MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, FEBRUARY 13, 2018

1:15 P.M.

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

COMMITTEE MEMBERS:

Ms. Theresa Taylor, Chairperson

Mr. Richard Costigan, Vice Chairperson

Mr. Rob Feckner

Mr. Richard Gillihan

Mr. Henry Jones

Mr. David Miller

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Ms. Priya Mathur, President

Ms. Margaret Brown

Mr. John Chiang, represented by Steve Juarez

Ms. Dana Hollinger

Mr. Ramon Rubalcava

Mr. Bill Slaton

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Charles Asubonten, Chief Financial Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Mr. Brad Pacheco, Deputy Executive Officer

Mr. Scott Terando, Chief Actuary

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

STAFF:

Ms. Fritzie Archuleta, Deputy Chief Actuary

Mr. Randy Dziubek, Deputy Chief Actuary

Mr. Kelly Fox, Chief, Stakeholder Relations

Ms. Kimberly Malm, Chief, Operations Support Services Division

Ms. LaRiesha Simmons, Committee Secretary

Ms. Anne Simpson, Investment Director

Mr. Clint Stevenson, Investment Director

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

ALSO PRESENT:

Mr. Mike Futrell, City of South San Francisco

Mr. Dillon Gibbons, California Special Districts Association

Mr. Dane Hutchings, League of California Cities

Ms. Dorothy Johnson, California State Association of Counties

Mr. Richard Lee, City of South San Francisco

Mr. Dan Matusiewicz, City of Newport Beach

Ms. Donna Snodgrass, Retired Public Employees Association

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P R O C E E D I N G S

CHAIRPERSON COSTIGAN: All right. Well, good afternoon. We're going to call to order the February 2018 meeting of the Finance and Administration Committee.

And the first item of business is to call the order and the roll call, please.

COMMITTEE SECRETARY SIMMONS: Richard Costigan?

CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY SIMMONS: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY SIMMONS: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good afternoon.

COMMITTEE SECRETARY SIMMONS: Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Here.

COMMITTEE SECRETARY SIMMONS: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY SIMMONS: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY SIMMONS: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON COSTIGAN: Okay. All Committee members are present.

The next item of business is the election of the Finance and Administration Committee Chair and Vice Chair.

So I'm going to turn it over to Ms. Taylor -- no, I'm sorry -- yes, I'm going to turn it over to Ms. Taylor right to run the election.

VICE CHAIRPERSON TAYLOR: Okay.

CHAIRPERSON COSTIGAN: So -- and then if you'll call on me, please.

VICE CHAIRPERSON TAYLOR: You go it?

CHAIRPERSON COSTIGAN: So, Ms. Taylor, if you would call for an election for the Pres -- or the Chair of the Committee.

VICE CHAIRPERSON TAYLOR: So I'm going calling for an election for the Chair of the Committee. And I'd like to turn this over to Mr. Costigan.

CHAIRPERSON COSTIGAN: Madam Vice Chair, I'd like to nominate Theresa Taylor for Chair of the Finance and Administration Committee. I think for the last year you have done an excellent job and I think we've accomplished some really good work, and I think it's time for you to engage on a more -- even more than you've done before.

So I would be happy to place your name in nomination for Chair of Finance and Administration.

VICE CHAIRPERSON TAYLOR: All right. Thank you.

Are there any other nominations?

Are there any other nominations?

Are there any other nominations?

Okay. With that, Theresa Taylor has been nominated for Chair of the Committee.

We'd like a motion to --

COMMITTEE MEMBER FECKNER: Yeah. I'll move that we elect by acclamation.

VICE CHAIRPERSON TAYLOR: All right.

COMMITTEE MEMBER MILLER: Second.

VICE CHAIRPERSON TAYLOR: And we have a motion and a second by Miller to elect by acclamation.

And all those in favor say yea?

(Ayes.)

(Yeas.)

CHAIRPERSON TAYLOR: All right. Thank you.

COMMITTEE MEMBER COSTIGAN: Congratulations.

(Applause.)

COMMITTEE MEMBER COSTIGAN: I'll switch seats for right now.

CHAIRPERSON TAYLOR: Okay. Are we on?

Am I on?

COMMITTEE MEMBER COSTIGAN: You're on.

CHAIRPERSON TAYLOR: Okay. So next order of business is the election of the Vice Chair. I'd like to call on Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Madam Chair. I would like to nominate Richard Costigan as the

Vice Chair of this Committee. I think he's done an outstanding job over the last year as Chair of the committee, and I'd like to see him continue to serve in a leadership role. Thank you.

CHAIRPERSON TAYLOR: Excellent. Do we have -- we have a nomination for Mr. Costigan for Vice Chair.

Do we have any other nominations?

Do we have any other nominations?

Do we have any other nominations?

No. Hearing none.

I'd like to hear a motion for election by acclamation

COMMITTEE MEMBER FECKNER: I'll move.

CHAIRPERSON TAYLOR: Okay. I have a motion from Mr. Feckner.

Do I have a second?

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: Second from Mr. Jones.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All right. All those opposed?

All right. Mr. Costigan is the Vice Chair.

(Applause.)

CHAIRPERSON TAYLOR: And we need five minutes to get everything together.

Thank you.

(Pause in the proceedings.)

CHAIRPERSON TAYLOR: Okay. All right. I think we're back in business. Thank you, everybody. I'm honored to be Chair of the Finance Committee. It's already on Twitter. That was odd.

(Laughter.)

CHAIRPERSON TAYLOR: So I want to go forward and -- I want to go forward with our next item, and that is our Executive Report. Go ahead, Mr. Asubonten.

CHIEF FINANCIAL OFFICER ASUBONTEN: Good afternoon Madam Chair and Committee members. Charles Asubonten, CalPERS Chief Financial Officer.

Congratulations on your elections, and Member Costigan congratulation as the Vice Chair. It's a pleasure to see both of you in the leadership role, especially for Vice Chair Costigan from -- experience from last year, look forward to working with you.

So on behalf of myself and the entire organization, I wanted to thank you, congratulate you, and look forward to working with you. Before we get started today, I want to take this opportunity to inform the Committee of the enhancement to corporate supplemental income plans. This is the 457 Plan.

The plan is a deferred compensation plan for public agencies and schools. We intend to add a 457 option. And this would allow participants to save for retirement on an after-tax basis. The enhancement is consistent with recent trends in retirement plan offerings, and also receiving feedback from public agencies. And this provides participants additional capacity to enhance their retirement readiness. I should add, the State already offers this through CalHR.

Next, I'll provide an update on Committee direction provided at the December meeting. If you recall, Herald Fire Protection District, which voluntarily terminated its pension contract in February 2016 has not paid the termination cost of $404,000, which was due on January 20th, 2018.

On January 22nd, 2018 a final collection notice was sent to the agency and impacted members were notified consistent with our process.

A final demand for payment was sent on February 6th 2018, providing the agency 30 days to pay amounts owed. Notification was sent to impacted members and the Herald Fire Protection District Board as well.

At this time, payment for the termination liability has not been received. We will continue to communicate with the district to resolve the delinquency.

If left unresolved, in April, we will request that the Committee recommend the Board declare the district in default, which will require reduction in retirement benefits.

Before I move to the agenda before us today, I'll have Brad Pacheco provide an update on December's Committee direction regarding legislation on school employee enrollment.

DEPUTY EXECUTIVE OFFICER PACHECO: Thank you, Charles. Good afternoon, Madam Chair. Brad Pacheco, CalPERS team.

At the December Finance and Administration Committee, direction was given to the team to explore potential legislative solutions for an issue that can be faced by our classified school employees. And just as a reminder, as Mr. Feckner articulated, school employees that are not enrolled in the system due to the limited hours that they may work, are often faced with the challenge if they want to purchase that time back later in their career, service prior to membership.

And the challenge is is that the employer may not always retain the proper records that are needed to validate that employment. And so one of -- the direction was given for us to explore a requirement for mandatory enrollment by school employees when they join a school system regardless of the number of hours that they work. So we did some research. A couple things to note. The law currently allows the county office of education to amend their contract to require mandatory enrollment today. To date, no county office of education has done so or amended their contract.

We did meet with our stakeholder leaders both the school employer leaders, and the labor unions that represent classified school employees. The good news is they're very willing to work with us on this issue, both parties. They did express some initial concerns around mandatory enrollment. From an employer perspective, it does increase costs, because you're enrolling a member in the system and an employer is starting to pay for that member from day one.

Both parties, both employers and labor, also expressed some concern about -- around recruitment and retention of classified school employees at this level. Many of these employees are working limited hours. And while there's a value to be part of a defined benefit plan, they may not want to contribute to the plan out of their paycheck, because it does reduce their wages. And so there was some concern about whether they could recruit the type of employees that they need.

So we have had conversations with Mr. Feckner about this. We want to explore some additional solutions. Given that the bill deadline for new bills is Friday, we want to take our time to make sure we get this right. And so we're going to be doing that over the course of the next few months and come back with some options. So unless there's any questions, that's the path forward that we're going to take.

CHAIRPERSON TAYLOR: All right. We do have some questions from the Committee.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Madam Chair. Mr. Pacheco, I'd assume, since we're not going to have a bill by Friday, we're not going to introduce a spot bill. So therefore, we'll spend the remainder of the 2018 session just working on a resolution and have legislation in 2019?

DEPUTY EXECUTIVE OFFICER PACHECO: That's correct. And we're also going to look at our own internal processes to see if there are ways that we streamline it where we can accept other types of forms to validate the employment from the employer to make it easier on the member as well.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Pacheco. Thank you, Ms. Taylor.

CHAIRPERSON TAYLOR: I have no further questions.

Mr. Asubonten.

CHIEF FINANCIAL OFFICER ASUBONTEN: Next, we'll move the action items for today. We will cover the review of the Committee delegation. The second action item is the second reading of the Amortization Policy. The Actuarial Office is recommending changes to the actuarial Amortization Policy for public agencies, State, schools, in the actuarial valuations.

The third action item seeks approval for the 2018 CalPERS Board of Administration State, school, and public agency elections, notice of election.

We have three information items today. Team members will present the proposed discount rate, and supporting information for the CalPERS long-term program. You will hear a report on the 2017 CalPERS Board of Administration member at-large election results, highlighting voter statistics for both the primary and the runoff elections.

We'll conclude the meeting with the Annual Diversity Report highlighting initiatives, programs, and accomplishments from the last fiscal year.

The next Finance and Administration Committee is scheduled here in Sacramento for April 17th, 2018, and would include the first reading of 2018-19 annual budget; annual review of Board member employer reimbursements; and request to transfer assets and liabilities to San Bernardino County Employees Retirement Association; and an extension on the EMC IT contract.

Madam Chair, that concludes my report and I'd be pleased to take any questions at this time.

CHAIRPERSON TAYLOR: All right.

Seeing no questions.

Let's move on to Item 4, our action consent items. Can I get --

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON TAYLOR: Thank you. I got a motion to move it from Mr. Jones.

COMMITTEE MEMBER GILLIHAN: Second.

CHAIRPERSON TAYLOR: I got a second from Mr. Gillihan.

Is this a vote -- or all -- all in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All opposed?

Motion carries.

That means we're moving on to Consent Items, 5. I didn't have anything pulled off and no discussion. That's our Calendar review.

So we are moving to Item 6, Delegation Review.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Good afternoon, Madam Chair, Mr. Vice Chair, members of the Committee and the Board. Marlene Timberlake D'Adamo CalPERS team member.

This Agenda Item 6 comes to you as part of the annual review process for the Committee's delegation. At this time, we are not recommending any changes to the proposed delegation, which was approved last year in 2017.

At this point, I'll take any questions, if there are any.

VICE CHAIRPERSON COSTIGAN: On Item 6a.

CHAIRPERSON TAYLOR: Are there any -- there are not questions on Item 6a?

This is an action item.

VICE CHAIRPERSON COSTIGAN: I'll move 6a.

CHAIRPERSON TAYLOR: Well, I have a motion.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: I have a second. I have a motion by Mr. Costigan, a second by Mr. Jones.

All those in favor of adopting -- adopting 6a?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Okay. Seeing none, the item passes.

Thank you.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Thank you.

CHAIRPERSON TAYLOR: That means we're moving on to the actuarial reporting. And I guess that's Scott Terando and Randy -- Randy, I'm saying your last name.

DEPUTY CHIEF ACTUARY DZIUBEK: I was waiting. Randy Dziubek.

CHAIRPERSON TAYLOR: Dziubek. Okay.

(Thereupon an overhead presentation was presented as follows.)

CHIEF ACTUARY TERANDO: Good afternoon, Madam Chair, members of the Committee. Scott Terando, Chief Actuary.

Back in November, we -- our office presented a initial reading of the Amortization Policy. We had suggested a number of changes to the policy, and we ran through some of the reasons behind those choices.

Based on feedback that we got from the Board, a number of employers, and employer organizations, as well as labor organizations, we met -- we went back, we reviewed the comments that were made. We looked at some of the options that we had available, and we also held a webinar, where we sat back -- we solicited feedback from employers, as well as provided additional explanations behind the policy.

With that, we're back today to go over our recommendations for our suggested changes. And with, that I'm going to pass over to Randy Dziubek who will kind of step through our choices, our recommendations, and kind of some background on why we made the choices we did.

DEPUTY CHIEF ACTUARY DZIUBEK: Thanks, Scott. Good afternoon. Randy Dziubek, CalPERS actuarial team.

As Scott said, we're going to talk about our proposed Amortization Policy. Now, this is an action item, and we have prepared this with all of our proposed changes to the policy.

However, as you'll see in both the agenda item and in the slides we'll talk about today, we have opened up the discussion to include some variations of our proposed changes just for completeness and for consideration by the Board and the Committee.

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DEPUTY CHIEF ACTUARY DZIUBEK: Whenever you design an Amortization Policy, there are a number of factors and goals that you take into account. And three of them are on this particular slide. These are three very important goals that we looked at in coming up with this proposed policy: Benefit security, intergenerational equity, and contribution payment stability.

I think the first and the third are pretty straightforward. Intergenerational equity is simply the concept of paying for the benefits of the members in the plan during their period of active service.

And the reason that that's important is if we -- if don't do that, if the costs for those benefits extends beyond that period of time, while now we have new active members that have taken their place. And we're basically shifting the cost of the benefits from one generation to another.

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DEPUTY CHIEF ACTUARY DZIUBEK: So why are we coming to you and recommending some changes?

I think with regard to the first two goals, this is where we believe that we can attain some improvement with a couple changes, so benefit security, and intergenerational equity. And we'll discuss that in more detail as we get into the presentation.

With regard to the third item, contribution stability, we recognize that as we attempt to make improvements in these first two areas, that can sometimes introduce additional contribution volatility. So this is a balancing act. We've got a lot of objectives, and it's nearly impossible to satisfy all of them to the fullest extent we would like. So we do our best to balance the different objectives.

And also, we think it's important to recognize the industry standards that exist. There are no hard and fast rules that this kind of UAL has to be amortized this way or that way. There's a lot of guidance out in the industry, mostly prepared by actuarial bodies who have obviously a lot of experience in this area, and we won't go into all of their recommendations and discussions, but we will say that in a couple areas the current CalPERS policy is outside of their recommendations.

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DEPUTY CHIEF ACTUARY DZIUBEK: So this is what our current Amortization Policy looks like. Our unfunded liability for each of our plans is made up of various layers. A layer is created any time something happens unexpectedly, an actuarial gain or loss, a change in our assumptions, a benefit provision change.

So every year through our valuation process, the actuaries measure the impact of those changes, and we establish a line item in our amortization schedule. And each of those items has its own specific payment schedule. The period overwhich we amortize those changes is shown on this slide. So, for example, gains and losses are currently amortized over 30 years.

