employees Association.

The Chair directed staff to provide an analysis on the one- and two-year partnership policies and CalPERS three-, six- and ten-year policy exhaustion of benefits for Long-Term Care Program; and to deliver an OptumRx update at the November PHBC meeting, where their chief executive officer will address CalPERS concerns, including, but not limited to, the current formulary, customer service, and high appeal overturn rates.

Some highlights of what to expect at the November meeting, include:

A review of legislative proposals for the 2019 legislative year; as well as information on the enterprise risks related to PHBC; customer services and support performance; the Health Benefits annual report; health plan trends; SmartCare California regarding opiates; risk adjustment; the Long-Term Care Program; and, as I mentioned, OptumRx.

The next meeting of the PHBC is scheduled for November 14th, 2017 in Sacramento, California. That concludes my report.

PRESIDENT FECKNER: Thank you.

Brings us to Agenda Item 7c, the Finance and Administration Committee report. For that, I call on the Chair, Mr. Costigan.

BOARD MEMBER COSTIGAN: Thank you, Mr. President.

The Finance and Administration Committee met on September 19th, 2017. The Committee recommends and I move the Board approve the following:

Agenda Item 5a, approve and declare Trinity County Waterworks District number 1 in default of its obligation to the CalPERS system, and to come back in November with the confirmed benefit reduction amounts.

PRESIDENT FECKNER: On motion by Committee.

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, no?

Motion carries.

BOARD MEMBER COSTIGAN: Agenda Item 5b, approve and declare the Niland Sanitation District in default of all of its obligations to the CalPERS system, and to come back in November with the confirmed benefit reduction amounts

PRESIDENT FECKNER: On motion by Committee.

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, say no?

Motion carries.

BOARD MEMBER COSTIGAN: The Committee received reports on the following topics:

The updated quarterly report for participating employers; the Customer Service and Cost Effectiveness Measurement update for fiscal year '25-'16[SIC]; and pursuant to two letters received from Senator Moorlach, the Committee received requests for cost estimates for two proposals that change pension benefits for CalPERS members and Beneficiaries; an actuarial reporting for the Terminated Agency Pool longevity inflation, as well as discussion about the amortization policy.

The Chair directed staff to have preliminary discussions with CalHR on consolidation of the Supplemental Income Plan Program and fees; directed Ms. Frost to talk with Senator Moorlach and give him options on where to find the data requested of CalPERS; update the headers on the inactive agency slides relating to "Reporting" in the Report on Participating Employers PowerPoint; provide information on the number of individuals life expectancies for 60 year old individuals; to conduct stakeholder engagement regarding the cost for the amortization policy.

The Committee also heard public comment on the following topics:

The annual discharge of accountability for uncollected debt; reporting on participating employers; the Amortization Policy discussion; legislative pension costing requests; CalPERS election; and perform a constitutional review for violations of the emoluments -- I can never pronounce that word -- clause in private equity investments.

At this time, I'd like to share some highlights of what to expect at the November Finance and Administration Committee meeting:

A first reading of the 2017-18 mid-year Budget and Amortization Policy; the 2016-17 basic financial statements; the review of the Risk Policy, the semiannual Health Plan financial report; and the actuarial reporting for the proposed regulations for employer liability, experience study, and long-term care valuation.

Our next meeting will be on November 14th, 2017 here in Sacramento.

Thank you, Mr. President.

PRESIDENT FECKNER: Thank you.

Mr. Jelincic, did you have something on that report?

BOARD MEMBER JELINCIC: Yes, I did. The -- nobody likes declaring people in default, but I think we should note that both of these were voluntary terminations, and so we didn't really initiate the action.

PRESIDENT FECKNER: Thank you.

Item 7d, Performance, Compensation and Talent

Management Committee. For that, I call on the Chair, Mr. Bilbrey.

BOARD MEMBER BILBREY: Thank you, Mr. President. The Performance, Compensation and Talent Management Committee met on September 19th, 2017.

The Committee recommends and I move the Board approve the following items reviewed in closed session:

Agenda time 3, review of the 2016-17 performance: Chief Executive Officer. For the CEO, approve the fiscal year 16-17 performance award of $80,190, and a fiscal year 2017-18 base salary of $318,000.

PRESIDENT FECKNER: On motion by Committee.

Any discussion on the motion?

Mr. Jelincic

BOARD MEMBER JELINCIC: On both this and the next one, I will be not participating.

PRESIDENT FECKNER: Thank you.

Any -- seeing no other discussion.

All in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, no?

Motion carries.

BOARD MEMBER BILBREY: Agenda Item 4, Review of the 2016-17 Performance: Chief Investment Officer. For the CIO approve a fiscal year 16-17 performance award of

$314,305, and a fiscal year 17-18 base salary of $565,531.

PRESIDENT FECKNER: On motion by Committee.

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, no?

Motion carries.

BOARD MEMBER BILBREY: The Committee Chair gave direction to revisit the performance metrics at a future meeting, hopefully before the -- possibly the beginning of the year. The Committee gave direction to revisit discretion policy provisions as well.

At this time, I'd like to share some highlights of what to expect at the next scheduled meeting of the February. The Committee will receive semi-annual status reports on the performance plans of the CEO and CIO, and review the Committee delegation.

The next meeting is scheduled for February 14th, 2018 here in Sacramento.

Thank you, Mr. President.

PRESIDENT FECKNER: Thank you. And please have the record reflect that Mr. Jelincic recused himself from both of those votes.

PRESIDENT FECKNER: Item 7e, Risk and Audit

Committee. For that, I call on the Chair, Ms. Hollinger.

BOARD MEMBER HOLLINGER: Thank you, Mr. President.

The Risk and Audit Committee met on September 19th, 2017. The Committee received reports on the following topics:

Third-party valuation and certification of the Judges' Retirement System, Judges' Retirement System II, Legislators' Retirement System, 1959 Survivor Benefit Program as of June 30th, 2016; and the 2016-2017 Annual Compliance Report.

At this time, I would like to share some highlights of what to expect at the November Risk and Audit Committee meeting. The independent auditor's report, a review of the independent auditor's management letter, and the enterprise risk management framework review.

The next meeting of the Risk and Audit Committee is scheduled for November 13th, 2017 in Sacramento, California.

Thank you, Mr. President.

PRESIDENT FECKNER: Thank you.

That brings us to Agenda Item 8. We're now going to get Mr. Shah on the phone, please.

MR. SHAH: Good morning, Mr. President.

PRESIDENT FECKNER: Good morning, Mr. Shah.
How are you?

MR. SHAH: I'm good. How are you, sir?

PRESIDENT FECKNER: Fine. Thank you.
So we're on Agenda Item 8, Proposed Decisions of Administrative Law Judges. On the phone is Chirag Shah from Shah and Associates, a Los Angeles-based firm, that's independent counsel to the Board on administrative decisions. So if there are any questions any Board members have during the discussion, Mr. Shah is here to answer them.
Call on Mr. Jones.

VICE PRESIDENT JONES: Yeah. Thank you, Mr. President.
I move to adopt the proposed decisions at Agenda Items 8a through 8m as the Board's own decisions with minor modifications to agenda Items 8b, 8e, 8j, and 8l as argued by staff.

PRESIDENT FECKNER: Thank you.
I have Mr. Jelincic.

BOARD MEMBER JELINCIC: For the first time in almost eight years, I have not read the agenda item, so I will not be participating.

PRESIDENT FECKNER: Thank you.
Mr. Gillihan.

BOARD MEMBER GILLIHAN: Thank you, Mr. President. I just had a questions for Mr. Shah on Item 8h.

MR. SHAH: 8h, okay.

BOARD MEMBER GILLIHAN: You make a reference to questionable credentials, to put it mildly, for the CalPERS Independent Medical Examiner. And I'd just like you to explain that a little more, and how that should impact our consideration of this decision?

MR. SHAH: Well, I think that there was some questions that were raised by the member, and the administrative law judge also noted those issues, concerning some background regarding that medical evaluator. However, the administrative law judge, in my view, addressed those issues adequately, and has, you know, reached the correct conclusion in the proposed decision.

BOARD MEMBER GILLIHAN: But if that decision is based on a medical examiner's opinion that has questionable credentials, I'm just -- I mean, this statement sort of puts me in an awkward position relative to this case.