Assumption changes 20 years, and benefit changes 20 years. Golden handshake is just a specific type of benefit change, and those are amortized over five years.

Now, in addition to the period, another important factor of the policy is the pattern of the year-by-year contributions. In a more simple example, very comparable to a mortgage on a house, you may set up a level payment schedule. We call that level dollar amortization. So if the payment in year one is $1,000, it's $1,000 in every year throughout the payment period.

Now, CalPERS uses an increasing schedule, which a lot of other systems around the country also use. And that is -- the schedule is set, so that the first year payment is lower than it otherwise would be, and it increases by a fixed percentage amount every year throughout the payment period.

So it starts lower, ends higher, pays off the same amount as it would for a level dollar approach. It's just a different pattern of payments.

Then thirdly on this slide, we have a feature of our Amortization Policy that we call our ramp. And basically, what that does is it phases in the impact of these new UAL payments over a five-year period. So when a new base is created, rather than charge the employers the full first year annual payment, we charge 20 percent in some cases, and then the second year 40 percent, 60, 80. It takes five years to fully phase in to that full annual payment.

So we have that five-year ramp up on several of the bases, not all, and also a five-year ramp down in the last five years of the period.

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DEPUTY CHIEF ACTUARY DZIUBEK: So from a high level, what are we recommending we change?

Well, going back to our periods, we saw that gains and losses are amortized over 30 years, and we have become less comfortable with that 30-year period. We would like to suggest a shorter than 30-year period for gains and losses.

We are also recommending that we switch from a level percent of pay, or increasing payment pattern, to a level dollar pattern. With regard to the ramps, we are proposing that we eliminate all of the ramps on the back end of the period, so all of the down ramps, and we're also proposing that we eliminate the ramps on the front end for everything except investment gains and losses. And we'll talk about why that is later in the slides.

Now, a very important point is that these proposed changes will affect only new UAL changes whether positive or negative. So any basis that currently exists in a plan's amortization schedule would continue to be amortized under the current policy.

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DEPUTY CHIEF ACTUARY DZIUBEK: Now, these next couple of slides, slides 6 and 7, I'm going to just give kind of a high level overview of these. I want to get to slide 9, which has the meat of the presentation.

So these slides go through point by point the effects of, first of all, a shorter amortization period, and then secondly, switching from level percent to a level dollar pattern. And I think just generally you can go through these points. Some of them are fairly self-explanatory. But in general, with regard to our objectives, a shorter period and level dollar amortization we believe will result in an improvement with respect to the goals of benefit security and intergenerational equity, but on the flip side, will possibly introduce a little bit more contribution volatility.

And the only other point I'll make on these is level dollar amortization does eliminate negative amortization, which is something that we've talked about in previous discussions. Negative amortization simply means a payment in any year is not as great as the interest on the outstanding balance. And when that happens, by the end of the year, the outstanding balance has actually gone up rather than gone down. We call that negative amortization. And that tends to happen with level percent of pay patterns with longer periods.

Switching to level dollar amortization gets rid of negative amortization, even with longer periods.

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DEPUTY CHIEF ACTUARY DZIUBEK: And as we said, with regard to ramps, the only ramp we are proposing to keep is the five year ramp-up on investment gains and losses. And the reason for that is just to -- we think we'll need that to control contribution volatility at a reasonable level. Other systems around the country, primarily use some type of asset smoothing, which accomplishes the same goal. We made the decision several years ago to move away from asset smoothing and simply use market value in our valuations. And so without this five-year ramp, we could see substantial contribution volatility.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. Slide 9. There's a lot going on here obviously, but we like the fact that we got everything on one page, and you can see it all together.

So what this is is our team's evaluation of the various options in front of us, the current policy along with some of the alternatives that we're talking about, and a color grading system where green generally means we're comfortable. That's generally good. Red meaning we're not comfortable. Yellow somewhere in the middle. It could mean -- it's not something where we have to take that option off the table, but it perhaps isn't ideal and there are some concerns.

And if you see NAs in a box, that generally means that, for example, with regard to the period, there really is no difference between a 15, 20, 25 or 30 year period with regard to simplicity and transparency. So there's just no color evaluation.

So as we look at this chart, we look at each feature of the policy one at a time, first with the period, and we're showing you our evaluation for 15 years, 20 years, 25 years, and 30 years. And what you can see is that with regard to benefit security and intergenerational equity, we prefer the 15- or 20-year period. Twenty-five years starts to get to the outside of our comfort level, and 30 years we no longer recommend.

And we have pretty much the opposite situation with regard to contribution volatility. The longer the period, the less volatile we are. So we're green for the longer periods, and we start to get into the yellow for the shorter periods.

The other couple items that we've added here, short-term budget concerns and simplicity/transparency. Obviously, we've had a lot of stakeholder outreach. We've talked to our folks around the state, and have heard their concerns. And we wanted to be cautious of implementing a change that would have a short-term impact. That would be very problematic to our agencies.

And as far as simplicity/transparency, we -- we think that is probably undertalked about in some of the actuarial publications, but we think it's certainly an important part of -- from a governance standpoint to be as simple and as transparent as we can be.

So let's move on to the payment pattern, which is either level dollar or level percent. And you can see both of those have some greens and yellows. There really isn't much of a difference in our evaluation. We lean towards level dollar, because it's a little better for benefit security, and intergenerational equity, also much more simple and transparent.

When we establish a base and show the first year contribution for that base, that's the payment for the next 20 years, 30 years, whatever it is. Whereas now when we show the first year payment, 20 years out or 30 years out, it's a much higher payment that you don't see in the valuation report.

Now, the third item is when we would actually implement these changes. When we came to you last year in December, the thinking was that we would implement the changes perhaps in 2017. And just given where we are on the calendar and where we are regarding our progress on those reports, that would be problematic to try to implement those changes in those reports. We estimate it would probably delay the release of those reports by about eight weeks. And that's the reason for the red box under simplicity.

With regard to budget concerns, what we found in our analysis is that if we implement these changes earlier, either 2017 or 2018, one or both of the remaining interest rate changes that are still to come in the valuations would be covered under the new policy. And under the new policy, it would lose the five-year ramp. And so what we tended to see when we modeled this was a fairly material increase in the next one or two years of projected contributions for our agencies.

And that's the primary reason we're leaning towards implementation in 2019. It gets the final discount rate change in place under the old policy, where our agencies have seen projections of the impact of those changes already, and we thought it would be easier on them to not have to see new numbers quite frankly. So we are recommending implementation in 2019.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. We wanted to show you some impacts of projected contributions due to these policy changes. Now, we're starting out with just a base projection here. This is a sample agency -- public agency, typical plan about 68 percent funded. The dashed black line is the projection that we prepared in the 2016 valuation report.

Now, one thing that we didn't know that we've learned since is that we had an 11.2 percent return for the following year ending June 30, 2017. So the green line here just reflects that 11.2 percent return. So it brought the projected don't contributions down from what agencies have seen in their 2016 reports.

Now, the green line is the current Amortization Policy, but actually in this situation it's all of the Amortization Policies that we're looking at, for the simple fact that the assumptions here are that everything plays out in the future exactly as we would expect, which isn't likely, but it's always a good place to start.

So because the Amortization Policy changes are for new bases only, there's no impact in this chart, because there would be no new bases. And so, you know, in order to see the impact of the Amortization Policy changes, we have to introduce something that we wouldn't expect, which leads me to the next slide.

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DEPUTY CHIEF ACTUARY DZIUBEK: So here we've constructed an investment return scenario of a three percent return for the next three years, and then going back to our expected seven percent. And this is just a made-up scenario to show how the different policies would project future contributions.

And what you can see immediately is that even under our current policy, which is the green line, contributions are going to have to go up, because investments didn't earn the seven percent we expected. So I think what's important to look at here is the difference between the blue line and the green line. The blue line being our recommended policy, versus the green line which is our current.

And if you go along over to this period, you can see a difference of maybe one to two percent increase in the projected contribution by shortening the period and moving to the level dollar amortization.

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DEPUTY CHIEF ACTUARY DZIUBEK: And then of course on the flip side, If we have positive returns, and we've assumed here 11 percent for three years, all the contribution projections go down. But interestingly, all of the shorter periods come up with lower projected contributions than the current period, because we're recognizing these gains faster under our shorter periods.

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DEPUTY CHIEF ACTUARY DZIUBEK: And then we just have a summary of those last couple charts all on one chart together, just so you can kind of visually see the kind of differences these policy changes make. Now, this is just a couple scenarios. There are lots of things that can happen.

You know, we're showing only a one or two percent change between the policies. But, of course, if the market dropped like it did in 2008, which was about a minus 25 percent, well then the difference would be a little bit bigger, so -- but for simplicity, these are the three that we modeled. And we think this gives a pretty good indication of the impacts.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. Sort of unrelated, but also important policy change that we're recommending is that for an inactive plan, we cap the amortization period at 15 years. Now, these are plans where there are no active members in the plan. And under our intergenerational equity goal, these plans should be fully fund. There are no active employees.

And so if there's an unfunded liability, we have already kind of forced that onto the next generation. And having those periods go out to 30 years, we just -- we thought that that was not appropriate. And, in fact, for these plans, we'd like that period to not exceed 15 years.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. So the next two slides, just one at a time, go through our recommendations. We are recommending we change the 30-year period to 20 years for gains and losses. We are recommending all future bases will be on a level dollar payment basis. We are recommending that the ramp is removed for all bases, and all cases except for the first five years for investment gains and losses.

We are recommending that the changes I just mentioned are effective on the June 30, 2019 valuation. And finally, we're recommending a 15-year maximum period for inactive plans with that beginning with this current valuation. There's no -- there's not -- really no reason to delay on this particular recommendation.

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DEPUTY CHIEF ACTUARY DZIUBEK: So with that, I'm happy to open it up to questions.

CHAIRPERSON TAYLOR: So thank you very much. And I, myself, before I go forward have a couple of questions for you. The ramp up, ramp down that you're recommending be removed - and I know you said why - I would like you to kind of make that a little clearer for me. I'm not -- so we currently have a program in place that we -- that after our seven percent, then we go ahead and move forward with our -- I think it was 20-year smoothing process, correct? That's not what you're talking about.

DEPUTY CHIEF ACTUARY DZIUBEK: Well, yeah, there's a lot of factors in that question. But the current policy, I'll start with that, has a five-year ramp for several of the different types of bases, assumption changes, and gains and losses. And what that ramp does is it just phases in the payment -- the cost of the payment over a five-year period. So it just -- it's designed to limit volatility. The first year payment comes in relatively small and it gradually notches up until you get to the full payment.

So now the Board did move to reduce the discount rate from seven and a half to seven in three different steps. We have already reflected the first step down to 7.375 in the 2016 valuations. And we're going to recognize the seven and a quarter in 2017.

Now, if they stay under the current policy, each of those layers -- as we recognize each of those discount rate changes, it will create a layer that will have a payment schedule. It would be paid over 20 years, but each of them will have the five-year ramp under the current policy.

We are recommending that we remove that ramp going forward, but we're recommending that we get past the implementation of the discount rate changes, just because that was adopted a year ago. Agencies have seen projections on the impact of those changes under the current policy already, and likely have included that in their budgets.

CHAIRPERSON TAYLOR: SO you want to remove the ramp that reduces volatility?

DEPUTY CHIEF ACTUARY DZIUBEK: We want to keep the ramp for investment gains and losses, because those are the most significant of the UAL changes. And quite honestly, without having some type of asset smoothing, we think we really do need that five-year ramp for that reason.

For any other reason, yeah, we would like to remove that ramp. It appears to us to be oversmoothing. It's creating negative amortization. Typically, those bases are not going to be as big as the investment gain/loss basis.

CHAIRPERSON TAYLOR: So with the 20 -- with the 20-year amortization, you don't want to have this ramp take place, even though it reduces volatility for the employers?

DEPUTY CHIEF ACTUARY DZIUBEK: We -- yeah, we want to keep it only for investment gains and losses going forward.

CHAIRPERSON TAYLOR: And that five-year ramp would actually make it a 20 year -- 25 years is basically what that would work out to be?

DEPUTY CHIEF ACTUARY DZIUBEK: No. It's still 20 years. So for the first five years it's ramping up. And then in year five, it's the full annual payment. And then it's level for 15 years. So still a 20-year period. It ramps up for five. Now, because it's starting out lower than it really should be starting, by the time it gets to the fifth year, it has to be higher than if we just had a level payment.

So it's actually -- it's just pushing contributions from the earlier years to the later years.

CHAIRPERSON TAYLOR: Okay. Okay. Thank you. Okay. Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. I have a couple of questions, and I'll try to make them somewhat coherent. But first off, when I look at your attachment 1, and I think about these kind of decision factors, the goals, the benefit security, intergenerational equity, long term, short-term simplicity, industry guidelines, it kind of looks like this weights them all, more or less, equally the kind of go, no go.

And I think realistically, they're not equally important to us, and certainly not to our different employer and member segments. And I would suggest if -- you know, something like whether something is in line with professional and industry guidelines maybe much more important internally to you all than it would to us, and may have little or no relevance. We're a unique organization to our members and others.

And so I really have concerns about the volatility, and how we weight that given that volatility up/down, two totally different things in terms of a consequence and probability that cause that to be the downside potential for some of our folks, especially in municipalities, for instance, who are teetering the consequence of this decision is much more dire than it would be say perhaps for State miscellaneous.

So I'm not -- I'm new here, so I can kind of fall back on that a little bit, but I'm not sure I'm that comfortable that we kind of look like we're weighting these things equally, and we're not really talking about the real world consequence of these over the relatively short-term of four or five years, and is there some more consideration that should be given to deploying or implementing over more of a staged deployment or, you know, instead of 2019, 2020, '22, '24, I don't know. So I just toss that out there.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. Those are great comments. I'm just going to go back to the projections really quick. I just want to just make sure that this is clear.

For example, here in this bad investment scenario if, you will, three percent for three years, you can see the contributions really are the same under any of the policies until 2021-22, and that's because of the two-year lag between our valuation date and when the contributions are due.

So if we implement this in 2019, the first time it could actually change someone's contribution would be in 2122. So I just wanted to make sure that's clear.

I completely agree with your assessment that different agencies are going to place a different level of importance on those different objectives. I would say from our standpoint, you know, we may have preferred a 15-year to 20-year period with regard to, you know, satisfying our benefit security and intergenerational equity goals, but realize that that might have pushed the contribution volatility to an unmanageable point for some of our agencies. So it is a compromise. But, you know, just because we like this, doesn't mean everybody will. We certainly understand that.

CHIEF ACTUARY TERANDO: And to just add one comment. By keeping the first year -- first year's payments lower, what that does is it just creates the negative amortization situation, which means your payments in three to four years are going to be higher than what they would have done.

You know, you think about your credit card payment. If you make your minimum payment on a credit card, your balance just keeps on going up and up. Your minimum payment keeps on going up and up. So by continuing to pay this really small payment, you're just putting yourself in a bigger hole down the road. It's more convenient not today, because I can afford this -- the minimum payment, but all you're doing is you're having this -- your unfunded grow, and you're going to find yourself in the situation where, you know, kind of where we are today, where the unfunded has grown to a point where the minimum has now become a problem. And so what happens is it builds upon itself.

And, you know, another kind of point going forward here is right now, since this is prospective for 2019 -- or 2019, we don't know if it's going to be a gain or loss. We expect, you know, obviously gains and losses to offset one another. And to the extent that that does happen, they will -- you know, you'll have the gain and the loss offsetting one another. So we would anticipate that you wouldn't see those big changes.

And to Randy's point also, for the investment gain/losses, which are the biggest portion that we see, we are still having that five-year ramp up and down. So even -- we recognize the big volatility, and we're still having a five-year ramp up. So when you think about it, you're taking a gain or loss over 20 years. You know, you have a loss over 20 years. And then you're going to take -- amortize that over 20 years, so you're taking 1/20th of the loss. And then we're going to around and take 1/5th of that.

So it's 1/100th of the loss that's occurred. That's the -- that's how small a payment we're talking about right now. That's also kind of why when you have sustained losses, we get in the situation where rates continue to increase over the next five to six years, and you have this growing unfunded.

So those are some of the complexities that we've had to kind of deal with and try and come up with what we feel is the best solution from our side.

CHAIRPERSON TAYLOR: David, are you done?

COMMITTEE MEMBER MILLER: Yeah. Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam

Chair. I wanted to thank you both and the actuary team for all the additional information you brought forward on this item. It's been very helpful. And I think, you know, from the Controller's point of view, the negative amortization is a problem. And it's a matter of weighing that against the employer's ability to pay.

And I wanted to ask you a little bit more about the implementation plan, and recognize that you're being sensitive to some of the feedback that you heard about wanting to implement, and letting the other discount rate changes go forward.

But if there are local employers that want to implement sooner, in order to take advantage of last year's 11.2 percent return, would that be possible, even if their reports were going to be a few weeks late.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. So the 11.2 percent was for the year ending June 30, 2017. So to reflect that under the new policy, we would have to reflect that in the current valuations, which I think you've correctly stated. There's not any reason that we are opposed to any earlier implementation than 2019.

As we've stated, and as you've restated, it would delay the '17 valuations. Now, if somebody wanted to implement in '18 instead of '19, again, we don't have any philosophical opposition to that, and we would have plenty of time to work that into our calculation process. So those are options that would be viable.

ACTING COMMITTEE MEMBER PAQUIN: And on a mechanical process, would the employer then have to contact you to say we wanted to start this earlier, and you would work directly with them?

DEPUTY CHIEF ACTUARY DZIUBEK: Well, understand, it's not part of the policy that we are proposing today. It doesn't mean that the Board -- the Board has the final decision on all of this.

And so I think together we could come up with whatever we want the policy to be.

ACTING COMMITTEE MEMBER PAQUIN: And then on the flip side, I understand the policy still retains the ability -- if the Board decides to shorten the amortization period to 20 years, for example, a distressed employer would still have the opportunity to work with your staff to request that their particular amortization period be expanded to 30 years?

DEPUTY CHIEF ACTUARY DZIUBEK: There continue to be hardship rules within the policy. There are criteria that an agency has to meet for them to be accepted and allow them to extend their amortization period, but those provisions are still in place.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

Mr. Gillihan.

I want to make it clear for our new folks, I always call on our Committee members first, and then I will call on others.

Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Madam Chair. Are we still phasing in some of the losses from 08-09? Didn't we have a unique corridor, and anything that was outside of that corridor got packaged separately and stacked on top?

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. I'm going to have Scott address that, since I wasn't here when that happened.

CHIEF ACTUARY TERANDO: Yeah.

COMMITTEE MEMBER GILLIHAN: Before, you do. Maybe I could ask the question differently. On slide 10, where we show just the effects, is the -- one slide back.

DEPUTY CHIEF ACTUARY DZIUBEK: Oh, sorry.

COMMITTEE MEMBER GILLIHAN: So that curve that keeps going up until 2024, what's driving that increase besides the discount rate change, or is that only the discount rate change?

The discount rate changes, and the last two years prior to the '16 valuation, where returns less than seven percent. I think it was 0.6 and 2.4 percent in those two years. So those are being paid off and they're also on the five year ramps. So that's what's leading toes increases over that period.

COMMITTEE MEMBER GILLIHAN: And I just want to reiterate the point that under your proposal, the employers would also see the benefit of exceptional investment performance years to the good, they'll see those sooner than they would under the current model, is that correct?

DEPUTY CHIEF ACTUARY DZIUBEK: That's correct. And then this --

COMMITTEE MEMBER GILLIHAN: So it works for the good and the bad.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, so those slide illustrates that where all of these shorter periods result in lower contributions than the current policy, which is the green line.

Now, as Scott said, we're -- you know, we expect a mix of gains and losses, yeah.

COMMITTEE MEMBER GILLIHAN: Sure.

This job would be a lot easier if we could always expect, you know, the upside. So where are we with our current policies relative to peer pension systems in North

America? Are we an outlier? Are we on sort of the questionable edge of reasonability of our policies?

DEPUTY CHIEF ACTUARY DZIUBEK: Well, we have some information on other California systems that are not part of CalPERS. I'm not sure which attachment that was in. Actually, it's in the appendix.

So with regard to other systems within California, many of them have a substantially shorter period. So, yeah, we have these here on page six, page seven. So yeah, we definitely with our 30 years are outside of most of these. Now, when we talk about state system in other states, I think there all over the map. I did see the presentation that was given to the Board by Keith Brainard from NASRA. He did have a slide on trends and amortization period. And I want to say his chart basically showed a declining period over the last several years. And that's something at around 26 on average now around the country.

Scott, do you have any other information on that?

CHIEF ACTUARY TERANDO: (Shakes head.)

DEPUTY CHIEF ACTUARY DZIUBEK: So let's say the average is 26 for other state systems. But clearly, if you look at the trend on a declining path, and I'm sure other systems continue to look at this as we are, and I would expect it to continue to shorten.

COMMITTEE MEMBER GILLIHAN: And just one last question, if I could, Madam Chair.

What is from a sort of actuarial standards and professional standards, what's driving this trend to be sort of more aggressive in how quickly we amortize liabilities?

DEPUTY CHIEF ACTUARY DZIUBEK: Well, the guidance is in several different places.

DEPUTY CHIEF ACTUARY DZIUBEK: For example, the Conference of Consulting Actuaries has a white paper on guidance for funding a public plan. The Government Finance Officers Association has a similar paper as does the California Advisory Panel.

And all of them are pointing to periods shorter than 30 years. Again, there is no absolute requirement that we do this, but all of the current thinking, all of the guidance that does exist is suggesting that 30 years is longer than it should be.

COMMITTEE MEMBER GILLIHAN: But my question is what's the underlying rationale for that -- this direction?

DEPUTY CHIEF ACTUARY DZIUBEK: Well, I think the first two items -- our first two goals just benefit security and intergenerational equity, I think probably intergenerational equity is driving those shorter periods.

Again, because the average future working lifetime of active members is closer to 15 than 30. And so at 30 years, most believe that you are pushing costs of those members to another generation.

Now, with regard to benefit security, you know, we're at 70 or so percent funded, and it changes pretty drastically every day the last couple weeks.

And so from a benefit security the standpoint, if we have another market downturn, let's say, we would like a policy that helps us recover faster than the 30-year policy.

COMMITTEE MEMBER GILLIHAN: Thank you.

CHAIRPERSON TAYLOR: Okay. Thank you.

Just a quick question. How long has the 30-year been in effect, the 30-year amortization, do we know?

CHIEF ACTUARY TERANDO: We -- it's been in effect for a long time. Back in the, I would say, the nineties, we had, what we call, an open amortization period, an open 30, where basically each year we would take the unfunded liability and amortize it over 30 years. And we --

CHAIRPERSON TAYLOR: But we weren't unfunded then, were we? Oh, we were fully funded.

CHIEF ACTUARY TERANDO: We were and we weren't. Right, there were some plans that were overfunded, and some that were super-funded.

But for any plans that were -- had an unfunded liability, we would take the unfunded liability and amortize it over 30 years on an open basis, which meant that next -- the following year, we would take the unfunded and amortize it over 30 years again. And we just kept this process going, so, in effect, you would never payoff your unfunded.

I think --

CHAIRPERSON TAYLOR: Yeah, but that was outlier is what you're saying.

CHIEF ACTUARY TERANDO: Well, actually, that was kind of like generally standard practice 20, 30 yeas ago. And I think the industry has modified its view and matured its views in terms of bringing that amortization period down, closing it, you know, instead of open amortization. What we -- what we have is what we call closed layers, where, you know, the amortization period goes from 30 to 29, 28, 27. Where, you know, you think about a car loan or a mortgage where it goes on every year.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: It's just been a general recognition, I think, in the industry that the assumption of -- its going to -- cities and governments are going to be going for ever and exist forever, I think we've had some bankruptcies, and there's some recognition that it's -- it may not happen. The benefit security is an issue, and you also have the intergenerational equity, I think, is a real concern.

CHAIRPERSON TAYLOR: Well, I will say as intergenerational equity, what you're saying is those of us that have been paying for 30 years -- you know, 30 years forever now, before we retire, are going to have to pay, you know -- I don't know that it will transfer to us, but, you know, the employers are going to have to pay a ton. And it's not really intergenerational, it goes to the employers, correct?

CHIEF ACTUARY TERANDO: To some extent. I mean, we do have employers that have cost sharing, where the --

CHAIRPERSON TAYLOR: For PEPRA?

CHIEF ACTUARY TERANDO: No, no. We have actually employers that cost share --

CHAIRPERSON TAYLOR: Okay. How many is that?

CHIEF ACTUARY TERANDO: -- the unfunded liability with the employees.

CHAIRPERSON TAYLOR: How many is that? Is it a lot?

CHIEF ACTUARY TERANDO: Not too many.

CHAIRPERSON TAYLOR: All right.

CHIEF ACTUARY TERANDO: But there is some concern.

CHAIRPERSON TAYLOR: So it's pretty minimal is what you're saying compared -- compared to -- for one 1.8, is that a lot?

CHIEF ACTUARY TERANDO: No, it's a small number.

CHAIRPERSON TAYLOR: Okay. SO that intergenerational equity is not necessarily something that needs to be a concern.

CHIEF ACTUARY TERANDO: From a taxpayer's point of view, I would say yes. I would --

CHAIRPERSON TAYLOR: They're not -- that's not intergenerational equity though.

CHIEF ACTUARY TERANDO: Well --

CHAIRPERSON TAYLOR: You're asking for taxpayer equity, that's a difference, but I'm going to go on to Mr. Costigan here.

VICE CHAIRPERSON COSTIGAN: Thank you, Madam Chair. Mr. Terando, I just want to compliment you and your staff. Over the last couple of years, you all have had to tackle some very difficult issues. I think yesterday Sacramento Bee acknowledged the efforts that we had done as it related to the discount rate by the fact that both our Chief Investment Officer and others have acknowledged that we have gone positive cash flow.

I think when you look at the amortization policy, you approach it as a three-legged stool. What we've done over the last couple years is addressed, the discount rate. We've addressed the asset allocation, and this is really the third component of it.

I'm going to make it clear here, I'm going to support the 20 year. I will respectfully disagree with Mr. Miller, as it relates to the fact that the organizations that are recommending a reduction, and that the industry standard are 15 years are not simply just organizations that we shouldn't pay attention to.

The California Actuarial Advisory Panel, the Conference on Consulting Actuaries, the Government Finance Officers Association, and the Society of Actuaries Blue Ribbon Panel all recommend a period of 15 to 20 years.

At 30 years, we're at the outlier. We're not the trend setter, is that correct? We're not even an industry standard at 30 years?

CHIEF ACTUARY TERANDO: That's correct.

VICE CHAIRPERSON COSTIGAN: And if we were to reduce to 15 years, that is just -- would put us in the middle of where the other organizations and other pensions funds are?

CHIEF ACTUARY TERANDO: Yes, that is correct. You can see by just on the slide up there right now, half of them are 15, half of them are 20.

VICE CHAIRPERSON COSTIGAN: And I understand --

and I would certainly hope, Madam Chair, at some point, we'll ask Ms. Dunning, the Board's independent fiduciary counsel, to take for -- what is our consideration to take into how we are to consider the impact on local employers.

But as I understand it, with over 3,000 employers, we heard from a handful of employers that may have concerns within. I believe we were just --

CHAIRPERSON TAYLOR: Ten percent.

VICE CHAIRPERSON COSTIGAN: Ten percent. And of that 10 percent, there were a portion that supported and a portion that don't like it. And I believe the City of South Francisco just handed us something.

But in the scenarios that you ran, you ran an optimistic and a pessimistic. You ran a three percent and you ran 11 percent. Yesterday, in Investment Committee, again, it was reiterated I believe our consultants and our staff are projecting a 6.1 over the next 10 years. So I'm curious as to why we didn't run a 6.1 return. And if we did, I would assume -- do I assume it's just between the three and the 11 on the way the chart would look?

I'm just why did we run a three --

CHAIRPERSON TAYLOR: It looks like we got a nod over there.

VICE CHAIRPERSON COSTIGAN: Why did we run a three percent, which is extremely pessimistic? I'm just trying to get at yesterday at invest -- what we've talked about for the last couple months is our -- is our internal folks and our outside folks are talking a little over six, right, and the volatility of the market yesterday -- not rehashing it.

The three percent is extremely pessimistic. Certainly I hope we don't have a 0.62. Again, I also think the return we reported this last week again was through the end of the year, not taking into consideration what's happened the last two weeks. So where would a -- if we had run a 6.1, where would we be?

DEPUTY CHIEF ACTUARY DZIUBEK: So first of all, to answer one of your questions. The three percent and the 11, our -- those are the 25th and 75th percentile of where we expect returns to be. So we believe most often our returns are going to be within that range.

If we had run a 6.1 percent model, you would have seen those lines almost on top of each other, the 30-year versus 20 year. And if we just go back to the three percent -- by the way, there are some schools' projections in the appendix, if anybody is interested in those. In the main body of the presentation, these are again a public agency. And so this is a three percent for three years. And you can see the maximum differential between blue and the green is maybe two percent. And it actually gets smaller as you go further.

We didn't go beyond 2032, because we assumed nobody cares what happens beyond 2032, but actually they cross over at some point.

VICE CHAIRPERSON COSTIGAN: Into a positive?

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. With the -- it would be paid off in 20 years under the blue line, and the blue line will drop below the green line.

VICE CHAIRPERSON COSTIGAN: And just a couple other points. This is 2019, so it would still give the Committee and the Board the opportunity if there was significant concerns raised by local governments. The implementation is 18 months from now. The other is from a planning purpose continuing to push this item out really is we're driven by the June 30th deadlines for you to get the amortization reports out, is that correct?

DEPUTY CHIEF ACTUARY DZIUBEK: Yes. For the 2017 reports, we've already been working on those. It would be difficult for us to change the policy at this point.

VICE CHAIRPERSON COSTIGAN: And just last point. I would like to ask our Chief Actuary, as our Chief Actuary -- in your opinion, as the CalPERS Chief Actuary, is the adoption of -- the adoption of a 20-year a prudent decision? Adopting a 20-year plan, is that a prudent decision?

CHIEF ACTUARY TERANDO: Yes, it's a prudent decision.

VICE CHAIRPERSON COSTIGAN: And is maintaining the 30 years a prudent decision?

CHIEF ACTUARY TERANDO: No.

VICE CHAIRPERSON COSTIGAN: Thank you.

CHAIRPERSON TAYLOR: All right. I still have a couple of Committee members that haven't spoken, so hold on just a second.

Henry Jones.

COMMITTEE MEMBER JONES: Thank you, Madam Chair. You know, my whole laser sharp goal is sustainability of the fund. And I look at the amortization as just one component. We have all these other factors that are moving all the time. As you mentioned, the people working fewer years. We've also got the ratio of active to retirees closing the gap where several years ago it was 2 to 1, and now it's probably 1.3 to 1 in terms of -- so all these factors are -- could have a serious negative effect on our funded status going forward. So with that regard, I'm interested in moving -- taking steps to make sure the fund is sustainable over the long term. And this is one piece of that puzzle to look at this amortization to help maintain the fund over a longer period of time.