MR. SHAH: Yeah, I mean, of course, the Board has the -- you know, the option to remand the case, but it seems to me that those -- the issues that were raised by the member and the administrative law judge were -- you know, were addressed by the administrative law judge and -- in the proposed decision to reach a reasonable determination.

BOARD MEMBER GILLIHAN: So the medical -- Independent Medical Examiner met our minimum qualifications to perform these functions?

MR. SHAH: Yes, that's correct.

BOARD MEMBER GILLIHAN: All right. Thank you.

PRESIDENT FECKNER: Thank you.

Ms. Mathur.

BOARD MEMBER MATHUR: Thank you.

Yes, I would like to take up Agenda Item 8i separately, please.

PRESIDENT FECKNER: 8i, very well.

BOARD MEMBER MATHUR: Yes.

PRESIDENT FECKNER: Seeing no other requests.

The motion before you is item 8a, b, c, d, e, f, g, h, j, k, l, and m.

Seeing -- any discussion on those?

Seeing none.

All in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, say no?

Motion carries.

We're back on 8i. Ms. Mathur

BOARD MEMBER MATHUR: Yes. Thank you.

I would like to move on 8i that we remand this back to the ALJ for the taking of additional evidence on the question of the date that member's disability actually began.

PRESIDENT FECKNER: All right. Is there a second?

BOARD MEMBER LIND: Second.

PRESIDENT FECKNER: It's been moved by Mathur, seconded by Lind.

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, say no?

Motion carries.

Thank you.

PRESIDENT FECKNER: That brings us to Agenda Item 9, Petitions for reconsideration. Mr. Jones.

VICE PRESIDENT JONES: Yeah. Thank you, Mr. President. I move to deny the petitions for reconsideration at Agenda Item -- item -- Agenda Item 9a through 9i.

PRESIDENT FECKNER: Thank you.

Mr. Jelincic.

BOARD MEMBER JELINCIC: And once again, I have not read the agenda material, so I will not be participating.

PRESIDENT FECKNER: Thank you.

Any other discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

PRESIDENT FECKNER: Opposed, say no?

Motion carries. Thank you. Thank you, Mr. Shah.

MR. SHAH: Thank you, Mr. President.

PRESIDENT FECKNER: That brings us to Agenda Item 10, State and Federal Legislation update. Ms. Ashley, please.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good morning, President Feckner, and members of the Board. Mary Anne Ashley, CalPERS team member. And I'm joined today by our federal representatives Mr. Chris Jennings who will be providing an update on federal health care issues; Mr. Tony Roda who will be providing and update on federal pension and retirement issues, Mr. Dan Crowley who will be presenting an update on federal investment issues; and then Ms. Gretchen Zeagler, who is an Assistant Division in Legislative Affairs, who oversees our federal policy unit.

We are presenting Agenda Item 10, which is an informational item. The legislative summary is available for your reference in your Board materials. And since our federal representatives are here today in person to provide their updates, there are no written federal reports.

The State legislative session ended this past Friday, September 15th. And the Governor will have until October 15th to take action on those measures that were passed by the legislature by the September 15th deadline.

I'm very happy to report that since my last update, the Governor has signed two more of our sponsored measures. AB 679 regarding securities lending collateral was signed on September 1st. And SB 525, which is our annual housekeeping measure was signed on September 11th. Both measures will become effective January 1st, 2018.

Our remaining sponsored measure, AB 1309, regarding reporting fees has been sent to the Governor and is pending his action.

Then I just want to note regarding the written legislative summary that's included in your Board materials. All those bills that were noted as pending third reading have been passed by the legislature and are pending action by the Governor. With the exception of AB 315 by Assembly Member Wood regarding pharmacy benefit managers, that bill is now a two-year bill.

We will provide an update to you in November on the status -- the final status of our sponsored measures and those bills that we have been following that may potentially impact CalPERS. And also, in November, we will be bringing to you for your consideration legislative proposals for the 2018 legislative session.

And that ends the State update. And I am happy to answer any questions before we move on with our federal update.

PRESIDENT FECKNER: Thank you.

Mr. Jelincic.

BOARD MEMBER JELINCIC: You said AB 315 became a two-year bill.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes, that's correct.

BOARD MEMBER JELINCIC: Thank you.

PRESIDENT FECKNER: All right. No other requests.

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Thank you.

PRESIDENT FECKNER: Your microphone.

MR. JENNINGS: Thank you.

Board President Feckner and members of the Board, thank you for inviting me to today to present on the status of the health reform debate and how it interacts with CalPERS' interests.

My partner in health Yvette Fontenot sends her regrets and her regards. You will be seeing her though at the employer off-site conference.

In my over three decades of dealing with health care policy, I have never seen so many divergent, and yet serious, discussions being meaningfully engaged in just over a 10-day period.

In D.C., we are quite literally seeing an extraordinary spectrum of developments. From the latest, and perhaps last, attempt to repeal and replace Affordable Care Act, all the way to the unveiling of a serious Medicare for all single-payer proposal. And in between, these polar extremes have been ongoing and separate bipartisan efforts to stabilize the individual insurance market and to reauthorize the childrens' health insurance programs. All of these happening in just the last 10 days.

And finally, there have been notable developments in two of CalPERS highest health care priorities, prescription drug costs, and how the nation delivers a higher quality, better return on its investment in health care.

Today, I will primarily touch on the status of those issues and policies developments that are of most relevance to CalPERS in the short-term, pharmaceutical costs, health care delivery reform, and, of course, the repeal and replace legislation that may pass and actually must pass the Senate before October 1st of -- in the next 10 days when the reconciliation protections for the Republics for a 50-vote legislative vehicle expire.

If acceptable to you, I will do everything else in a very top-line very short summarized basis.

On prescription drug costs, there is absolutely no evidence that concerns about prescription drug cost increases are abating. Indeed, I just came from a meeting yesterday in which it was reported that CareFirst Blue Cross Blue Shield in Maryland is now dedicating 33 percent, fully one-third of their total health care spend, on prescription drugs. CalPERS is no doubt seeing and feeling this trend as well. Recent troubling reports seem to validate this concern.

Just this month, AARP reported that specialty drug prices continue to spike well over inflation. The average annual cost of therapy for just one specialty drug was nearly $52,500 in 2015, fully three times the average Social Security retirement benefit for older Americans in this country.

In a separate announcement, again this month, a new immunotherapy treatment for the form of leukemia, known as ALL, was unveiled at a price of $475,000. And lastly, Fortune reported that another company is paying over $13 million up front and $15 million a year to a Native American tribe in New York to hold the company's patent of a blockbuster drug to prevent competition -- to prevent generic competition.

The good news is that these and other headlines and complaints by purchasers and consumers are eliciting bipartisan support for prescription drug cost containment. They include everyone from the President all the way through Republicans and Democrats in the Congress.

President Trump has targeted manufacturers for pricing abuses. He's directed HHS to develop and review a problem -- the problem with a directive to make specific recommendations from the Department of Health and Human Services, his own FDA Commissioner Gottlieb has committed to expediting the review and approval process of certain prescription drugs that face little or no competition. This was the result of authority provided in a bipartisan authority under the FDA Reauthorization Act.

Key Democrats in the House and Senate are consistent highlighting pricing abuses and are calling for new legislative and aggressive interventions. And Republicans have committed to holding hearings and have already held some, and are collaborating on policies that could breakdown barriers to competition.

Bipartisan legislation in the Senate and House to secure greater competition and transparency abounds. And some believe that some of this legislation can pass this fall. I will be happy to answer questions, if you're interested.

The bad news of course is that notwithstanding these encouraging developments, Congress and the administration continue to get waylaid. And finalizing any action that has real and sustained impact on prescription drug costs has not occurred.

There has been no movement on Medicare direct negotiating or even anything significant on value purchasing for prescription drugs. This suggests that public and private purchasers need to push policymakers to be more aggressive in this area. To that end, CalPERS has been working with the National Coalition on Health Care and their campaign for sustainable prescription drug pricings to highlight these trends as well as to promote more aggressive action. And we are working with CalPERS staff to do more work as well.

On the delivery reform front, CalPERS clearly is a nation -- a national leader in delivery, ranging from becoming one of the earliest developers of a shared savings Accountable Care Organization, to embracing reference pricing.