The other question I have is that while we may be comparing what the period of time for amortizations are for these various agencies, but do they have the exact kind of plan we have? I know out of state, they're hybrid types of plans. So that's a factor that could change the interpretation of the data. So are all the funds in the State of California are purely defined benefit plans, where -- whether or not there are any hybrid plans that would have an effect on how they calculate their amortization policy.

DEPUTY CHIEF ACTUARY DZIUBEK: I think, in general, they're similar enough to us, where it's a good apples-to-apples comparison. I'm not aware of any that are so different that would require a drastically different amortization policy, but it's possible. That is possible. Scott, do you know of any?

CHIEF ACTUARY TERANDO: No, I think most of the plans that we -- were up there on the comparison were defined benefit plans.

COMMITTEE MEMBER JONES: Okay. Okay. And then just a side question. The golden handshake, that has minimal impact on the long-term funding -- ability of the funding status of the fund, right, because it's covered in a short period of time. So my question is, do they have -- do we approve that for the agencies or are we just reviewing and opining on it?

DEPUTY CHIEF ACTUARY DZIUBEK: We don't approve it. We simply are notified that somebody has provided this and we create an amortization base for it.

COMMITTEE MEMBER JONES: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: If you're looking for answers about how that process works, we might have to ask someone from the audience to step up.

COMMITTEE MEMBER JONES: No, that's okay. I just wanted to know whether or not the -- we were in approval of that process as opposed to providing data?

CHIEF ACTUARY TERANDO: No. Right now, when a golden handshake, the employer requests information on it and they decide whether they want to offer it to their employees or not. So it's an employer-based decision.

COMMITTEE MEMBER JONES: Okay. Okay. Thanks.

CHAIRPERSON TAYLOR: Okay. Ms. Hollinger.

BOARD MEMBER HOLLINGER: Thank you. Appreciate that. I just wanted to speak to the importance of our Chief Actuary and the actuarial work. Over 75 percent of our plans have negative amortization. And chief actuaries in the insurance industry they make or break a carrier, because they provide independent advice to boards and senior management on key financial risks facing an insurer. They're considered the guardians of the financial strength and equity in the insurance industry.

The Chief Actuary must drive change and precipitate a business strategy as our risks change And evolve. It's not a one-off change, but it's an ongoing continuum as we have to adapt to different risks as time change.

And life has changed in the past 20 years. We're a maturing population, which translates into greater assets, greater liabilities, greater volatility, and improved life expectancy. I've actually been there when insurance contracts have lapsed, because the hurdle rate on that catch-up premium is so high that it's no longer viable.

And one of my concerns is I'm very worried about the same thing happening on the pension side in reference to the unfunded liability. I'm worrying that pushing off these payments will lead to the same outcome that I've witnessed in the insurance industry.

And our Chief Actuary has recommended -- I don't know. I even saw things from different actuaries of 15 years. I believe 20 years is the compromise. And that I support our recommendation. And I think by rejecting it, we would be severely jeopardizing not only the long-term viability of the fund, the sustainability of the fund, as well as being a fiduciary to all members of the fund including, as you say, intergenerational equity. So

Scott, I know it's not an easy message to deliver, but it's a necessary message. And so I really value and appreciate it, and I support the 20 years. Thank you.

CHAIRPERSON TAYLOR: Thank you.

Ms. Brown.

BOARD MEMBER BROWN: Thank you. I'd like to start out by saying I support the 20-year amortization as well. What I didn't know about was the hardship rules. I sort of read through the item, but I didn't know if it was in here or not, but it's nice to know that we have those available for our employers that do get into some serious trouble. Again, benefit security is my number one priority. And elimination of the negative amortization is good physical fiscal policy. Most importantly by making this change, you know, we can't be accused of accounting gimmicks and hiding our obligations. And I just want to say thank you again for all your work and effort in this regard.

CHAIRPERSON TAYLOR: Thank you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Madam Chair. You know, this is a particular issue that strikes home to me, since I -- in the seat I hold, I represent the local government employers who have the most difficulty with this. You know, we have one PERF. And the State of

California is very different than local agencies when it comes to this particular issue.

I do believe that the intergenerational issue is a big problem. And having that amortization period over 30 years does create a situation where we are passing along the impact of this -- of the current plan to future employees.

And I think it's incumbent upon us to bear that cost within the working span of the people who are receiving the benefits and who are in the plan today. So that's number one.

Number two, I think I would encourage the Committee to focus on this issue of this change reducing the chance of going below a 50 percent funded status. You know, we're at -- what are we at 70 right now, 67?

CHIEF ACTUARY TERANDO: We're somewhere between 68 and 70. It really depends on how the market is doing today.

(Laughter.)

COMMITTEE MEMBER SLATON: Okay. All right. That is not a great position to be in. And all it takes is another movement or two and we could find ourselves in a position where we cannot recover.

So I think that's of critical import. When we have the opportunity to make changes that are -- that are going to be challenging for employers, but not going to be something that they cannot deal with, particularly if we've got a process for organizations that are under stress.

One of the questions I have for you right now is that stress issue, is that something that's defined that we're in charge of? Do we seek a third party? Does the Controller's office determine that? How do we determine that an agency -- a local government agency cannot afford to be on a 20-year amortization?

CHIEF ACTUARY TERANDO: Right now -- and right now it's vaguely defined in CalPERS policy that we would -- we, CalPERS, would look at the --

COMMITTEE MEMBER SLATON: Right. I had a hunch that was the case.

CHIEF ACTUARY TERANDO: -- would look at where the employer is. It would be, I think, a bit easier if we had a third party, like the Controller's office, making that determination, because, you know, we're not in the business of getting into an agency's financials and making a determination on what they can and cannot pay. That's not really our job.

COMMITTEE MEMBER SLATON: Yeah, I had a hunch that was going to be the answer. I would refer the Committee to the last paragraph, which I'll try to summarize pretty fast. This is from the letter from the finance director of Newport Beach that was in our package today, where he said, "In my 30 years of local government experience, some of the worst decisions I've witnessed boards make have been to ignore the professional recommendations of their staff that are independent of politics and other external forces. It's incumbent upon us, as our -- as fiduciaries to strongly consider the recommendation of staff that are doing the job that we hire them to do".

So I would encourage the Committee to do a couple of things, to accept the 20-year alternative, and to ask for development of a robust opt-out strategy, so that it's clear what the process is for an agency that needs to stay at say 25 years. I'm not sure I would want them to stay at 30, maybe 20 and 25. Twenty-five is maybe the opt-out version.

But I would encourage the Committee to support that and make that recommendation to the full Board.

Thank you.

CHAIRPERSON TAYLOR: So, Scott, maybe we could -- you made it sound like earlier we had a policy. It sounds like it's not really a policy. Can we have a -- you put together a robust policy.

CHIEF ACTUARY TERANDO: It is part of the policy now, but it's not clearly defined. So I think --

CHAIRPERSON TAYLOR: So let's -- let's get --

CHIEF ACTUARY TERANDO: -- we should spend some time and get a more thorough process in place on that side.

CHAIRPERSON TAYLOR: Mr. Jacobs.

GENERAL COUNSEL JACOBS: Yes. Good afternoon, Madam Chair and Board members. I think we must be looking at a different policy, because I just looked at the policy and think it's pretty clear.

CHAIRPERSON TAYLOR: Okay.

GENERAL COUNSEL JACOBS: It's pretty laid out. Now, it does have a number of factors to be considered, but that's the only way you're going to be able to make this kind of a determination. You can't have a --

CHAIRPERSON TAYLOR: Does it have to meet -- does the municipality have to meet all of the factors, or is it just some of the fact -- is that what's --

GENERAL COUNSEL JACOBS: It's a multi-factor approach.

CHAIRPERSON TAYLOR: Okay.

GENERAL COUNSEL JACOBS: A multi-factor evaluation.

CHAIRPERSON TAYLOR: Okay. And you think that's pretty well defined?

GENERAL COUNSEL JACOBS: It's very well defined. It may be vague in the sense that there are various things that you need to consider, and none of them are going to necessarily be crystal clear, because you're getting financials from the municipality, but it's -- I think it's well defined.

CHAIRPERSON TAYLOR: Okay. So maybe we could have that submitted to the Committee next meeting?

And now I'm back to people who have already spoken.

Mr. Miller.

COMMITTEE MEMBER MILLER: I think most of my questions have been answered. In particular, when it comes to Mr. Slaton's comments, you know, what he said, and that's really was where I was going for us to look at that and see it systematic, is it accessible, does it provide for reasonable thresholds for getting that relief and hardship, and if there's something we could, you know, in the future look at to make sure that it's current, it's up to date, it makes sense in the current environment? I think that really addresses my concerns.

Thank you.

CHAIRPERSON TAYLOR: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Madam Chair. I think on the advice of our Chief Actuary I'd like to move the staff recommendation.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: I appreciate that. I still have people who want to talk though.

(Laughter.)

CHAIRPERSON TAYLOR: So I will -- we can come back to that, Mr. Gillihan.

Thank you.

Mr. Rubalcava.

Oh, I'm sorry, let's try that again. Can you press your button again?

VICE CHAIRPERSON COSTIGAN: He's on.

CHAIRPERSON TAYLOR: Oh, you are on.

Don't. No, you're good.

(Laughter.)

BOARD MEMBER RUBALCAVA: Thank you.

I'm fairly new -- I'm very new on this Board. And I still remember last month. I was on that side of the table testifying, and I would -- on actuarial assumption changes. And my statement was usually always the same whether it was Ventura, or Santa Barbara, or L.A. County, which was that what I was out -- I always advocate for a prudently funded benefit. But at the same time, we would ask the Board to also respect the other need was for a fiscally healthy employer.

Now that I'm on this side of the table, I'm sure counsel is going to talk about the fiduciary responsibilities we have. And so I understand that, and I respect the direction we're going. But I also would ask that we take into consideration any mitigation efforts that can be prudently or reasonably implemented also.

Thank you very much.

CHAIRPERSON TAYLOR: All right. Thank you.

Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. I just wanted to weigh-in and say that, of course, the Controller's office does monitor the fiscal health of cities and special districts, counties. So to the extent that we can be of help as you review some of these issues, please don't hesitate to call on our staff.

Thank you.

CHAIRPERSON TAYLOR: All right.

Oh, Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you. I have a friendly amendment

CHAIRPERSON TAYLOR: Sure.

COMMITTEE MEMBER JONES: Is that okay?

Yeah, I still support the recommendation, but I would just have a - maybe it's a direction rather than a friendly amendment - to have staff bring back that policy, so it can be reviewed and presented to the Board.

CHAIRPERSON TAYLOR: Okay.

So, yeah, bring back --

CHIEF ACTUARY TERANDO: The current policy actually is in the pack, so it's available for review.

CHAIRPERSON TAYLOR: Where? Do you want to tell us where.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. So in the -- in the -- not the red line, but the final version of the policy on page four of nine, Item --

CHAIRPERSON TAYLOR: On which attachment?

DEPUTY CHIEF ACTUARY DZIUBEK: Attachment 3. And it would be Item 10, request up to a 30-year extension due to severe financial hardship.

CHAIRPERSON TAYLOR: Page what, I'm sorry?

VICE CHAIRPERSON COSTIGAN: Four of nine.

CHAIRPERSON TAYLOR: Four of nine.

COMMITTEE MEMBER JONES: So Madam Chair --

CHAIRPERSON TAYLOR: Yeah.

COMMITTEE MEMBER JONES: -- I withdraw my friendly amendment to this.

CHAIRPERSON TAYLOR: Okay. All right. So I don't -- I don't have any further comments from the Committee or our Board members, but I do have requests to speak from the public. So before we vote, I'd like to hear from them. So I'm going to call you in groups of three. Dorothy Johnson, Dillon Gibbons, Dane Hutchings, if you guys can line up here. And we're going to give you three minutes each.

Okay, Dorothy, go ahead.

MS. JOHNSON: Good afternoon, Madam Chair and members. Dorothy Johnson with the California State Association of Counties. I want to, of course, start by expressing my sincere appreciation to the CalPERS team for not only an inclusive process, but the asset liability management cycle earlier, but, of course, this most recent iteration on the Amortization Policy.

You know, we were asked -- the counties were asked what's the right amount of time? And frankly, some of them came back to us and said we're not the experts. The actuaries on CalPERS these are the experts, and this is their recommendation, upholding fiduciary responsibility for fund management, and ultimately, the goal of limiting negative amortization. So while many of our counties did not respond to the survey that was offered, they did side with the expert and professional recommendation of your staff.

Now, some of the points were raised by the committee already, so I'll be belief, but we do appreciate the recognition of potentially an earlier start date. We would not want to go any later than 2019 because of the delay for actual implementation. But the opportunities some counties did express a very strong desire to start early to take advantage of possible stronger market returns.

In addition, you know, when we're looking at volatility and risk, many of our employers agencies or counties said it's ultimately their responsibility. And it would be on their shoulders to create a safety net, if there was unfortunate returns or unfortunate market conditions.

And then finally, I just want to briefly address not the specific financial hardship consideration here, but respectfully request that the Board, should there be sort of a catastrophic event - and fingers crossed, of course, that's not the case - that the Board would exercise their existing authority, like was done previously, to not just do a agency-by-agency reset, but potentially a whole system reset back to a 25- or 30-year period again, only in that catastrophic scenario.

So again, just really thankful for the opportunity to be engaged in this process, for the many months leading up to this, and available to answer any questions.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Okay. Mr. Gibbons.

MR. GIBBONS: Chair, members of the Committee. Dillon Gibbons with the California Special Districts Association. I want to congratulate you on your Chairmanship, and thank Vice Chair Costigan for your leadership over the last year or so that I've been working with you in this position.

With that, I also wanted to thank the CalPERS staff for their education and outreach to our membership, and to our employers letting them know -- being there for questions, providing webinars, and serving as a resource to our membership.

While the Special Districts Association isn't taking an official support position of the proposal, as we've done in the past, including on items such as the risk mitigation, we do support the Board exercising their fiduciary responsibility and making the tough decisions to ensure the integrity of the fund.

Based on the feedback that I've received from our membership, many of our members say that this will not be an issue for them. They were planning on paying their debts down sooner anyway, so that they could get the debt off of their books, and that -- while this is excellent for the health of the fund, probably won't have an impact on their financial stability.

However, not all of our districts are created equal. Many of our districts are struggling currently. And when we include the reduced amortization period, coupled with the expected rate increases, and what we're anticipating is a downturn in the market, these districts are going to struggle to figure out how to pay down their debts, meet their obligation -- their pension obligations without reducing the services that they provide to the public.

So for those districts, we would request, as Board Member Slaton brought up, an off ramp, an option, a way to review and evaluate district by district whether or not 30 years or 20 years is the most appropriate period for them. So with that, I think that we would be able to support the policy.

However, following your actions today, I implore that this Committee and the full Board seek additional options and programs to assist the same employers that you're continually coming to to ask for more money. Our members have expressed frustration that it seems that you keep coming to them asking for more, while at the same time not providing a lot of other options and assistance for them.

They would be seeking a prefunding trust fund where contributions are the sole -- at the sold discretion of the employers. This would assist in addressing one of the questions that you had regarding volatility of their payments. With the prefunding trust, they would be able to deal with the ups and the downs by having --

CHAIRPERSON TAYLOR: Mr. Gibbons?

MR. GIBBONS: -- money that they submitted --

CHAIRPERSON TAYLOR: -- you're out of time. I'm sorry.

MR. GIBBONS: Thank you.

CHAIRPERSON TAYLOR: Thank you.

Mr. Hutchings.

MR. HUTCHINGS: Good afternoon, Chair and members. Dane Hutchings with the League of California Cities.

Echo the comments made by my colleagues regarding flexibility and specifically also the 115 trust. I think that would be a great tool in our tool belt. Locals can do that already. But, of course, on the private side, there is a sort of a cost -- cost of doing business factor that -- profit margins that these guys have to include in their agreements. Whereas for -- for this body that would not be the case. We could actually save some money by doing a prefunded trust here at CalPERS.

But with regards to the matter at hand, given the wide range of fiscal solvency issues for my members, the League can't take a formal position on this. I've got, as you guys know, in September I had several of our cities come up and express some significant challenges of the 20-year amortization schedule.

On the -- you know, conversely I have cities that have also reached out to me that have said that they would very much like to do the 20 year amortization schedule. And I believe there's a few cities today that may be testifying to that desire.

You know, with that being said, given the range of fiscal solvency of my cities, we can't take a formal position. But I am here today to offer perhaps some additional options for Board to consider. And given that we do have a year or so, 18 months, to figure out implementation, we welcome the opportunity to work with this body to try to establish some of these criteria.

One of the things that have been talked about today is the ability to opt out for hardship criteria. Now, I spent about an hour or so on the phone with your actuarial team trying to discern the different between what the fresh start program is and what the hardship criteria is. And it looks like I may have got my wires crossed a bit, so I do apologize if there's aspects of my -- of my letter that seem a little bit inaccurate.

But essentially what we're trying to avoid is that situation where you have a city that is already on the brink, and applying a 20-year amortization schedule would put them in -- you know, would put them over the edge.

I would like to see, you know, CalPERS fall in line with best practices established, you know, recommended industry best practices, but I do believe there should be some consideration for opting out. And we would like to work with this body to try and establish some of those criteria or perhaps modify those criteria.

A second option that you may want to consider is -- I know that the 20-year was recommended. Twenty-five years is still in the acceptable time range. So perhaps having a tiered system whereby if you have a highly distressed agency at 30, someone that can handle a 25 year, which would still be an acceptable range, and then a 20-year for agencies like the State and other well-funded local agencies.

And finally, with regards to the ramp-down elimination, we actually didn't get any feedback on that. We would generally support the ramp down. The ramp up I think is -- would pose a little bit of a challenge. But the ramp down is something that we would support, because it would have 25 years of more of a stable payment as

opposed to a 20-year then a down ramp.
So that with, thank you for your time.
CHAIRPERSON TAYLOR: All right. Thank you.
So I'm calling up Mr. Lee, Richard Lee and Michael Futrell South San Francisco.
Oh, and I'm sorry, the -- Dan -- I'm not going to say your last name correctly Matusi -- anyway -- yeah from the City of Newport.
MR. MATUSIEWICZ: I knew who you meant.
CHAIRPERSON TAYLOR: You know what I meant. Thank you.
So, Mr. Lee, we're going to start with you.
MR. LEE: If I may, may I defer to our City Manager first?
CHAIRPERSON TAYLOR: Sure. Mr. Futrell.
MR. FUTRELL: Thank you very much. Good afternoon. Thank you for the opportunity to briefly discuss the topic of CalPERS liability and its impact on the City of South San Francisco. My name is Mike Futrell, and I'm the City Manager for the City of South San Francisco.
The City of South San Francisco is focused on the fewer, and how to piece together a sustainable contribution plan, which maintains or improves our current level of service provided to our residents, visitors, and

businesses, while contributing to a healthy retirement system. We understand that maintaining a healthy retirement system requires that cities, agencies, and public employees pay more into the system, given the past financial returns and future anticipated returns.

But setting a plan in motion to contribute more towards CalPERS obligations takes time, and no short amount of political skill. Elected officials, staff, labor groups, and the public must all come to appreciate the threat posed by an underfunded retirement system, and all develop the political will to make the hard choices necessary to keep cities solvent.

In South San Francisco, we're pursuing a multi-pronged approach to meeting our PERS obligations, including asking our employees to pay a greater share into CalPERS, setting aside funds earmarked specifically for future PERS obligations, holding the line on expenses, increasing fees on our residents and businesses, and we will likely put a tax increase on the ballot this fall for our residents to consider.

If all the pieces come together as hoped, the City of South Francisco will weather the current CalPERS storm in time.

But what it does take is time, time to educate, negotiate, collaborate with stakeholders to gain a consensus on either raising revenue, cutting expenditures, or both. So today what I'm asking for is time, time to make our plans -- to have our plans mature, to move to reality. And what that means specifically is a time period where this body holds off on any further rule changes, which will make it anymore difficult for cities to meet their obligations and to stay afloat financially.

While this body has been very proactive in reacting to market conditions, and moving to ensure the solvency of CalPERS, which we applaud, recognize that cities are struggling to keep up. For example, in 2013, CalPERS implemented its current Smoothing and Amortization Policy. In 2015, CalPERS adopted its risk mitigation strategy.

In 2016, CalPERS implemented the first -- its discount rate reduction from 7.5 to 7 percent. And now, in 2018, CalPERS is again considering a policy change to shorten the amortization period from 30 to 20 years, a change which will again move the goalpost and will make it more difficult for my city to meet its annual PERS contribution.

Please do note misunderstand me. From the City of South San Francisco's perspective, we support this Committee.

CHAIRPERSON TAYLOR: Mr. Futrell, I'm sorry, your time is up.

MR. FUTRELL: All right. Thank you. I would introduce our Finance Director, Mr. Richard Lee from the City of South San Francisco.

CHAIRPERSON TAYLOR: Okay. Mr. Lee.

MR. LEE: Good afternoon, Madam Chair and members of the Finance and Administration Committee. My name is Richard Lee and I serve as Director of Finance for the City of South San Francisco. My brief comments this morning -- this afternoon serve as an accompaniment to the City Manager Futrell's comments.

The two graphs before you demonstrates the impact of the discount rate reduction and proposed Amortization Policy changes to the City of South San Francisco's general fund over the next 10 years.

The first graph before you reflects implementation of the discount rate reduction and projects that by 2027 the city will have an $8.6 million gap between its revenues and expenditures. As stated by Mr. Futrell, South San Francisco has implemented a broad array of solutions for future pension obligations -- committing funds for future pension obligations, employee cost sharing, increasing fees, and pursuing a tax measure on the November 2018 ballot.

Based on the estimated impact as depicted in

Attachment 4 of CalPERS staff report, the proposed Amortization Policy over a 10-year period is not materially different for our agency. However, this projection illustrates the 2016-17 return on investment of 11.2 percent, and assumes that CalPERS earned the targeted discount rate thereafter.

If actual investment earnings fall short, as you know, the amortized loss will be more severe over 20 years. That being said, in concept, the proposed policy change is an alignment with best practices.

South San Francisco is fortunate to be able to absorb the additional pension costs that have accompanied CalPERS' policy changes over the past five years. Our fear is that the next mid-term ALM review will seek to further reduce CalPERS risk profile, and as such, recommend further reduction of the discount rate.

We ask that the Committee consider the impact of this policy change in the context of future near-term ALM modifications.

Thank you for your time and consideration.

CHAIRPERSON TAYLOR: Thank you.

And Dan.

MR. MATUSIEWICZ: Dan Matusiewicz, Finance Director of the City of Newport Beach.

Madam Chair and members of the Board, what I laid out to you in my written submission basically is that I think the Board, you know, by having an extremely accommodative policy -- Amortization Policy is not unlike the Feds overly accommodating monetary policy. In the long run, it really -- it really hurts folks.

So keep in mind, we're talking about an operating liability. We're not financing a building that's going to last 60 years. So when we're talking about an operating liability, it almost sounds like by having a very loose Amortization Policy you're looking to help agencies finance their operations over a long period of time.

And that's just not good fiscal policy. So for those that are looking to help PERS meet their operating needs, I agree with my colleagues that they ought to look at other options first, you know, cutting the budgets in any way they can, maybe looking for tax-exempt financing of their capital projects, looking for tax-exempt financing on their short-term operating needs.

But certainly, if I was looking for financing, I wouldn't be looking to CalPERS for a seven percent loan. One it's expensive. Two, CalPERS isn't a bank. It should be the bank of last resort. So while I applaud you for looking to accommodate the less fortunate, maybe those options should be sought in the private sector, perhaps in the State Controller's office. But I don't think it's

CalPERS Board's primary objective is to be a banker to finance cities' operations.

I think for those cities that want to get a jump on implementing this process sooner, there's -- there is the option of doing a fresh start shortly after the June 17 vals are completed, so they can pull those credits forward, and they can avoid the ramp, if that's what they were looking to do. So I think this policy -- I applaud Scott's efforts. I think it's the right thing to do. And I think it's -- it will help cities in the long run. And to the extent they need short-term solutions, they should be looking for those solutions elsewhere.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Thank you, everybody. Can I have staff back up here. We have a motion, but I'm not ready.

So we do have motion on the floor. However -- in a second -- we had a couple of things brought up. I did want an answer to one of -- I can't remember if it was Mr. Gibbons Mr. Hutchings, basically talking about holding off for 20 -- I think you mentioned 25 years. So I did want to ask Mr. Terando what that impact would be, doing a 25-year rather than a 20-year amortization? And it's yellow here, so it's not a bad thing -- or it was -- yeah, it's yellow here.

CHIEF ACTUARY TERANDO: While 25 is what we looked at, if you look at the whole range, it is -- it falls under the acceptable. We don't feel that the difference between a 25 is where we need to be.

We had --

CHAIRPERSON TAYLOR: Can I ask you why?

CHIEF ACTUARY TERANDO: We had internal discussions among the actuaries in our office on where we feel the most appropriate amortization period should be, and we actually talked around the 15 to 20. And while 25 is better than 30, it's not where we want to be. We want to be at the 20.

CHAIRPERSON TAYLOR: Okay. I understand that, but I need a better reason than we want to.

CHIEF ACTUARY TERANDO: All I can say is that that's our recommendation.

CHAIRPERSON TAYLOR: Okay.

CHIEF ACTUARY TERANDO: We had a discussion. We feel it meet -- it meets our needs -- it meets the needs of the plan stability, and I think it addresses also the -- it gets your funded status quicker. It beats it five years versus 25.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: And also the intergenerational equity. If you look at the liabilities, the duration of liabilities are really below 15. So with 25 year amortization, you're 10 years beyond --

CHAIRPERSON TAYLOR: Could you ex -- I don't understand that. Duration of liabilities.

CHIEF ACTUARY TERANDO: Duration is -- think about -- when I say duration of liabilities, think about it as a weighted lifetime expectancy. So it's like a weighted -- a weighted expected lifetime or expected working lifetime. So when we look at liabilities, if say --

CHAIRPERSON TAYLOR: Oh, you're -- oh. Oh. Okay. You said working lifetime, so that --

CHIEF ACTUARY TERANDO: Yeah, you see, you have your active members are working, and then you also have your retired lifetime.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: So for retirees, you would be looking at their future whole lifetime. So it's kind of like a working lifetime for your actives --

CHAIRPERSON TAYLOR: Okay.

CHIEF ACTUARY TERANDO: -- and then you have your duration for your retired lives as well.

And if you look at both of those, they both fall under 15 years.

CHAIRPERSON TAYLOR: I thought the average

working was 23 right now.
CHIEF ACTUARY TERANDO: Yeah, but when you -- when you take into consideration those are people who make it all the way to retirement. But if you look at how many people who actually retire and quit, the expected working lifetime based on our assumptions -- our assumptions is somewhere around under 10 years for working for actives. When we take in --
CHAIRPERSON TAYLOR: Is that based on assumptions or is that based on -- because you can get that information.
CHIEF ACTUARY TERANDO: Yeah.
CHAIRPERSON TAYLOR: So is that based on current information?
CHIEF ACTUARY TERANDO: That's based on a assumptions. The expected lifetime is so --
CHAIRPERSON TERANDO: So it's not based on current information.
CHIEF ACTUARY TERANDO: Not that I'm aware of, no.
CHAIRPERSON TAYLOR: Okay. So -- because we can get that information.
CHIEF ACTUARY TERANDO: I believe we could check with membership data center on that. The challenge --
CHAIRPERSON TAYLOR: Yeah. Yeah. I mean --

CHIEF ACTUARY TERANDO: The challenge --

CHAIRPERSON TAYLOR: And it's not necessarily, but you're saying that it's --

CHIEF ACTUARY TERANDO: The challenge is we have a lot of people who -- we have a lot turnover in the early years, where your people are working two to three years and then leaving.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: And that -- that brings it down.

CHAIRPERSON TAYLOR: But I think it still works out to an average. And I'm look -- I'm not looking at both schools and local and State, but I do know at State it's around 22, 23. So then if you work in schools, local, public agencies, it probably goes down a little bit, but I don't think it's under 15. But I would -- I'm not -- you don't have those figures, I don't have those figures, so we're not going to ask about that.

But I was just trying to figure out why 25? So you're saying that our retirees look at a 15-year lifetime, our State employees are working for 15 years, that's why you were thinking 15 years, but 20 years seemed more reasonable.

CHIEF ACTUARY TERANDO: That's correct.

CHAIRPERSON TAYLOR: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: And I'll just add to that in terms of the impact on projected contributions, if you look at our charts, the lines of the 25-year versus 20-year are fairly close together. And I've learned not to minimize those differences. It is more of an impact with 20 years. But those are fairly close in terms of what we expect the contributions to be under either 20 or 25.

CHAIRPERSON TAYLOR: Okay. So they're -- so they're not too far away, if you do -- yeah, here's the 25. Yeah, they're pretty close.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, so the orange and the blue lines on our charts.

CHAIRPERSON TAYLOR: Yeah. So on the three percent and then on the 11 percent. Yeah, so --

DEPUTY CHIEF ACTUARY DZIUBEK: So given all the actuarial bodies are recommending 20 or less, we feel more comfortable with 20, given that 25 doesn't really provide an appreciable difference.

CHAIRPERSON TAYLOR: Even though it's an acceptable range according to your --

DEPUTY CHIEF ACTUARY DZIUBEK: Well, we wouldn't want to say it's not acceptable.

CHAIRPERSON TAYLOR: Okay. And then I just -- you guys had mentioned that earlier that the 30 years that -- that the public agencies, the cities, the counties that you have on our appendix here that are between 15 and 20 years, do we have any other State retirement funds that are similar to our retirement funds that -- and what are theirs, because I didn't see that?

DEPUTY CHIEF ACTUARY DZIUBEK: We don't have anything in the material. I mentioned in one of my earlier comments that I know a representative from NASRA, the National Association of State and Retirement Administrators spoke to the Board and had some comparative information on state retirement systems with regard to amortization periods.

And I know there was a chart that represented the average period from these state plans over the last several years. It was generally declining, and I want to say that the current average was 24, 25, 26. I'm forgetting, but it was in the mid-twenties.

CHAIRPERSON TAYLOR: Okay. Twenty-four, 25, 26.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, I apologize. It was part of that presentation that Keith Brainard gave that I remember seeing. We don't have it as part of our presentation.

CHAIRPERSON TAYLOR: Okay. And then the -- I believe it was the League of Cities and CSEA mentioned a couple of things to help mitigate some issues here. So I just want to know what you guys think about it. Pre -- this is something that they would have to do, which is pre-funding a trust. You were working with that. Okay.

CHIEF ACTUARY TERANDO: No, I was just going to say currently we don't offer a 115 trust for CalPERS.

CHAIRPERSON TAYLOR: Right.

CHIEF ACTUARY TERANDO: So that's something that they would have to do outside.