Unfortunately, we have seen some retrenchment from the Executive Branch on its commitment to value purchasing. Specifically, we've seen HHS increase the numbers of exemptions of providers not having to meet with quality reporting data. And similarly, HHS has recently announced it will not proceed on bundled payments for hip and knee replacements and certain cardiac care procedure services, areas where CalPERS has actually shown major leadership and success.

To address this last month, we worked with the Pacific Business Group on Health, the Public Sector Health Care Roundtable, and others in joining the Consumer Purchasers Alliance comments letter to CMS, the center for Medicare and services, Administrator Verma raising specific concerns about these trends.

Now, I should say in contrast, and on the good news front, the Senate Finance Committee on a bipartisan basis very much appreciated the constructive comments that were submitted by CalPERS on their Chronic Care Act, which provides for more flexibility in administering chronic care, coordinated care approaches for this very, very ill population.

And encouragingly, this bill was reported out of

Committee, and is now pending on the Senate floor and is expected to pass in short order. And on the House Republican and Democrats are working to pass this legislation as early as the end of this next year. We're looking for legislative vehicles.

Now, quickly to the main event. As I mentioned as we speak today, there is a serious and final report to repeal and replace the Affordable Care Act. And at the same time, there is more and more people who are shifting their attention to Senator Sanders Medicare For All bill. Remarkable differences.

And this is all happening as health care plans are raising major concerns about market viability in the individual insurance market. And their is an October 1st deadline, 10 days for locking in contracts and premiums for this year.

Moreover, the authorization of the Children's Health Insurance Program is scheduled to also expire on October 1st, ten days from now.

But right now, the attention is all on the Graham-Cassidy repeal and place bill. Bottom line, if it attracts the prerequisite 50 Republican votes next week, it is expected to become the law of the land. This is because most political experts believe the House will then inevitably pass it on to the President for signature.

So let me give you a sense of what the Graham-Cassidy bill is and then we'll just move on for questions. So who is Graham-Cassidy and what is their proposal?

Lindsey Graham is obviously a Republican Senator from South Carolina, who is very close to John McCain. Senator Cassidy is a doctor from Louisiana, Bill Cassidy. You may have heard he was referenced last night by Jimmy Kimmel. And there was a big controversy about that we can talk about. Their approach replaces the current exchanges and expansion of the Medicaid program with a large block grant for all states.

It eliminates the individual employer mandate to provide coverage. It retains private insurance market rules, but permits states to waive health status, rating preexisting condition exclusions, and essential health benefits. And it reallocates billions of dollars between and amongst the states. Mostly, it's a division between those states who have expanded and those who haven't. Those who have will get much less, those who haven't will get a little bit more. This is why California is viewed as the biggest looser, probably losing - there was a report that was just released this morning - $78 billion by 2026, fully one-third of the cut in this policy.

Coverage losses and cost shifting will be meaningful, but the Congressional Budget Office has announced it does not have the time to do the analysis on that type of impact before the vote next week.

Supporters assert that this legislation allows for states to have the flexibility and resources to do coverage expansions and market reforms as they see best. It is a federalism/State's rights argument, if you will.

Opponents, which include virtually all health care stakeholders believe it is a substantial reduction in resources to states that will undermine basic protections for all Americans and end up reducing coverage for millions of Americans. As such, groups such as AMA, AARP, and the American Cancer Society strongly oppose.

Having said this, this policy has already attracted about 46 votes. It's very close to the prerequisite 50, and that's why you're seeing it's getting a lot more attention out of Washington today.

Interestingly at the same time, however, there's similar attention being focused on the Medicare For All Sanders legislation that was unveiled just last week. This is a policy approach to ensure that all, not some, but all Americans have access to universal coverage. The latest push by Senator Sanders to advance his Medicare For All plan may advertently be highlighting though and validating flaws of the Affordable Care Act, and/or motivating some Republicans to act on something very, very different.

Both of these policies are tending to crowd out the coverage of the immediate problems, which is the insurance market challenge, prescription drug costs, and the reauthorization of the Children's Health Insurance Program. I won't go through all those. If you're interested in talking about those, I certainly can.

Bottom line, there are lots of moving parts, lots of intriguing plots, many of which could have notable impact on CalPERS and its members and their families. There are big chapters of the Affordable Care Act to be written in the next ten year -- in the next ten days. And as such, I'm happy to answer any questions as you see best fit.

Thank you very much.

PRESIDENT FECKNER: Thank you.

Ms. Taylor.

BOARD MEMBER TAYLOR: Thank you for that report. I appreciate it. There was a lot in it, let me tell you.

So a couple of things I just want to highlight and ask you to explain. The -- I had heard this, of course, nobody has read the bill, the money that California -- the blue states are losing to go to the other states, what is -- what specific -- how are they doing that?

MR. JENNINGS: Sure. It is a -- it's a formulaic approach that's based on the percentage of people. It's weighted towards lower income populations. So I think it's 38 to 150 percent of poverty, or something along those lines. California's income and coverage expansions over the last two, three years are weighted a little bit above that. And as a consequence, California is disproportionately impacted.

In fact, California and New York probably make up over half of the overall cut in the first six years. In the latter -- after that, then everyone does, because the block grant actually goes away starting in 2027.

There is a report that was released today, this morning, by Avalere. There will be more reports that are -- were going to be released to try to get a handle on the specific state-by-state impact analysis. The Center for Budget and Policy Priorities have done such -- some analysis. Senator Cassidy has released information. His policies presume a baseline that would not be consistent with the Congressional Budget Office.

The Congressional Budget Office will release their numbers next week before the vote. But as I say, it will not have a state-by-state impact analysis nor will it have the time and resource to be able to do an impact analysis on the number of people who lose coverage.

BOARD MEMBER TAYLOR: Okay. So the -- so the funds that come out of the states -- and I imagine our weighted average towards the poverty line is because of the high cost of our State?

MR. JENNINGS: Yes.

BOARD MEMBER TAYLOR: As the block grants are granted and that money is changed around, then you're saying in 2027, then everybody loses it anyway?

MR. JENNINGS: Yeah. There is a -- drafted into the legislation is a block grant that actually the authority for the block grant stops at the end of 2026 into 2027, so you'll see in the analysis that come out a very, very -- I've just mentioned this $78 billion cut through 2026. The cut beyond that in starting in 2027 is almost triple that for California, and much more across the board for all states, because the block grant is not authorized.

So you -- so what would happen -- I think in fairness Senator Cassidy would say, well, I would work to authorize new legislation, but then you would have to come up with offsets and taxes to pay for it. It would no longer be part of the health care baseline.

BOARD MEMBER TAYLOR: And this is all the Medicaid funds.

MR. JENNINGS: It's Medicaid and they fold in all the exchange tax credits for people over Medicaid and the Medicaid expansion dollars into this one large block grant.

BOARD MEMBER TAYLOR: Wow. Okay. Well, that's very disturbing.

And then in -- the other question I had was because of the focus on, of course, time number four or five makes a charm on the repeal and our focus on Medicare for all, nobody -- is anyone working on fixing the Affordable Care Act? I thought we --

MR. JENNINGS: Yes.

BOARD MEMBER TAYLOR: I thought that was happening.

MR. JENNINGS: I -- in deference to time, I was short. But you are absolutely right to raise the question. As of October 1, health plans participating in the individual non-group marketplace have to make a decision as to whether they are going to stay in the marketplace and at what premiums they're going to charge.

If you've been watching over the last year, there's been a big debate about whether health plans participating in these exchanges will continue to get subsidies to pay for the cost-sharing requirements under the law under the Affordable Care Act.

The specific authority to do so is really important to be explicit for the insurers, because they can no longer be certain that those payments will be made because the President has indicated that he will not make a commitment to do so.

The consequence is that is that insurers are now increasing their premiums 20 percent more than they otherwise would to reflect their perception that they will not get those payments.

What Congress has been working on on a bipartisan basis with Congress -- Senator Alexander and Senator Murray off the Senate Health Committee is to explicitly provide that authority and provide that certainty for the health plans.

Unfortunately, again as of yesterday, this is news, I mean, literally just happening, the President and Speaker Ryan indicated that they would not support such legislation.

BOARD MEMBER TAYLOR: Even if the afford -- even if the repeal doesn't work?

MR. JENNINGS: They asserted that if -- that they would not support that type of support for the health plans, unless it was associated with a bill that repealed the rest of the law.

So in that context -- this was a political report that was just released yesterday. But -- yeah, so this is -- as of this moment -- so for example, in California, their premiums are going to be 10 to 15 percent higher as a consequence that they haven't been given that certainty. They're not as bad off as many other states are. And many other states are also worried that plans may not just increase premiums but they may decide to pull out at the last second. So this has -- this has gotten a lot of attention.

Senator Alexander mentioned yesterday that he very disappointed, but he didn't see a way to move forward in this legislation. Senator Murray, the Democratic counterpart, had said that she'd be more than willing to continue negotiations going forward. Senator Alexander has asked for, in return for that type of support, for the health plans, some more flexibility on State administration of health care. Senator Murray has indicated her willingness to work on that front. But right now, I cannot give you any type of overly optimistic outlook on the likelihood of that occurring, and as a consequence I think we'll see premiums much higher this fall.

BOARD MEMBER TAYLOR: So either way it goes, it's looking like the Affordable Care Act is being undermined or repealed.

MR. JENNINGS: There are people who make that argument. And there are people who think that that's fundamentally part of the law. But under any scenario, there's no law that has ever been passed that does not require care and maintenance.

BOARD MEMBER TAYLOR: Right. All right. Thank you.

PRESIDENT FECKNER: Thank you.

Mr. Jelincic.

BOARD MEMBER JELINCIC: One of my college professors once said forecasting is difficult, especially of the future.

So my question to you is when you look into your cloudy crystal ball, what do you think happens to the Graham bill?

MR. JENNINGS: The Graham-Cassidy legislation -- you know, I hate to be put on the spot, but I would say that -- and this is the last chance for repeal and replace. So you need to look through this filter of political necessity and a policy threat. I think it's fair to say that the Republican Party feels that it is a political failure that they have not maintained their promise to repeal and replace the Affordable Care Act, and they feel very vulnerable on that front. And the President has made it quite clear he's upset with them on that.

And so this will be probably a vote more to address the political pain than necessarily the economic gain, because over the long haul this is a big economic withdrawal of investment in health care. And I think it has the potential for severe, not just policy consequences, but policy consequences.

That's what I think Senator Collins, the Republican from Maine, and Senator Murkowski, Senator McCain, and others Capito and others, Republicans, are balancing as they cast this vote.

As of this moment, there are -- there's one person who's announced that they're voting against this. There's one who's assumed that they will vote against that, and that would be 50, and that would be enough to pass, because the Vice President could vote to pass it. There are probably two to four others who are thinking about not voting for this.

So I think there will be a huge fight over the next five days. And I think it's a 50/50 chance that this passes. This is a very serious threat to the Affordable Care Act.

BOARD MEMBER JELINCIC: So it sounds like you're -- sounds like your cloudy crystal ball just sort of went blank.

MR. JENNINGS: Well, I guess what I would say is both sides are going to work very hard to win this vote. And there are -- there are more Republicans than there are Democrats. This is a very partisan vote. And it's going to be a very close call. If I had to guess, if you want me to guess, I would say inevitably, the overwhelming data on this front and the impact on states in particular and providers will be sufficient to thwart the likelihood of its passage next week, but that's because I tend to weight policy over politics.

BOARD MEMBER JELINCIC: Which can be dangerous.

MR. JENNINGS: Which can be dangerous.

BOARD MEMBER JELINCIC: Thank you.

PRESIDENT FECKNER: Thank you.

Ms. Mathur.

BOARD MEMBER MATHUR: Thank you. Thank you for this update. I recognize it's a moving target. It's very challenging.

I would -- I think it would be helpful if you could articulate why this is not merely of academic interest to CalPERS, but why it's actually of direct importance to us as an organization.

MR. JENNINGS: The on -- the debate on --

BOARD MEMBER MATHUR: The ongoing debate around the Affordable Care Act and the reforms.

MR. JENNINGS: Well, I mean, I think that's a very -- I mean, there's -- every element of the health care system on the Affordable Care Act was touched by that law, but there are ongoing issues. The delivery reforms components, the fear of cost shifting. If you have substantial new numbers of uninsured populations, there's always a fear that providers will increase costs as a consequence in your ongoing negotiation for your covered population. That has been the primary concern that CalPERS has discussed.

I should say that another area of the Affordable Care Act that CalPERS did not like which was the imposition of the Cadillac Tax was not repealed -- or is not repealed in the Cassidy-Grassley legislation, but it is delayed for five years.

So it is -- in that one provision, it is better than current law. In the terms of coverage obviously, California has expanded coverage to about five million new people over the last three or four years. I would say three-fifths of which are in Medicaid, the other two-fifths are in Covered California.

And so there's significant fears that a lot of that coverage will not be able -- to be able to be maintained.

BOARD MEMBER MATHUR: And this whole question of preexisting conditions, and essential benefits. While, you know, it may not directly or immediately impact our members, it could impact their families for sure.

MR. JENNINGS: Right. I mean, of course, most of us have family members who are impacted one or the other by Medicaid or the exchange that the -- Covered California, I think it's about 1.7 million Californians who get their coverage. It is a very, very fluid population. People go in and out of employment status, and then they get their coverage through Covered California, so that that number is even smaller than the number of people who actually affected year over year over year.

And so it is the place of last resort for people who don't have a place to go. And particularly, you have a preexisting condition and you don't have it tied to an employer-based system, it is a major concern.

Now, of course, Senator Cassidy would say, well, California could do its own rules about that, you know. And so I want to be fair. You know, different States will make different choices about this. But we won't have a national standard of protection, and that is a concern that many people have, not all.

BOARD MEMBER MATHUR: Okay. Thank you.

PRESIDENT FECKNER: Mr. Jones.

VICE PRESIDENT JONES: Yeah. Thank you, Mr. President.

Yeah. You mentioned with the short time frame left for ultimately a decision, and just thinking about what could affect the -- that outcome, and you mentioned the CBO score would not be a complete scoring. So that score that will be provided does that include the number of people that would no longer have insurance?

MR. JENNINGS: No. The Congressional Budget Office has indicated that they do not have the time or resources to be able to do that type of analysis prior to the vote that will take place, if it takes place, next week.

Others will try. In the past, the Congressional Budget Office has asserted that if you eliminate the individual mandate and the employer mandate, you have tens of millions of people who otherwise will become uninsured. I expect that if CBO does score this subsequent to its passage, it will make a similar projection.

I think under any scenario, millions more people will be uninsured as a consequence of this legislation, primarily because significant resources over the next -- I think it was $215 billion less will be allocated to subsidies over the next -- till 2016 -- excuse me, till 2026. And as a consequence, inevitably premiums will be more expensive for that population. And if there's not a requirement to purchase it, they will choose not to purchase it.

VICE PRESIDENT JONES: Okay. Thank you.

PRESIDENT FECKNER: Thank you.

Mr. Lind.

BOARD MEMBER LIND: Thank you. So one of the reasons that we chose your firm is because you have, you know, contacts and relationships with Congress members on both sides of the aisle. Can you talk about our lobbying efforts around these issues?

MR. JENNINGS: Well, yeah, the focus has -- the focus has been -- we've communicated our position on the Affordable Care Act as it relates to the cost shifting. I think that predominantly the day-to-day work of CalPERS is focused around prescription drug costs, and delivery reform. Those are the meat and potatoes of the managing of the CalPERS benefit.

And we've been very encouraged, frankly, much more so than say the last five years of bipartisan interest in at least talking about prescription drug costs. I think the problem is getting to the end of the day. The conversations that Yvette has had -- Yvette Fontenot, she is the lobbyist. And her firm does a great deal of work on the Finance Committee -- has been with

Senator Hatch, Senator -- Senator Hatch's office, Senator Alexander's office, Senator Murray's office, and, of course, Senator Wyden's office has been actually quite fruitful, both on delivery reform and prescription drug costs.

The House has not moved as aggressively in these areas. Although, I know that she's done some work on the Ways and Means Committee, and the Ways and Means Committee is the first committee who has indicated their interest in marking up the Chronic Care Act legislation that I mentioned on delivery care reform.

We have not gotten direction from the Board to be extraordinarily aggressive on the Affordable Care Act, other than to convey our -- you know, our general positions and concerns on the Cadillac Tax, and the concerns about cost shifting on any policy that involve -- that is involved with repealing and replacing the Affordable Care Act.