CHAIRPERSON TAYLOR: Right. Right. No, I'm aware of that, but I think there's -- anyway.

Putting in an opt-out. So when we -- when we do this or are doing an opt-in early, a tiered system and a -- and I don't know what he meant by ramp down, so I just wanted to know what you guys thought about those.

DEPUTY CHIEF ACTUARY DZIUBEK: I think he was generally in favor of the changes we were proposing for the ramps. As far as providing a choice to employers, again, the formal proposal that we put together does not allow a choice on either the length of the period or the date that we adopt these changes.

That doesn't mean that the Board can't make different choices. Adopting early is not something we are opposed to. It presents a little bit of administrative challenges, particularly if we wanted to do it for the '17 valuations. That would be difficult. But for the '18 valuations, that would be fine, and we're not opposed to offering that option.

As far as offering a longer period, again, we would say that that becomes your decision. We're recommending 20 years for determining the minimum required contribution, but it comes down to the Board's final decision.

CHAIRPERSON TAYLOR: Okay. Scott.

CHIEF ACTUARY TERANDO: And then maybe a quick comment. In terms of I think Dorothy had mentioned early opt-in. Right now, employers have the option of wanting -- or -- when we send out the annual vals, we give them what we call a fresh start, where we collapse all the bases into a shorter amortization period. And that's an option right now. And we could possibly look at whether offering an option for them to opt-in into the amortization period early. I know Dorothy had mentioned that some of her plans or some of her agencies don't want to wait till '19. And so if we -- if you follow the recommendation and implement it as of '19, we might want to consider whether we can actually put that option out there to help employers adopt early, if necessary.

CHAIRPERSON TAYLOR: Okay.

CHIEF ACTUARY TERANDO: We make that as an option.

CHAIRPERSON TAYLOR: Okay. And Mr. Feckner is -- so I have a motion on the floor. I'm wondering if we want to do a friendly amendment to an opt-in early and then I think -- go ahead.

Oh, Richard. Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Madam Chair, I would respectfully suggest that we just move forward with just the separate motion as Mr. Gillihan proposed, and then give staff direction to bring back, rather than on a -- I'm not sure what we'd be voting on as an option. I understand that CSAC and the League may have proposed something. I also understand there might have to be a statutory change as it relates to the 115. So I'm saying I would recommend that the staff bring back as a series of recommendations rather than tying the two together, but that would be my suggestion.

CHAIRPERSON TAYLOR: Okay. How does the Board feel about that?

Okay. Go ahead, Ms. Mathur.

PRESIDENT MATHUR: Just from a timing perspective, if we wanted to offer this opt-in option, that would need to be done fairly quickly I would imagine. Is that --

CHAIRPERSON TAYLOR: That's the problem.

PRESIDENT MATHUR: -- not right?

CHIEF ACTUARY TERANDO: For these -- if they wanted really as for the '17 val, the sooner the better. And if they want it on the '17 val, it would probably -- it would result in a delay for their vals. If they're okay with that, then we can have those discussions with those employers.

For the '18 vals, that's a year from now, there's plenty of lead-up time. So easily for the '18 opt-in that's much easier. Seventeen will be a challenge and I -- while it is an option, there will have to be a delay for those vals just because we're so far along in the process.

PRESIDENT MATHUR: So I guess I would suggest -- I don't sit on the Committee, but I would suggest that for opt-in option where employers could request to have this implemented for them for either the '17 or the '18 year, that that be incorporated as part of the motion or a separate motion today. But that the other options like a prefund -- like a 115 prefunded trust that CalPERS --

CHAIRPERSON TAYLOR: That can't be done.

PRESIDENT MATHUR: -- were to administer or an opt-out provision with criteria that that be brought back at a later time, because that requires certainly more fleshing out and more analysis and consideration.

CHAIRPERSON TAYLOR: So I will reiterate, can I make a friendly amendment?

VICE CHAIRPERSON COSTIGAN: You can't make it as the Chair. You have to have someone else do it.

CHAIRPERSON TAYLOR: Can someone make it. Oh, I'm sorry, Richard.

COMMITTEE MEMBER GILLIHAN: Madam Chair, I made a motion, which was seconded. And I would respectfully request that we call the vote.

CHAIRPERSON TAYLOR: Sure. Anybody else?

All right.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Thank you. The motion passes as is.

I would respectfully ask Mr. Terando that you go ahead and look at our opt-out or our hardship, whatever you want to call it.

CHIEF ACTUARY TERANDO: Yes, we will try and work with the employers as they contact us and work on the -- see what we can do to --

CHAIRPERSON TAYLOR: And I think you guys are already working with the employers on a trust or legislation for something like that or is that not true?

CHIEF ACTUARY TERANDO: I would have to defer that to --

CHAIRPERSON TAYLOR: Okay. Oh, there's Brad.

CHIEF ACTUARY TERANDO: -- Brad.

CHAIRPERSON TAYLOR: Mr. Pacheco, go ahead.

DEPUTY EXECUTIVE OFFICER PACHECO: Madam Chair, Brad Pacheco, CalPERS team. You might recall two years ago we explored establishing a 115 trust at the request of our employer partners. After meeting with the stakeholders, we did put that aside for the time being. But it's something that we could bring back, because we have done the analysis and looked at it. And Mr. Costigan is correct, it does require legislation. So it would be something that we would have to do during the next cycle.

CHAIRPERSON TAYLOR: Okay. That would -- we'd like to -- I think if you could bring that back, that would be awesome.

DEPUTY EXECUTIVE OFFICER PACHECO: Sure, we'd be happy too.

CHAIRPERSON TAYLOR: All right. Moving on to -- so I'm hearing a request to break now while we're between items until 3:15. So I'm going to go ahead and call a break till 3:15. Be back here. Thank you.

(Off record: 3:05 p.m.)

(Thereupon a recess was taken.)

(On record: 3:15 p.m.)

CHAIRPERSON TAYLOR: Thank you. I'm calling the meeting back to order. And we are on Item 8.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Good afternoon, Madam Chair, members of the Finance Committee. Kim Malm, CalPERS team member. Congratulations on your appointment. Before you is an action item to approve the 2018 notice of election for the upcoming 2018 State School and Public Agency elections.

These elections are to fill these three representative seats on the CalPERS Board for the state member currently held by Theresa Taylor, the school member currently held by Rob Feckner, and the public agency member currently held by Priya Mathur.

All three incumbents have notified the Board election office of their intent to run for reelection. The election will begin on March 27th with the electronic transmission of the notice of election to CalPERS employers for their active employees.

The notice of election outlines the election schedule and procedures for becoming a candidate. In your packet, you will see an updated notice of election, where we have updated Mr. Lind's name with Mr. Rubalcava's name. And so you have an updated -- three updated notices in your packet that reflect that change.

Potential candidates must submit a nomination petition with at least 250 eligible signatures no later than 5:00 p.m. on May 17th in order to be a candidate for the election. Candidate statement booklets and ballots will be mailed on August 31st, and the voting period will end on October 1st.

The online telephone and paper ballots will be tabulated on October 2nd. Each candidate must be elected by a majority vote. If there's no majority vote in the primary election, a runoff election will be held.

The runoff is required -- if a runoff is required, the ballots will be mailed on November 16th. And the voting period will end on December 10th with again tabulation on December 11th. The term of office for the newly elected Board members will begin on January 16th, 2019, and end on January 15th, 2023.

I'm going to give you a quick regulation update. The regulations that the Board approved the change in January allowing for the placement of the perjury statement signature and other identifying information on the return envelope has been submitted to the Office of Administrative Law.

The 45-day comment period began on February 9th and will end on March 26th. We anticipate bringing the regulation package back to the Board for final approval and submission of the final regulation package to OAL in April.

However, this is contingent upon the number of comments received, and if there are significant changes that will require additional 15-day comment periods.

One last comment. As you know we -- our focus since the member-at-large election that ended in December, we've been focusing on the paper ballot changes. However, there have been some issues raised by a few in regards to the telephone voting option.

So I've included in your packet the process and the script of the voting -- the phone voting. And I've also put copies in the back. And happy to take any input that you have on script changes to the phone voting option.

This concludes my presentation, Madam Chair, and I'm happy to answer any questions.

CHAIRPERSON TAYLOR: All right. Great.

It does not appear the Committee -- hold on one second. Mr. Miller.

COMMITTEE MEMBER MILLER: Just one thing. There was an issue in the recent election with withdrawal of candidacy by one of the candidates. And it kind of became clear that why requiring them to withdraw before the submission of the ballot material, that's a financial hit to CalPERS. But to the extent that other candidates have written statements, and then addenda based on who else is running and what they have said, it kind of potentially leaves candidates in the lurch if a candidate, or multiple candidates, drop out, and there's no opportunity to address that in terms of at least their addenda.

So I just put that out there as a comment that I think CalPERS should look at that, and also look at the potential for litigation around that. The timeframes don't really allow that, but I think there's -- there's a real issue there.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Thank you, Mr. Miller, for your comment. We are going to be looking at the regulation as a whole, and other modifications that we can make in order to make the elections clearer and more streamlined. At this moment in time, we're just -- we're just focusing on the removal of the information from the ballot, but we will duly take that note and take a look at it.

Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

Ms. Brown.

BOARD MEMBER BROWN: Hi. Thank you. I wanted to thank you for including this little -- the phone voting process map. This doesn't appear to be exactly what I heard and a number of voters heard, because on the -- I want to be clear, the confusion came with when you were listening on the phone, the recording said, "Remembering the order of the candidates, for Candidate 1, press... for Candidate 2..." -- it actually doesn't have our name. It never said our name on the phone voting.

And so I think if we're going to get that fixed, that would be a really great. And it was -- it was very confusing, so I'm sure this isn't just for me, but we need to know what the option is for feedback on this from this.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: We can absolutely speak to the vendor. I think that's a great add where it says if you want Candidate 1, Theresa Taylor, please press 2.

BOARD MEMBER BROWN: Yeah, it should have names.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Um-hmm. Yes.

BOARD MEMBER BROWN: It shouldn't say remembering the be order of the candidates, who remembers the order of the candidates?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Okay.

BOARD MEMBER BROWN: I mean, it can be very confusing, especially if there's a large number of candidates before the runoff.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: I don't remember it not doing that, but let me ensure that it does.

BOARD MEMBER BROWN: Take a look at the runoff.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Will do.

BOARD MEMBER BROWN: It definitely did it in the runoff.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Okay.

BOARD MEMBER BROWN: Thanks.

CHAIRPERSON TAYLOR: It looks like we don't have any other questions. But I was wondering, in addition to what Ms. Brown was talking about - I'm just trying to go over this really quickly - is there a way to opt right in to the vote, because I heard that this being so complex --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: So the process has to allow for all of the options that online allows for, which is why it looks awfully complex on that process sheet. In order to get directly to the vote, let me take a look at that and see if -- what the quickest way is to go directly to vote for a candidate. It's been a while since I listened to it.

CHAIRPERSON TAYLOR: One or two, or A or B, because from -- I voted online and I had already read everything I needed to read, so I just went straight to the candidate. I didn't bother to look at the -- you know what their statement was or anything. And I think maybe it would make it a lot simpler for our folks voting on the phone if they could just do that.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: They certainly don't have to press the options to listen to the candidate statement. That's a choice. But let me make sure that there's a way to just go directly to -- or if there is a way for them to go directly to that.

CHAIRPERSON TAYLOR: Right. After they identify themselves and put in their pin and all that stuff. Okay. Great.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yeah, or if they have to go through a couple of steps.

CHAIRPERSON TAYLOR: Okay. Great. I appreciate that.

So this is an action item. I'd like to entertain a motion. Anybody?

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON TAYLOR: All right. Moved by Henry Jones. I need a second.

COMMITTEE MEMBER MILLER: Second.

CHAIRPERSON TAYLOR: Second by Mr. Miller.

All those in favor of the -- approve the notice of election for 2018 CalPERS Board of Administration state, school, and public agency member elections say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Seeing none. The item passes.

All right. And then we are moving -- oh, come on. My iPad got stuck for a second.

We are on 9. I'm still stuck. Oh, it's -- and Mr. Terando, go ahead.

CHIEF ACTUARY TERANDO: Good afternoon, Madam Chair, members of the Committee. Scott Terando, Chief Actuary.

Item 9a is an information item that will go over the Actuarial Office's analysis of the long-term care discount rate. If you remember, and you think about, over the last 18 to 24 months, we've looked at the PERF discount rate, we've also looked at the Legislators' Retirement System, the Judges' System, and the Judges' II System.

This is just a continuation of that process, where we take a look at the discount rate current capital market assumptions and discuss our findings.

Joining me today is Fritzie Archuleta, who will go over our analysis, and discuss our findings.

With that, I'll pass it along to Fritzie.

DEPUTY CHIEF ACTUARY ARCHULETA: Good afternoon, Madam Chair, members of the Committee. My name is Fritzie Archuleta. And I'm part of the Actuarial Office team.

In October of 2012, the Long-Term Care Fund adopted a new asset allocation. And with that, the associated discount rate was 5.75 percent. Since then, the asset allocation has been reviewed twice and is still in use. The discount rate has also not changed from 5.75 percent.

In June of 2017, the Investment Committee approved a new set of capital market assumptions. Specifically, the expected short-term rate of return decreased from 4.92 percent to 4.21 percent. The Actuarial Office has done calculations taking into account the new capital market assumptions and quantified their effect on the long-term care discount rate. We have concluded that the recommended discount rate should be decreased from 5.75 percent to 5.25 percent.

If I can point your attention to attachment 1, which describes how we derived the recommended discount rate. We basically looked at the cash flows for the next 60 years in the Long-Term Care Fund using the new capital market assumptions, the short-term interest rate, our expected rate of return is 4.21 percent, and the rate of return expected for the next 50 years is 6.67 percent.

We refer to this as the base scenario. And then from there, we calculated a single-blended discount rate, which mimics the cash flows under the base scenario. We found this blended rate to be 5.32 percent.

So common practice is to round down to the nearest quarter of a percent and this is how we came up with the recommended 5.25 percent.

On page two of the attachment, we display what the fund would look like based on several different expected rates of return. Perhaps it's best to see on page three, it shows a picture graphically of what happens to the fund and its cash flows over the next 30 or 40, 50 years. You can see that the black line is the baseline scenario, where we have the 4.21 percent for the first 10 years and the 6.67 percent for the next 50 years. The red line is the 5.32 percent blended single discount rate, and the purple line is our 5.25 recommended discount rate.

So using the recommended discount rate to determine the liabilities of the LTC plan, the margin of the LTC plan would go from a positive 12 percent, and a funded ratio of 107 to a margin of about negative one percent, and a funded status of 99 percent. At this time, we do not see a need for an adjustment to the premiums.

In the April FAC meeting, we will come back with the long-term care report, which will display the results of the long-term care plan at the recommended discount rate, and bring it forward to you for your approval.

That concludes my presentation. I'm available for questions.

CHAIRPERSON TAYLOR: All right. I have Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yes, I could support this recommendation, because it's based on valuation of the capital market assumptions. And we've used the capital market assumption changes to drive our discount rate for our other funds. And so it would make sense to me to use the same process for this fund. And I think there's one additional factor with our regular PERF fund, where we have three sources of revenue where if the income is not there and the contributions are steady, then we have an option to raise the rates of the agencies.

Whereas, this only has two sources of revenue, so it's even more at risk in terms of not getting the accurate returns. So when this come back, I could support this.

CHAIRPERSON TAYLOR: Okay. This is an information item. I have no other questions from the Board. I'm sorry.

Mr. Terando.

CHIEF ACTUARY TERANDO: I was just going to remind Mr. Jones that it is an information item, and we're looking forward to Board direction to come back in April with the results at the recommended rate.