LEGISLATIVE AFFAIRS DIVISION ASSISTANT CHIEF ZEAGLER: I would just like to pick that up and say we did submit a letter specifically on the Affordable Care Act, as it was being decided in the House. And we've been following it very closely since, as you know, there were some pretty significant events that happened just before the break in August. And we're continuing along that effort.

We've also met with some of the staff, as I was in Washington D.C. along with Yvette Fontenot. So we're tracking it very closely and have engaged.

PRESIDENT FECKNER: All right. Seeing no requests.

MR. RODA: President Feckner, members of the Board, staff, good morning. I'm only one half of the retirement security team, but Tom Lussier, similar to Yvette, sends his regards. Rest assured Tom and I talk almost every day. We share intelligence very -- very frequently, and I know you'll be seeing him in October at the Employer conference.

So I'm going to outline a little bit of the big picture on what is happening in Washington with regard to retirement plans, pension plans.

The first thing to keep in mind, and I know you talked about a conference you went to that was a less-than-favorable environment for DB plans. Well, at last count, the Laura and John Arnold Foundation have pumped in $53.6 million into various entities around the country, some very specific in States, to seek so-called pension reform. They have put a lot of money into national groups. They are keeping the issue of defined benefit plans, and their charges against them, very active and very much in the media.

There's also a muddling effect here of what we have with the multi-employer plans, many of which are strapped for cash. And there is one in particular, we were talking about it this morning over coffee, called Central States.

Now, if I stop there and I say that on Capitol Hill, everyone is going to assume I'm talking about a State or local governmental pension plan. Central States, how could you not. The Central States plan, however, is a Teamsters plan. So there is this issue that comes up, well, are you like Central States? So that takes educating.

And the third area is that there are remaining, and probably we'll see for the foreseeable future some very concerning federal legislative proposals. And I'm going to talk about those in a bit.

So all of that is to say that it's very important to be visible on Capitol Hill in this particular area. Mary Anne was with us in January, Gretchen in May. We've talked with the California delegation. We've talked with -- we've sent letters to the delegation, wide on some issues. But we've also sought out those specific members who serve on the Committees that could do harm or do good for us.

And I take every opportunity I can, and I know Tom does, to seek them out and see them in favorable settings, where I could talk about your issues.

And I'll talk a little bit about those issues now. And they're largely driven in this environment by what's going on with regard to comprehensive tax reform. So, as you know, you are qualified under the Internal Revenue Code. You are not an ERISA plan, so anything that touches the Internal Revenue Code, Tom and I have to watch very, very carefully.

There are questions with regard to tax reform, many. Maybe not as many as health care, but still many, that could drive where this debate goes and affect some of our provisions. One is, is the bill going to be revenue neutral? Is there going to be a pay-fors for the rate cuts? Essentially, that's the question.

And some Republican Senators who you think would be really tough on this budget hawk-types are saying, well, maybe not. Maybe we do not need to pay for each and every cut with an offsetting tax increase, because then we're not going to achieve the requisite growth that we're after. That's a big question. And it deals specifically -- or bears specifically on the Roth issue, which I'm going to talk about in a bit.

The other is the Democrats. Do they have a seat at the table on tax reform? Now, you saw what the President did a couple of weeks ago with Chuck Schumer and Nancy Pelosi to strike a deal on the debt ceiling, stop-gap funding, Hurricane Harvey, emergency spending, all that in one package.

I don't know if you could say it was stalled in Congress with a majority of Republicans, but it wasn't going very far. So the President decided, well, I'm going to go this way. I'm going to go with Chuck and Nancy, as he said it. And he had great success, and he enjoyed the media that he received, as I'm sure the leaders did.

So there's that question about tax reform. The Democrats right now really aren't at the table on tax reform, but the President can put them there with one Tweet. And I don't say that really in a humorous way. I mean, that is the fact of the matter. So that's going to be important. And the more Democratic participation in these areas, and on tax reform, I think the better for us, because they are clearly more sensitive to preserving the defined benefit structure.

The other is where are the Republicans? Are they together? Are the Ways and Means Republicans with the Senate Finance Committee Republicans. There's a group of the Big 6 that -- which is the Senate leadership, Republican House Leadership, Republican, and Treasury Secretary and the Chief Economic Advisor of the President.

They're going to produce something next week. So we're going to have an idea when we see the reaction to that document, start to see the reaction by the rank and file as to whether there's going to be -- whether they're singing from the same song sheet.

The issues. The first issue I'm going to talk about is the Roth -- the move to Roth plans. Now, I know CalPERS has a 457(b) plan. This concept is no more pre-tax contributions to defined contribution plans encompassing IRAs, 401(k)'s, 403(b)'s and 457(b)'s. No more.

The concept would be every contribution at some -- after some certain date will be a post-tax contribution. And what that does, obviously, is it moves a bunch of revenue into the ten-year budget window for a one time revenue increase, which you could use to offset tax cuts, tax rate cuts.

There's a lot of concern about this proposals. I have not gone to an event for a member of the Ways and Means or Finance Committee where this has not come up. A lot of concern about it.

However, if you did this in a full and complete way, it could raise upwards of $500 billion over 10 years.

Hard to pass up. And there isn't a lot of behavioral analysis to show that the same savings would not occur in this new environment. I think instinctively we figure, no, post-tax dollars are going to be, you know, used for other things. Once it hits the individual's pocket or check account, you know, it's difficult to then turn that into a retirement initiative, savings initiative.

So this is an issue that we raised -- it really wasn't at the 401 -- Mary Anne wasn't in D.C., Gretchen and we in our meetings raised this issue each team we had the opportunity.

The other two issues I will talk about on this defensive side, one near and dear, PEPTA, the Public Employee Pension Transparency Act. Congressman Nunes of California has introduced this bill since 2010. He does not have a bill in this current Congress, but he's a senior member of the Ways and Means Committee. So if and when he decides to push it, he can push it, because he has his seat at the table in a very senior way.

This bill, just as a reminder, would require every State and local governmental pension plan to report their funded status to the U.S. Treasury Department based on a Treasury bond rate. So your unfunded status will sore and media attention will be certainly around that.

Senator Hatch, who's the Chairman of the Senate

Finance Committee, has also, in the past Congress, introduced PEPTA legislation. So certainly he has a seat at the table. So this continues to be a concern of ours and of CalPERS.

There's also a proposal by Senator Hatch called the Annuity Accumulation Plan, no ones is opposed to annuities. I think people have concerns about replacing defined benefits plans with annuities however. And while this is a purely optional plan that any plan sponsor could choose to do or not do, the rhetoric behind it suggests that this is really being positioned as a replacement for the defined benefit structure.

With regard to that, very important for public safety. There would be no survivor or disability benefits in such a plan, and that causes tremendous concern. That would have to be contracted for separately, insured for separately at great cost. And the employer, under this plan, that's important to know, only dollars going into these annuities are from the employer. There are no employee contributions.

And the employer, under what's written today, could change their contribution each year, as long as it's done uniformly, they could start at ten, they could start at a very nice number, right, a very solid number, a ten, 15. And they can cut it in half the next year, and the year after that they could go to zero. So for regard to retirement security, I don't think it's in this -- I don't think you can find it in this particular proposal.

So I will move off to the offensive agenda, which really, in this climate, is the Windfall Elimination Provision. I know Tom Lussier usually provides this part of the presentation. It is a very live possibility, because it is chairman Kevin Brady's initiative, Kevin Brady being the Chairman of the House Ways and Means Committee.

You know what WEP does. It cuts your first tranche of monthly Social Security benefit from 90 to 40 percent. It's a significant hit. The Brady Bill had Congressman Richie Neal of Massachusetts on as a co-sponsor. And it would seek to replace WEP, which is a very artificial -- artificial, and, you could say, sledge hammer type approach, with a proportional formula that even the AARP has stood behind and said is fair.

So there are some issues surrounding that. It is not a slam dunk. The International Association of Firefighters in particular, and the Teachers Unions have been concerned about anybody who might have to pay more. Or in the case of the firefighters, a very targeted type of issue, which regards their ability to structure their work experience where they can have covered -- Social

Security covered employment running parallel to their non-covered employment.

After 21 years of that, if you've reached a substantial earnings test each year - a little bit in the weeds. I'm sorry about that - you can completely zero out the WEP hit with 30 years of substantial earnings.

So it's a real issue. Chairman Brady's staff is well aware of it, and hopefully will look to do something on that when the bill moves. He's not going to introduce a new bill until it's close to being ready for a markup.

A few other quick things. We don't know where infrastructure is going. There, in the past, has been some desire to bring public plans and the pools -- the vast pools of money, as people see it, into the infrastructure spending. So a very open question. No proposals on Capitol Hill really on infrastructure yet, but we'll be watching it.

And then two quick regulatory items. We're looking for final rules on the normal retirement age, which could be out this year. You can't press a regulator to give you a date, but it does look like the proposed rules had very few comments. So the final rule should be on their heels soon.

And then the definition of governmental plan, of course, fundamental to CalPERS or any state or local governmental plan. We haven't even seen a proposed rule on that, but a very important topic that we're watching very closely.

So with that, I will take any questions that you may have.

PRESIDENT FECKNER: Thank you.

Mr. Jones.

VICE PRESIDENT JONES: Yeah. Thank you, Mr. President.

Yeah. My question goes to the Windfall Elimination Provision. You know, for decades now, there's always a great interest in trying to do something in this regard. But every time it's where the money is coming from, you lose support. So have they identified a funding source at this time?

MR. RODA: So the way that -- it's a great question. The way the Brady Bill is structured, it's structured to be revenue neutral. So the new proportional formula that I referenced is going to actually generate some money that otherwise is not present.

And it will do that by looking at each individual's work history. So some -- when you do that, there will be increases -- there will be decreases in the benefit for some. For -- the problem we have with the numbers is that the Social Security actuary has not been able to provide very much in the way of a solid number.

Now, that could be a real concern if the benefit is significantly reduced. But it does not look like it would be a significant reduction. What I think they're talking about is small reductions spread over a large pool. And again, I'll go back to saying that AARP has looked at this and said it's a proportional formula that takes each individual's work history, and it is a fair approach, and recognizing that there may be some slight benefit reductions, they believe it's fair overall.

So it's designed to stay revenue neutral. If they -- if they fix the firefighters issues - I'll call it that, but others could be implicated by that - they have to find a source of revenue to do that, and that becomes difficult, as it always is.

VICE PRESIDENT JONES: Okay. Thanks.

PRESIDENT FECKNER: Mr. Lind.

BOARD MEMBER LIND: Thank you.

You brought up the Central States issue. Is anybody paying attention, anybody talking about funding the PBGC?

MR. RODA: Well, PBG -- PBGC premiums have been increased a number of times over the last few Congresses, to the point where there's been an outcry against it.

I understand the multi-employer plan at PBGC is in dire need of new funding. But no, I don't -- I don't see that there's a serious discussion about that.

I think the implementation of the MPRA, the Multiemployer Pension Reduction Act, you know, it's a benefit-cutting tool. And it's kind of a hammer. But I believe people are willing to kind of let that play out a little, especially with new administration. There are issues with MPRA, as you know.

BOARD MEMBER LIND: Thank you.

PRESIDENT FECKNER: Ms. Taylor.

BOARD MEMBER TAYLOR: Yes. I was taking vociferous notes here. And then I heard you say something about a rule changing the age, so I missed that.

MR. RODA: Okay. So at Treasury and IRS right now is a rulemaking process on normal retirement age. And where this started back in 2007, initially -- and this raised great concern for public plans -- initially they said you have to have an age. Now, I -- you have an age here, so this not a -- this is not a real concern, but it is a concern to watch to see everything else that comes out in this rule.

Originally they said, you have to have a number. And that caused a hue and cry, because of DB plans that are usually structured to not provide a date -- an age, but a service requirement and a multiplier. And so we worked for years from 2007 to get them actually to recognize that that approach is fine.

So we feel better about where it's coming, but there will be safe harbors. And I believe that you are well within the safe harbors for the age, but I could -- I will double check that as well.

BOARD MEMBER TAYLOR: All right. Thank you.

PRESIDENT FECKNER: All right. Seeing no other requests. Thank you.

MR. RODA: Thank you.

MR. CROWLEY: Mr. President, members of the Board, thank you for having me. As you may know, my colleague Eric Love was planning to join me. He had a death in the family, so he sends his regrets.

I'm going to give a -- an overview on where things stand with revisiting Dodd-Frank, and touch on a couple of other legislative items that we're focused on, and a couple of rule-makings and then I'd be happy to take any questions.

With respect to Dodd-Frank reform, as a threshold matter, I think it's important to point out that CalPERS was very actively involved in lobbying for some of the core reforms in Dodd-Frank, specifically Title 7 around regulation of swaps, which are not touched in any of the currently reform proposals. And so I think it's important to recognize that there have been significant progress there that is not under threat.

On the other hand, there are a number of provisions that CalPERS has supported that very much are under threat, particularly in the House passed bill, the Financial CHOICE Act. We have focused our advocacy on the most egregious corporate governance provisions. There are certainly others. The bill would repeal funding for the Governmental Accounting Standards Board, for example, which the Council of Institutional Investors has weighed in.

But we have -- we have chosen to focus on sort of the top five or six issues, re-regulation of proxy advisor firms, proxy access, universal proxy, repeal of the DOL fiduciary duty rule, exempting private equity fund advisors from registration requirements, imposing draconian cost-benefit requirements on the SEC, and so forth and so on.

The House has passed its bill. It's a very conservative bill, but it really is not much more than a marker for subsequent discussions at this point. All eyes are now on the Senate, where Chairman Crapo and Ranking Member Brown have been working together to find bipartisan areas of agreement. Going back to Chris's comment that no law has ever been passed that does not require care and maintenance, certainly Dodd-Frank falls into that category. And there are dozens of provisions that enjoy broad bipartisan support that are not particularly troubling.

On the other hand, the more controversial provisions in the Financial CHOICE Act we continue to monitor. We do not expect to see Senate legislation until after the first of the year. In the meantime, we've -- everybody is waiting to see what comes out of Treasury. They are expected to issue a series of reports they did the first one couple of months ago focusing on bank regulation, orderly liquidation authority, and so forth.

The next report will be on capital markets issues that are near and dear to CalPERS heart. We expect to see that report later this month or early next month. There will be two more to follow. And clearly, those Treasury reports, the first one being relatively fair and balanced, will inform the discussion in the Senate. The one caveat is that the legislative process is so dysfunctional, for lack of a better word, that there will be efforts to incorporate some of the Dodd-Frank fixes into the appropriations process.

So, for example, the House has passed an appropriations bill that includes a number of fairly controversial provisions, including repeal of the Volcker

Rule and that sort of thing. So we're monitoring that very closely. We do not expect most of those provisions to make it through the Senate. Some of them undoubtedly will get through, but we expect most of those to enjoy at least some level of bipartisan support.

On other legislative matters, we've been actively following senator Jack Ree's Bill S536, the Cybersecurity Disclosure Act. CalPERS sent a letter of support several weeks ago, and we will continue to post to you on progress for that bill. This bill would require the SEC to provide for disclosures about cybersecurity expertise on corporate boards.

Congressman Gregory Meeks has HR 970, Improving Corporate Governance Through Diversity Act. As you know, this is an area that we have focused quite a bit of attention over the last couple of years. I'm pleased to report that Mr. Jones will be presenting at the Congressional Black Caucus Foundation annual legislative conference later this week in Washington D.C. The focus of that conference is breaking down barriers to corporate boards and diversity. So that's good news.

On the rulemaking front, we are in the process of preparing comments to a Federal Reserve request for guidance on supervisory expectation for boards of -- on banks. And then most recently, we provided a comment letter to the SEC in connection with their review of the PCAOB auditing standards that is somewhat controversial. But I think, at the end of the day, the SEC is likely to ratify the PCAOB proposal.

So in the interest of time, I'm happy to stop there and take questions.

PRESIDENT FECKNER: Thank you.

Mr. Jelincic.

BOARD MEMBER JELINCIC: The PCAOB, the Chairmanship, can you give us an update on what's going on there?

MR. CROWLEY: Yes, sir, as I understand it, the candidate to succeed the current chairman has been either named or has been discussed. Bill Duhnke has been the chairman.

BOARD MEMBER JELINCIC: I'm sorry, who?

MR. CROWLEY: William Duhnke. He is past staff director of the Senate Banking Committee, as well as the Senate Intelligence Committee. Long time Senate Congressional staffer, primarily for Richard Shelby, Senator from Alabama who chaired the Senate Banking Committee. But that's the only name I've heard.