CHAIRPERSON TAYLOR: Okay. So I would say that -- pardon me? Oh.

GENERAL COUNSEL JACOBS: Madam Chair, given the last of questions, we can always move this from an information item to an action item, if that were the Committee's predilection.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER JONES: I'd like to move it.

COMMITTEE MEMBER GILLIHAN: Second.

CHAIRPERSON TAYLOR: All right. So moved by Hen -- Mr. Jones. Second by Mr. Gillihan.

So now that is a vote on moving it from an information item to an action item, is that correct? That's the vote I'm taking right now?

GENERAL COUNSEL JACOBS: No. It's -- I think the motion is to approve -- and we do have public comment on this. But the motion is to approve the reduction in the discount rate for the Long-Term Care Program from 7. -- excuse me, 5.75 to 5.25.

CHAIRPERSON TAYLOR: Okay. So I don't have to have a motion to turn it into an action item, is that correct?

GENERAL COUNSEL JACOBS: Correct.

CHAIRPERSON TAYLOR: All right. Good. We're going to hold onto that. We do have one public comment. Ms. Snodgrass, if you could come to the front, if you're still here. There you are.

MS. SNODGRASS: Donna Snodgrass, Retired Public Employees Association. I think you answered the two questions I had. If I heard correctly, the Board does have to approve the action and there will be no premium increases at this time --

CHAIRPERSON TAYLOR: That's correct.

MS. SNODGRASS: -- because of this?

Thank you.

CHAIRPERSON TAYLOR: All right. All right. So we're going to -- we have a motion by Mr. Jones, a second by Mr. Gillihan to go ahead and vote on this agenda item.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Hearing no opposition. This passes.

So we do want to thank you very much on this.

CHIEF ACTUARY TERANDO: Thank you.

DEPUTY CHIEF ACTUARY ARCHULETA: Thank you.

CHAIRPERSON TAYLOR: All right. So I think we're back on -- let's see, it looks like 10a, and that is Ms. Malm.

Thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Good afternoon again. Kim Malm, CalPERS team member. I'll be presenting an information item on the 2017 member-at-large election results. As you know, the member-at-large election was to fill two seats on the CalPERS Board for positions A and position B.

Position A was decided by a majority vote in the Primary election. And David Miller was elected with 63.7 percent of the votes.

Position B seat was decided by a majority vote in the runoff election, and Margaret Brown was elected with 53 percent of the votes.

Congratulations to both candidates.

The term of office for both elected candidates is January 16th 2018 through January 15th, 2022. Voter turnout for this election was 9.14 percent for the primary election, and 10.66 percent for the runoff election. This is an increase to the 2014 public agency election that had a voter turnout of 6.8 percent. However, slightly lower than the 2014 State election with 9.4 percent, and a decrease from the 2013 member-at-large election that had 11.5 percent voter turnout.

It will come as no surprise that the retired members were the highest voting population. The employer with the highest voter turnout was CalPERS with 22.13 percent of the primary election, and 21.12 percent for the runoff election. In the top 20 city category, Sacramento was the top city.

Two new voting options were introduced this election, online and telephone voting. And even though the main mail-in voting was still the most popular voting method of about 77 to 78 percent, we still had about 23 percent of our voters vote using online and phone voting options.

And so for the first year, it's about 23 percent -- almost, a fourth of our voters. So change is hard. I'm okay with that on year one.

We'll continue to partner with Office of Public Affairs and Stakeholder Relations to increase voter awareness, and participation in the upcoming state -- 2018 state, school, and public agency elections. So what can we do to increase the vote that's been asked over and over. And for those of you that have been here for awhile, in 2010 we did do a survey of our membership, 10,000 members to be exact, 2,500 from each of the voting categories asking them if they voted, and if they did -- did not, why not?

And the number one response -- well, first of all, we had about six percent responded out of all the groups. And those that responded, 47 percent stated there wasn't sufficient information about the candidates. The next closest comment was 16.6 percent saying they did not recall being notified of the election.

So the CalPERS team has worked really hard to try and address a couple of these things. For the -- the sufficient information about the candidate, we started the candidate statement videos, which we put on our external website so that our members can watch those. We also modified the regulations to encourage the candidates to answer five questions -- standard questions regarding their qualifications, issues of greatest importance to CalPERS, and what they would do to enhance the organization.

As far as getting out the information, we have worked on an extensive marketing campaign with the Office of Public Affairs and Stakeholder Relations. It included changing the envelop to be more colorful to possibly draw attention, numerous presentations to stakeholder groups on online and telephone voting options, press releases, Facebook, Twitter, Spark messages, commercials for our website, e-blasts to our members where we have an email address, CalPERS PERSpective article, fliers for the

CalPERS Benefits Education Events and Employer Forum, and tool kits that were sent to the employers.

However, if any of you or any of our constituents have ideas to help us increase the vote, we are happy to get that feedback.

If I may, Madam Chair, take a moment of personal privilege. I think most of you know that I've kind of been in and out the last six months, and my team and Public Affairs, and the Legal Office have worked really hard over this period of time to ensure the successful completion of this 2017 member-at-large election, and I just wanted to thank them for all their hard work.

CHAIRPERSON TAYLOR: Yes.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

And that concludes my presentation. I'm happy to answer questions.

CHAIRPERSON TAYLOR: Thank you, Ms. Malm. We want to thank you for your work, and your team's work as well. We know that these things can get very out of hand and lots of complaints. And I know you've heard from me, you've heard from other folks, how can we increase our voting population?

I'm also looking at it from our view, so that we can figure out something on our side as well. But I think you did a wonderful job. I'm glad we're doing the corrections that were identified and we appreciate that. And I want to thank you very much.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

CHAIRPERSON TAYLOR: And Mr. Miller had a question.

COMMITTEE MEMBER MILLER: Yeah. I've got a couple questions, couple comments. I like -- I think most of us are just perplexed at the low turnout. I really thought that with the additional options and in the wake of what happened with the Presidential election that people would really value voting, when they see what happens when you don't vote, but I was surprised.

(Laughter.)

COMMITTEE MEMBER MILLER: I was really surprised there. So one of the things I wanted to ask is -- in terms of the timing of the candidate forum, has there been any thought about having those forums earlier, so that with the bulk of people still voting by mail, and we know those votes that do come in, come in early most of the them, that more time for people to potentially participate in that be one small thing we could look at. Again, trying to get viewership is another matter.

And then the other question is more specifically to this table, where you've got the top 20 employers, that's both active members and those who retired out of that agency, or just the actives?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: It's just the actives.

COMMITTEE MEMBER MILLER: Okay. Yeah. So it would be interesting to know how our retiree segmentation breaks down. I don't know if that's something we get.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: By employer. We do have their age --

COMMITTEE MEMBER MILLER: By employer.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Yeah, okay. We do -- we did have like the age groups and how they voted, but we do not have the employer in the report that we provided you.

COMMITTEE MEMBER MILLER: Okay. Thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: And for the forum, interestingly enough, we've dried early, we've tried late, we've tried early and late in the day, we've tried lunch time, we've tried a number of different options to encourage participation, and, you know, I think we need to have a conversation on whether or not we find that there's an actual value to the forum, since there's not a lot of participation. And maybe we could spend our time doing something more, something different.

COMMITTEE MEMBER MILLER: I appreciate you and all your team's work, and I've been at all of them, so...

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

Ms. Brown.

BOARD MEMBER BROWN: Has there been any thought to counting the votes that by postmark as opposed to by arrive date. I know this last election there were several thousand that were not counted, one, because they didn't have the signature on the ballot. And I know maybe we're correcting that piece of it, because it was on the ballot versus the envelope. But then a number of percentage of votes arrived after the final day. And when we absentee vote, it just has to be postmarked.

So I'm just wondering if we could consider that, because you probably get several thousand more. You probably have the numbers there that were not counted.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: I don't know if I have those right on me. But what we have run into is that a number of the post offices do not postmark the envelopes anymore.

And so we were receiving envelopes in that did not have a postmark date. And we found this a couple of years ago in our election. It was, I think, the last retiree election. And so we didn't know after the date of the cutoff date whether or not it was mailed by that date or if it was mailed after that date, which is why we ended up changing the statement to be must be received on this date, so that we knew it was mailed by that time. But there's a number of post offices that are not postmarking those envelopes anymore.

BOARD MEMBER BROWN: I think that's actually illegal not to postmark those, but I'll check with my father who worked for the Post Office for 22 years. I'll find out.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Okay.

CHAIRPERSON TAYLOR: It might be -- am I on? It might be because -- I'm not sure, but if you have a postmark -- it's pre-postage paid, correct?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Correct.

CHAIRPERSON TAYLOR: So maybe that's why. So anyway, Mr. Jones.

COMMITTEE MEMBER JONES: No. That's okay.

CHAIRPERSON TAYLOR: Okay. Mr. Slaton

COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

So I'm particularly struck that the CalPERS voting was 22 percent.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
I'm particularly struck at that too, Mr. Slaton.
(Laughter.)
COMMITTEE MEMBER SLATON: I mean, I just -- I just don't get that. Do you think it's a situation where, you know, my vote doesn't matter or I really don't know who to vote for, so therefore I'm just going to pass? I mean of all the agencies that should have 80 to 90 percent voting record, it would be this agency.
OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
I couldn't agree with you more. And you asked me this question last year, I believe --
(Laughter.)
OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
-- and I didn't have any better of an answer for you --
COMMITTEE MEMBER SLATON: No better answer?
(Laughter.)
OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
-- a year ago. I don't -- I -- we advertise so much here at the -- at this office -- at the CalPERS office. Clearly, we all know that we report to a Board. And so I don't understand the apathy.
COMMITTEE MEMBER SLATON: Okay. And in particular, the apathy goes as the age goes down, the

apathy goes up.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Because a lot of times people don't get involved or don't feel like they need to get involved until they're closer to their retirement age. I think that that happens quite a bit, which is we have the -- our older population that vote a lot more than our younger population for sure.

COMMITTEE MEMBER SLATON: Yeah. Okay. Thank you.

CHAIRPERSON TAYLOR: All right. Seeing no further questions --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

CHAIRPERSON TAYLOR: -- let's move on to -- thank you very much Ms. Malm.

Let's move on to Item 11, Diversity.

(Thereupon an overhead presentation was presented as follows.)

CHAIRPERSON TAYLOR: Mr. Pacheco.

DEPUTY EXECUTIVE OFFICER PACHECO: Madam Chair, Brad Pacheco, CalPERS team. I'm joined today by Kelly Fox our Chief of Stakeholder Relations.

Before you is our annual diversity report. I know it's -- that we're running long, and we have one more committee, so we are happy to go through our presentation, or we can take questions, whatever the pleasure of the Committee is?

CHAIRPERSON TAYLOR: How long did you -- do you think it will take to go through the presentation?

DEPUTY EXECUTIVE OFFICER PACHECO: About 10 minutes.

CHAIRPERSON TAYLOR: Why don't we do that.

DEPUTY EXECUTIVE OFFICER PACHECO: Okay. Very good. Thank you. So we are pleased to present this annual report that highlights our accomplishments to expand diversity and inclusion among our team members, the culture, and our operations and our investment portfolio.

Let me just quickly acknowledge why you're seeing new faces here. This report has historically been presented by our Operations Branch under Mr. Hoffner. But our Diversity and Inclusion Program joined the Communications and Stakeholder Relations Branch in July. So we're thrilled that they're a part of our team, and we look forward to the opportunities in using our communication channels to promote the work that we're doing in this area.

We plan to cover three areas in our presentation. A new enterprise strategy that has a renewed focus on our D&I work, a snapshot of our current demographics, and then finally a recap of some of the work that our Investment

Office has been doing. So I will turn it over to Mr. Fox to go through the present station.

STAKEHOLDER RELATIONS CHIEF FOX: Thank you, Brad.

Sorry about that.

Thank you, Brad, and thank you Madam Chair and Finance Committee. I'll be as quick as we can go here. I want to make sure we acknowledge all the good work that our folks are doing here at the enterprise.

So my name is Kelly Fox. I'm the Division Chief at Stakeholder Relations.

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STAKEHOLDER RELATIONS CHIEF FOX: And so on our first slide here, we're going to talk about our renewed focus on D&I here at the enterprise. So a major change is a renewed focus on D&I. CalPERS has a long-standing D&I foundation that has progressed over the last 10 years. We had a Diversity and Inclusion Advisory Committee that we have co-created a renewed focus to move our organization to a more inclusive work culture.

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STAKEHOLDER RELATIONS CHIEF FOX: So sharing those highlights that touched our workforce, our workplace, and our marketplace. The Key Focus Areas slide will help us achieve our goals, such as talent management, education, and communication. So with talent management, we're connecting D&I and talent management to -- efforts to attract, develop, and advance highly qualified team members and the education component.

We're expanding and strengthening our diversity and inclusion education, increase inclusion and engagement across the enterprise. And our communications efforts, leveraging communication channels to present a consistent message, increase team member involvement, and showcase CalPERS as a destination employer.

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STAKEHOLDER RELATIONS CHIEF FOX: So how we measure our success, previous baselines utilized a different methodology, so we've got an enterprise-wide employee engagement survey that began in 2017 that serves as the new methodology to establish consistent comparison from year to year.

This survey found that on average 66 percent of on team members agreed that quote CalPERS fosters a work environment that values individual differences and contributions. This measure focuses on our efforts to help foster a culture of inclusion, that welcomes diversity of thought, experience, and background.

We have learned that diversity within -- within an inclusive working environment enhances the relevance of our work, and increases productivity, and improves the value of the services that we provide.

The annual engagement -- employee engagement survey has several specific questions aimed at gauging the success of our D&I efforts.

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STAKEHOLDER RELATIONS CHIEF FOX: So just to identify a couple of D&I accomplishments. Again, the report here focuses on the '16-'17 year, so there's some things that you've probably observed and witnessed in the last few months that are not going to be recognized here today, but previous to that.

Over 1,000 CalPERS team members were educated through our training and education classes about D&I topics. And the feedback from those was a positive rating of 92 percent. So we feel very proud of the work that we're doing in providing the training is well received by the enterprise and the team members.

The diversity and inclusion group was honored with the spotlight impact award for best practices in the area of organizational impact, talent management, and culture of inclusion on behalf of an international organization called Prism, where in 2016, we were recognized, and then again in 2017, in particular the D&I group.

Then over 500 team members attended the 10th annual D&I day, and 81 percent of those people reported that the event itself helped them appreciate the unique differences and experiences of the CalPERS team members.

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STAKEHOLDER RELATIONS CHIEF FOX: So on the workforce. As Brad had indicated, some demographic information. So this is our demographics for the organization. And I think -- well in another slide here we'll go over that. But the data we use for this report is entirely self-reported with the information received from the State Controller's office.

The previous methodology would determine ethnicity based on algorithms using -- utilizing name and residential address. And as such, it was not as accurate and was subject to bias. And that was our information that we had received through CalHR.

So the change in methodology has identified some significant democratic diff -- excuse me, demographic differences between 2016 and 2017. So in 2017, the CalHR conducted a one-time self-reported survey, which allowed us to compare to the Controller's Office self-reported data. And this comparison confirmed that the SCO self-reported data is more aligned in representing the CalPERS workforce.

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STAKEHOLDER RELATIONS CHIEF FOX: So here is our workforce from '16 to '17 utilizing the newer demographic information that we received that we felt was a little more accurate in this representation.

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STAKEHOLDER RELATIONS CHIEF FOX: And then our CalPERS employees compared to Sacramento County. And what we're finding here is that the general population here, as recognized by one of the most diverse cities -- so we're in the top 10 in diverse cities across the country. And our workforce is very closely aligned to the demographic representation of Sacramento County.