BOARD MEMBER JELINCIC: Thank you.

PRESIDENT FECKNER: Thank you.

Seeing no other requests.

Anything else, Ms. Ashley?

LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: No.

PRESIDENT FECKNER: All right. Very well. Thank you.

Brings us to Agenda Item 11, Summary of Board Direction. Ms. Frost, do you have anything that popped up?

CHIEF EXECUTIVE OFFICER FROST: Mr. President, I noted one, and that was related to Agenda Item 8a and remanding back to the ALJ to take in additional evidence regarding the date that the member's disability began.

PRESIDENT FECKNER: Very good. Thank you.

Brings us to Agenda Item 12, Public Comment. I do have a number of requests to speak. I'm going to ask the entire Corona group to come down first. Jason Perez, Russell Leonard, Matthew Fortine, Bryan Snow, Karen Eden, and Karen Spiegel -- Kerry Eden and Karen Spiegel.

Will you all please come down front. You'll have up to three minutes for your comments. Please identify yourselves for the record, and then you'll -- the clock will start when you begin to speak.

There's room for you all up here. Come on up all six of you. All right. We'll just start on my left, how's that?

MR. PEREZ: Good morning. My name is Jason

Perez. I'm the president of the Corona Police Officers Association.

Earlier last month, I guess, I had said that I'm representing, you know, the 162 police officers that we employ, the men and women of the Corona Police Officers Association. And I had said that I was speaking on behalf of the other labor groups as well. Well, now I don't have to do that, because the other labor groups are here, because we all realize the big problem that this is causing.

I took some brief notes. I'm impressed about the voter -- I don't know what you typically get for a voter turnout. But so far, with 12 days left, I think it was, that's a pretty significant of voters coming in, which should indicate to the Board that these are trying times and people want to see the right people that are in place. Where that lands, I don't know. But either way, it's a big deal.

So on the video outside, there's -- they're livestreaming this on the wall -- on the other side of this wall. And on that bottom of that video feed, or in quotes are the words, "We serve the people who serve California".

I wish that were so. You -- so as a guy that works out in the field, as a policeman that works out in the field every day, when I read that, I think, oh, man, these guys are out making sure that I'm going to have money when I retire. They're not worried about the ESGs or the social stuff that they need to worry about. They're trying to invest money in the right way. But I don't -- I don't feel that at all.

Last time -- now, I've spoken to several of on the phone. I've emailed several of you, and I've met personally with several of you. And I appreciate the time that you've given me for that. And I've emailed the offices of the others that I've not heard back from. If you want to speak, my email is jason@coronapoa.org.

I feel that listening to everything and speaking with the Board members and team members of PERS, I think there is a disconnect between staff and the Board that needs to be resolved. There's -- well, simply said, there's -- politics and pensions just don't mix. That's all there is to it for that.

And I understand Claude -- I saw Claude in the back here from PORAC, and he spoke yesterday. And the Corona Police Officers Association is going to stand apart from PORAC, and we are endorsing Margaret Brown and Michael Flaherman for the Board.

Thank you.

PRESIDENT FECKNER: Thank you.

MR. SNOW: Good morning, President and Board of Administration. My name is Bryan Snow. I'm also from -- on the Board of the Corona Police Officers Association.

Over the last seven months either myself or others from our board have attended meetings here, met with many of you, and like Jason said, we really appreciate the time that you've taken out to listen to us and hear our concerns. Like we've always said, we want to be part of the solution. We come here because we're passionate about what is going on, and want again our voices to be heard, and not just heard but hope that you understand where we're coming from, and what needs to be done.

Just -- I want you to know some of the personal risks that I take being here. It's on a little bit lighter note. But I am married. I have five kids. And I come here on my days off. And luckily, I only came here today for just today, early morning flight. But I take a lot of personal risk in that, because it's a lot of demands on my wife, and dealing with kids with sports. And the oldest is 14 and the youngest is four.

So there's a lot of school and things. And so a lot is -- burden is placed on her. And if this keeps up, I may have more time on my hands to be up here, so -- but I'd rather not -- that not be the case, and that -- that we don't have to come up here so often to remind you of your mission, which is to deliver retirement and health care benefits to members and their beneficiaries.

And I also want to remind you of the California Constitution, which we've mentioned previously, that, "The assets of a public pension and retirement system are Trust funds, and shall be held for the exclusive purpose of providing benefits to participants in the pension. The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interests of, and for the exclusive purposes of providing benefits to participants and their beneficiaries; minimizing employer contributions thereto; and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty".

It's pretty clear. There cannot be another -- and I don't want to harp on it, because it's been a few years now, and you guys did a lot better this year, but we can't have another 0.61 percent year. The sustainability of this fund is at stake, and the CalPERS forecasts that we heard last month are not encouraging.

So we demand that you stop divesting. We demand that you suspend ESG until CalPERS can become fully funded. You cannot provide any justification to do otherwise, because it violates your mission, and it violates the State Constitution.

We demand that you make whatever changes are needed to recover, even if that makes you uncomfortable or goes against what you feel personally, whether that means that there needs to be team member adjustments, whether changes in asset allocations, less politics, which shouldn't even be a question, or Board changes --

PRESIDENT FECKNER: Please wrap-up. Your time is up.

MR. SNOW: All right. If you're unwilling to make these changes, then I ask you to resign.

Thank you.

PRESIDENT FECKNER: Thank you.

MR. LEONARD: Good morning, Board. My name is Russ Leonard. I'm President of Corona General Employees Association, and I'm here again to remind you of your fiduciary duty to your members.

Just glancing at the CalPERS story on the website, the very first sentence is, "CalPERS is about people". And it goes on to read, "We ensure that our members' benefits and earned retirements are as enduring as the State they maintain".

So should you ask any of your members, I think you'd be hard pressed to find a single one that feels that you're following that mission. To put it lightly, we're concerned that the investments aren't being made in our best interest.

Additionally, I'd like to address an article that was in Bloomberg on September 8th of this year. I'm sure you guys have seen it. It talks about CalPERS and the possibility of outsourcing investments to a management firm called BlackRock. To follow through on this I think would be a bad move. First, it adds another layer of fees to our already disappointing returns. And second, there's no guarantee it would improve our returns. In fact, research shows that it has the opposite effect.

Furthermore, the article mentions that other pensions that have attempted this are now turning away from it due to such dismal returns and high fees.

In closing, we ask that you continue to keep investments in-house and let our team members do their job. Stop restrictions on where our investors can invest, and make it start working for the people again.

Thank you.

PRESIDENT FECKNER: Thank you.

MS. EDEN: Good morning. My name is Kerry Eden. And I'm the Assistant City Manager and Administrative Services Director for the City of Corona. I'm here again this month to request the Board's help in exploring and finding solutions to achieve long-term sustainability for its business partners and members.

As with many other agencies, Corona had to make many cuts and changes during the recession to balance the budget and quite frankly survive. Since 2007, almost 250 positions have been eliminated from the City of Corona. All of our employee groups participated in suspending benefits and taking concessions during the Great Recession.

Our miscellaneous employees have not had a COLA in over 10 years. While the recession is behind us, our financial challenges are not. Corona is struggling with CalPERS rate increases, which is leading us to make some very difficult decisions that may include eliminating or reducing services across the city, including fire, police, and parks and recreation; closing public facilities such as our library; and putting a hiring freeze on positions.

Additionally, we are currently in negotiations with all of our employee groups to eliminate and reduce benefits to help offset these rate increases.

Since 2003, Corona's annual contribution amount has increased from 5.5 million a year to 23 and a half million. This is more than a 3 in a -- 300 percent increase. According to our latest actuarial, an additional increase of 14 and a half million over the next five years is to be expected, making the contribution amount 38 million.

Our current budget and five year forecast requires the use of reserve funds to balance our budget. We are on a path to insolvency with our reserves of 47 and a half million being depleted in fiscal year 2021.

In yesterday's Finance and Administration Committee meeting, data on public agencies funded status was provided. It was reported that only one city fell within the 50 to 60 percent funded status with all others being above this category. With our contribution amount being 23 and a half million this year and growing every year thereafter, we do not have the revenue to support paying an additional amount to help manage our funded status. I anticipate Corona dropping into this 50 to 60 percent category next year.

Shared commitment and responsibility is the only way for us to achieve long-term sustainability. We are in this together, and here to help find meaningful solutions to address the challenging times ahead of us and to protect our employees.

Thank you.

PRESIDENT FECKNER: Thank you.

MS. SPIEGEL: Karen Spiegel, Vice Mayor of Corona and also a member of CalPERS.

"As I've said many times before over the past several months, we have immediate challenges that deemed our full and undivided attention. We must focus on the funded status to ensure the long-term future of CalPERS' fund. We need to carefully and thoughtfully design the right asset allocation mix, so that our investments can achieve strong risk-adjusted returns over many decades. And we must always strive to seamlessly deliver the benefits to our members have earned. These are my top priorities". Thank you, Ms. Frost.

This was in the newsletter that every member receives. We read these things that are printed, and that's what we're feeling is happening. Well, as I won't repeat some of the numbers that Ms. Eden has, but our city does not have any extra revenue sources, no extra funding sources, other than basic property tax and sales tax. We don't have an extra sales tax measure above and beyond the normal. We don't have any other ways that we work the system.

And being a full service city with over our on police department and fire department for over 100 years, you can imagine the large pool of retirees that we have.

Most cities don't have that. They're newer. They have less retirees. And since 1999 this system, our system - we're all part of this - has gone backwards with the retro and just the terrible market returns. This year it was good. But when you sit here and you hear about that over the next 20 years, the return is just over six percent, 20-year average over six percent.

A little more detail on the mission, another place that we receive as members. "To provide responsible an efficient stewardship of the system to deliver promised retirement and health benefits while promoting wellness and retirement security for members and beneficiaries".

Our members, your members, are not feeling the security. And I know it's not just our city. The 2017-2022 strategic plan goals for CalPERS include strengthen the long-term sustainability of the pension fund. With the discount rate currently at seven and a half, and it will be dropping over the next three years, and stay at about that six percent, this is what you're basic the discount rate. And if you drop that, our contribution goes up.

And that's not even -- that's above and beyond what Kerry has already just said. And with this being said, I have to question this Pension Buck that says $0.62 of CalPERS investment earnings for every buck, 25 percent CalPERS for the employers, and $0.13 for CaLPERS members.

This is --

PRESIDENT FECKNER: Please wrap-up. Your time is up.

MS. SPIEGEL: Thank you.

PRESIDENT FECKNER: Thank you.

MR. FORTINE: Good morning, everyone. My name is Matthew Fortine. I'm a proud board member of the Corona Firefighters Association, IFF Local 3757.

First, I'd like to thank Mr. Bilbrey for coming to San Diego earlier this year, speaking to the First District of the California Professional Firefighters, getting us up to speed on some of the challenges that we're facing and answering questions for us. And you mentioned if we had concerns to come bring them before you, so here we are.

I'm here in solidarity with all the other labor groups from the City of Corona, as well as city management and council. I ask that the Board take note of this significance, of all these stakeholders being in one accord asking that the Board focus on simply one thing, making as much money as you can.

There was much talk and comparison yesterday to a home mortgage. And I have a mortgage. I entered into a financial contract, and I made may payment every month. I have no worry that in doing so that my home will be taken away.

And the second largest bill I make every month is my employee paid PERS contribution. I've paid nine percent out of pocket since the day I got hired in 2004. It's currently ten and a half percent. And since I love the idea of receiving my pension, I'm happily going to pay 12 percent next year.

Even though I've made these payments, I do fear in the back of my head that the pension won't be there when it's time to retire, regardless of the payments that we made.

So I ask you again, please focus on making more money for us. Thank you very much.

PRESIDENT FECKNER: Thank you.

We thank you all for being here today and for your comments. We certainly take them very seriously. So thank you for coming and attending today.

Next, we have Neal Johnson and Dane Hutchings, please come forward.

Again, identify yourselves for the record. And you'll have up to three minutes, and the clock will start when you begin to speak.

MR. JOHNSON: I'm Neal Johnson. I'm with SEIU Local 1000.

I'm going to make comment on two things. One is I want to thank the security people who work the after-hours here for escorting me to the parking lot, and then after a subsequent call, actually opening the gate to get out last night, because the Pension and Compensation Committee had a lengthy deliberation in closed session, and opened session didn't start until nearly 7:00 o'clock. While I think those employees should be State employees, they aren't and that's a discussion for a separate time.

The other issue I want to address, and this is mainly to Mr. Jones who raised the question yesterday in Finance and Admin about the 403(b) plans. As far as I know, the State of California is the only PERS agency that hires significant number of teachers for actual class room instruction. Primarily, they're hired in the State special schools dealing with the blind and deaf in Riverside, Fremont, and Hayward and the three diagnostic centers in Los Angeles, Fresno, and I believe Hayward.

And then the biggest block is in Department of Corrections, particularly in the juvenile justice system, because the State of California is required as -- State law requires all children under age 18 to go to -- attain a high school degree or get to age 18, the old California Youth Authority, now the -- part of the Juvenile Justice System of Corrections runs three high schools, O.H. Close, N.A. Chaderjian, and Mary B. Perry in Ventura, and it was maybe 2000.

Also, in about 2008-2009 the Treasury changed some regulations with respect to entry into 403(b) plans, and eliminated people who were, for example, cooks in a educational setting, and really went to certified teachers. The State had a number of people in the 403(b) in that time administered by the State Controller's office, because it was payroll deduction.

That got shifted to CalSTRS in 19 -- 2010, because that's really where it should be placed. I don't know how many -- there are about 85 to 90 State civil service employees, of which about ten are supervisory. We represent the balance of them, who are in STRS because of having come in as teachers and having an option to stay in STRS or move to PERS.

And, at that same time, as I said, the 403(b) program was moved over to STRS as the State agency. And so that's why it doesn't come up here, Mr. Jones.

Does that help you or --

VICE PRESIDENT JONES: No.

(Laughter.)

MR. JOHNSON: Okay.

(Laughter.)

VICE PRESIDENT JONES: I'll talk to you later.

(Laughter.)

MR. HUTCHINGS: Good morning, Chair and members.

Dane Hutchings with the League of California Cities. Pleasure to be here today.

Yesterday, we had a robust discussion on pricing options based on those letters that were submitted by Senator Moorlach. And there were a few comments I wanted to, you know, make clear given the discussion went sort of in a different direction.

First off, I want to thank Mr. Gillihan's -- for his comments specifically. I think you brought a lot of balance to the discussion. You know, and quite frankly, I take exception with some of the comments made by my employee counterparts which insinuated that we believe or the League believes that this body is at the -- is asleep at the wheel on these issues.

On the contrary, the League fully understands and appreciates how active the Board and your incredible staff have been working on a variety issues pertaining to the pension system sustainability.

It was discussed yesterday that CalPERS is one of the most complex systems, rightfully so. We have the most members. We're the largest fund in the country. So whether we are talking about COLA adjustments, prospective benefit changes, asset allocations, ESGs, health benefit costs, and all of the other factors, all of it paints a full picture of the full cost drivers that strain the fund.

The league's support of Senator Moorlach's letters yesterday was simply an effort to ensure that our members and all stakeholders fully understand the weight of the pension obligations have on our ability to provide critical services to the public, and also provide the pensions that we are negotiating with our employees and ensuring that our retirees are taken care of as well.

The League of California Cities, despite what I think some folks around the State think, we are pro defined benefit. Our policies are clear. We are very pro defined benefit. We are not anti-pension. We are not anti-worker. We simply are here to ensure that we can guide our members.

You know, folks like the -- folks of Corona, you know, from top to bottom they're on the same page. They understand the issue. And we're hoping that we can -- that a lot of our cities in the future and the following months in this next year are going to be on the same page as them.

So you're going to be seeing a lot of me in the next couple of months. And I thank you very much for your time today. And again, I'm going to end with saying that we are very, very willing and want to be a partner with you, and our employee counterparts, our retirees, and all stakeholders. We want to ensure we have a sustainable pension fund. So thank you for your time today.

PRESIDENT FECKNER: Thank you.

Thanks for being here.

So seeing not other requests to speak, we were -- we will now adjourn the open session and resume closed session at 11:15.

Thank you all for being here.

(Thereupon the California Public Employees' Retirement System, Board of Administration open session meeting adjourned at 11:02 a.m.)

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

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

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration open session 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 26th day of September, 2017.

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