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STAKEHOLDER RELATIONS CHIEF FOX: So the generational demographics of -- so what we see here in this slide is our workforce continues to span over four generations, an ongoing trend as Millennials entering the workforce as fast as Baby Boomers are exiting, leaving the overall makeup of our organization from a generational perspective very diverse.

Generation Xers maintain their position as the largest group here at CalPERS. Millennial workforce is rapidly growing, is now about seven percent larger than the Baby Boomers. And the Baby Boomers and traditionalists appear to be, as we kindly denote here, gradually exiting the workforce.

(Laughter.)

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STAKEHOLDER RELATIONS CHIEF FOX: So the next slide here we'll talk about our gender demographics here at the enterprise. And what's important to note here is that we're within this optimal gender balance zone, which is considered roughly around the 60/40 split one way or the other. And as you can see here, our female component is nearly 60 percent. Of course, the male component would be 40 percent. But then for the entire team here at CalPERS, it's relatively close within a percentage point of each way. So our team leaders are a good representation of the demographics that are here on a gender basis.

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STAKEHOLDER RELATIONS CHIEF FOX: So that includes our enterprise-wide slides here, but we want to discuss here real quickly the Investment Office Diversity and Inclusion Steering Committee information. And as part of the D&I 2020 plan, the Investment Office has made a strategic priority to foster an environment of inclusiveness and increased awareness of diversity, and inclusion issues.

And so you see there from the slide we have our Investment Belief number 10, and the sub-belief that is identified there.

And we'll, on the next slide --

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STAKEHOLDER RELATIONS CHIEF FOX: -- go into the diversity and inclusion plan. This workstream includes initiatives aimed at increasing the pool of qualified diverse job applicants, team member education and training, and communicating with team members on developments related to diversity and inclusion.

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STAKEHOLDER RELATIONS CHIEF FOX: And then our next steps. We look forward to another year. We'll continue to implement our new D&I enterprise strategy, continue to explore and develop new and innovative ways of sustaining our inclusive work culture.

We plan to achieve this by listening to our employees through a revamped annual engagement survey, so we can better use and plan efforts to increase our engagement by our strategic goal of eight percent by 2022.

Diversity and inclusion is not only a goal, but a call to action, a call we have answered on behalf of our members who serve those who serve California.

And at this point, we'd be happy to take your questions. And I would note that our investment team is here behind us to answer any of the questions you have related to their specific programs. And then in our audience is our manager of our CalPERS Diversity Outreach Program, Ellie Rodriguez, if you'd stand and be recognized, along with your team members.

They're responsible for all of this work and they're doing a fantastic job.

(Applause.)

STAKEHOLDER RELATIONS CHIEF FOX: Okay. Madam Chair.

CHAIRPERSON TAYLOR: All right. Thank you, Mr. Fox.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Just a quick observation. Mr. Kelly, I note -- and I've raised this with Ms. Frost before. I want to applaud Mayor Steinberg for Student Assistant Internship Program. I just do want to point out we often talk about Sacramento being a region, and that's how they promote it. This policy -- there are communities outside of Sacramento that are just as diverse, whether it's Elk Grove, Roseville, Loomis, Lincoln, Folsom.

And I -- the way this reads is we're excluding an entire group of students that are not -- so I'm not quite sure how we have limiting policy. Because the way I read this, and I'm not referencing my high school, but I can tell you our demographics, even out in Eureka are not -- people may perceive where I live that's not reflective of the entire school district. And yet our policy limits it to Sacramento.

So are we going to look at expanding this? Because I hate to foreclose the opportunity to people that live in Folsom, or Roseville, or Lincoln, Auburn.

DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. Mr. Costigan, I don't know that our policy limits us. What we're looking at opportunities to expand D&I efforts here, so we'd be happy to take a look at that beyond just the Sacramento area.

VICE CHAIRPERSON COSTIGAN: Okay. But I just want to make sure, because we limit this with the launch of the new Student Assistant and Internship Program, CalPERS will be supporting. So if someone applies from the Roseville Unified School District, do they get the same consideration as someone from the Sacramento Unified School District?

DEPUTY EXECUTIVE OFFICER PACHECO: You know, let me turn to Mr. Hoffner. I don't know how we would implement that through our human resources.

DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

So actually the program that Mayor Steinberg put forth was, I think, a thousand strong or five thousand strong, which is bringing as many of these kids that are in their junior and senior year in high school to employment opportunities for a specific period of time.

They identified originally I think five school districts within the Sacramento County region for that project. So we were able to take, I think, four or five young individuals within the Investment Office. We look to expand that. I don't see why the criteria couldn't be applied to others.

One of the challenges for them though, Mr. Costigan, is their ability to get here. And so there's some -- there may be some challenges for -- the farther we get away from the downtown core how do they get to the organization for those employment opportunities?

So it's something we'd be happy to explore. I don't think it precludes others. It's really about trying to expand and bring youth into, you know, sort of internship programs and give them flavor of what working at CalPERS would be like.

In this case, it was the Investment Office. There's definitely interest in other parts of the organization. We'd definitely be interested to see how that expands beyond the five that spend about six, eight weeks here.

VICE CHAIRPERSON COSTIGAN: Well, I just want to make sure is we're ensuring diversity and looking at bring in more students, we're not excluding -- there's an entire region. I mean, it's interesting -- again, Sacramento loves to market itself as a region. Yet, I feel -- and I've raised this before, so this is nothing new. I raised it.

I, again, applaud the Mayor on this effort, but I don't want to see us limited, because you're in Elk Grove, I'm out in the Roseville Granite Bay. There are plenty of qualified folks, and I note there are plenty of people that would benefit from this program as well.

So thank you, Madam Chair.

CHAIRPERSON TAYLOR: Sure.

Ms. Mathur.

PRESIDENT MATHUR: Thank you. Just a couple of questions. I note on page 10 of the presentation you've looked at the gender demographics across the organization as a whole. Have you also looked at it for different program areas or broken it down a little bit more granular across the organization to identify where we might have opportunities to improve further?

Slide 10. Yeah, that one.

DEPUTY EXECUTIVE OFFICER PACHECO: We have not, but that's something that we can certainly do. I mean, this data is based on the self reporting. So we could look at doing a cross-functional mapping of those areas, and bring that back, if you would like.

PRESIDENT MATHUR: I think that would be useful, and also at what levels. You know, there's -- you know, well, I guess you have team leaders, which I assume is the executive level. I don't know how --

DEPUTY EXECUTIVE OFFICER PACHECO: That would include all three of our -- all 300 of our managers and supervisors, including the executive team.

PRESIDENT MATHUR: Okay.

DEPUTY EXECUTIVE OFFICER PACHECO: So we actually did consider putting a chart up there of just the executive team, but we included the team leaders, which is a broader universe.

PRESIDENT MATHUR: Yeah, that's -- I think that's fine, but I think that that distinction between the whole -- being more granular across the organization I think would be useful.

The other question I had was about there's a piece in the report about suppliers, and some about external managers and how we engage with them. But could you talk a little bit about how and if we incorporate this into contracting in anyway, in terms of reporting and also efforts to improve diversity at the vendors which we do business?

DEPUTY EXECUTIVE OFFICER PACHECO: Sure. And maybe I'll turn to Kim Malm --

(Laughter.)

DEPUTY EXECUTIVE OFFICER PACHECO: -- to answer that question, since she is the expert in that area.

PRESIDENT MATHUR: And if you don't know the answer today, that's fine, Kim. We can come back to it.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

We do encourage, as you know, in our contracting small business and disabled veterans business enterprises. We do not -- and minor -- or, I'm sorry, micro business, we do not specify out minority businesses, but certainly welcome to take any input that you have.

PRESIDENT MATHUR: I guess I'm not necessarily suggesting some kind of requirement around -- or quota or something. It's more --

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Just reporting.

PRESIDENT MATHUR: It's more around gathering information from our vendors and also engaging our vendors on the benefits of diversity, and having a diverse workforce, and our preference for doing business with those who have a diverse workforce or something around that. So maybe I would just offer that for your consideration.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yeah. Absolutely. I think that we could absolutely look at some sort of program that reports it, that they are able to report it. I don't believe that we have any authority to grant points --

PRESIDENT MATHUR: Sure

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

-- for that. But certainly if it goes in line with our Diversity and Inclusion Report on an annual basis that we could maybe provide some information for the report.

Okay. Thanks.

PRESIDENT MATHUR: Okay. Thank you.

CHAIRPERSON TAYLOR: Okay. Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. Along the lines of what Priya mentioned, I think that that would be very helpful to take a look system-wide at the different sections of CalPERS, and who the team leaders are and how they break out along the lines of responsibilities. I look forward to seeing that hopefully sometime next year.

And I also wanted to congratulate the Investment staff again on the diversity forum. That was such a wonderful event, and I know that a lot of people always look forward to that and being able to come together. That was very inspiring.

And I had a question on the seven board candidates that came out of the Diverse Director Database. And I was wondering if -- how that compares to prior years, and what are the expectations going forward, and are those seven candidates from fiscal years '16-'17 or from Calendar year '17?

INVESTMENT DIRECTOR SIMPSON: Thank you very much. And for the compliment about the diversity forum. I think Cary Douglas-Fong is sitting modestly on that row over there, but she really led the effort. And I just want to say what a tremendous amount of work it was across the whole enterprise.

Anne Simpson, Sustainable Investment Program.

I think your question was about the reporting period for the 3D candidates.

ACTING COMMITTEE MEMBER PAQUIN: That's right.

INVESTMENT DIRECTOR SIMPSON: And it's of a peculiar period of time, because we're looking rather a long way back over our shoulder on what happened in the previous fiscal year, and we'd only just transferred to Equilar to the new facility. And at that point, we had seven candidates.

I'm glad to say since then, we've gone into double figures. We're at 11. And my understanding is they're all female, bar one, and that we do have a range of ethnic diversity in those candidates.

We're also very pleased to see that some of the appointments have been to large multi-nationals like the Board of Shell, as well as to some California based companies across, you know, a growing number of sectors.

But we are in the midst of an enhancement program, because we know we've really only just dipped a toe in the water here. We've got a lot more work to do.

ACTING COMMITTEE MEMBER PAQUIN: That's good news though. Good progress.

And I had one more question, if I may. And this is for you. And I was just curious about the joint engagement with CalSTRS with the 87 companies. And are you continuing to work with the remaining 66 that did not appoint any female directors yet?

INVESTMENT DIRECTOR SIMPSON: That's something for discussion with STRS. I think we've ourselves broadened out our engagement with companies to 504. And STRS is actually focusing on some different areas on the diversity agenda, which we think are very complimentary.

So we've scaled up the number of companies that we're engaging jointly with global equity on the Diversity

Program. But certainly we continue to work very closely together.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

CHAIRPERSON TAYLOR: Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. Kind of to build on what Ms. Mathur and Ms. Paquin had mentioned, when it comes to looking at kind of developing your ability with the analytics, and looking at slicing and dicing things more finely, occupational groups, demographic factors, those type of things, could you talk a little bit about, you know, where you're going with that, and also how do you kind of work with, and align or even integrate this with your recruitment retention efforts with your customer or workforce satisfaction engagement, dissatisfaction type measures to identify what are those key engagement factors that will support both your diversity agenda, but also your kind of talent flow or workforce management for the future?

DEPUTY EXECUTIVE OFFICER PACHECO: So, I think, Mr. Miller, if we can look at this data more finely, as you've noted, as an opportunity for us to work with our HR office, part of the strategy that we've put together today, or this year, is to expand the channels that we're using for recruitment.

And I think there's an opportunity to -- if we can get to the occupational level, which is something that we'd have to look at on how finely we can take this data, it would open up opportunities to identify, not only channels, but organizations or affiliations where we can meet the need of those professions where we can get some more D&I professionals or expand diversity and inclusion.

COMMITTEE MEMBER MILLER: Thank you.

CHAIRPERSON TAYLOR: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yeah, two questions. One I think, Anne, on the seven persons from the 3D that were appointed to the corporate boards, I know that's still a small number. And so the question is do you have any sense of how many new board members were appointed on the corporate boards, so I can get a feel for seven out of thousand?

INVESTMENT DIRECTOR SIMPSON: Yes. Anne Simpson. It's a very good questions question. Perhaps we could come back to you with those numbers --

COMMITTEE MEMBER JONES: Okay. Okay.

INVESTMENT DIRECTOR SIMPSON: -- because a data point from this year that I was very pleased to see, that is among the new directors appointed in large companies this year for the first time, a majority of the new directors were female and/or persons of color.

So we are contributing our bit to this sea-change in diversity and boards. We've got a long way to go, but I'd rather look at those numbers Mr. Jones, and see if we could come back to you --

COMMITTEE MEMBER JONES: Okay. Thank you.

INVESTMENT DIRECTOR SIMPSON: -- because I don't have that at my finger tips.

COMMITTEE MEMBER JONES: Okay. Thank you.

And the second question is the ethnicity demographics. I was under the impression that we could not ask for that type of information, so where is this data coming from?

STAKEHOLDER RELATIONS CHIEF FOX: Yeah. The information is self-reported from -- I'm not sure what the initial --

COMMITTEE MEMBER JONES: Theresa.

CHAIRPERSON TAYLOR: Oh. Oh, Richard knows.

CHAIRPERSON TAYLOR: Okay. Well, hey, I lost you. Try again, Richard.

PRESIDENT MATHUR: No, he's on.

COMMITTEE MEMBER GILLIHAN: So my understanding is that we asked applicants at the time they apply to fill it out as part of their application process. If they choose to, it's voluntary but we have to collect it for federal reporting data. And we actually -- Mr. Hoffner is going to come correct me if I'm wrong. And if the person chooses not to identify, the supervisor actually has to make their best guess based on the categories established by the federal government.

COMMITTEE MEMBER JONES: And on that point, you may recall, I was very disturbed about supervisors making arbitrary, you know, designations of members.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So I think the one thing different that Mr. Gillihan just mentioned is that CalHR actually did a statewide survey --

COMMITTEE MEMBER GILLIHAN: We did.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- to help clean up that data, because we've talked about this in the last three or four or five years that there's a -- there's been a fairly low response in terms of people actually participating and putting that information out.

We at CalPERS provided that survey to all the employees and I think we had like a 97 percent response rate related to that. So the data that you're now seeing is reflective of the individuals here at the organization at a point in time have identified themselves that. So we're getting away from that point, Mr. Jones, as to somebody else identifying what that characteristic might have been, based upon sort of that eyeball test, which we talked about. But there are other pieces that are used for that federal reporting that's required by federal law.

COMMITTEE MEMBER GILLIHAN: If I could add to that, Madam Chair?

CHAIRPERSON TAYLOR: Go ahead.

COMMITTEE MEMBER GILLIHAN: So we actually -- yeah, we did a one-time data collection, because the federal government changed their categories, so our data that we had on file didn't match the new federal definition -- they've actually expanded definitions, and -- at the same time, we also collected data on persons with disabilities as well as veteran status in the same survey.

COMMITTEE MEMBER JONES: Okay. Thanks.

CHAIRPERSON TAYLOR: All right. Great.

STAKEHOLDER RELATIONS CHIEF FOX: And, Mr. Jones, I want to say I believe that all of the information that we provided here today is only from the self-reported. So all the information is not based on any of someone's guess or what someone's ethnicity was. And that was 10 percent was I think we got 90 percent is what Doug said --

DEPUTY EXECUTIVE OFFICER HOFFNER: That was -- yeah, so the historical was at like the nine to ten percent response rate. And what you're seeing now is a dramatic change. And so that slide shows you the difference of what we were reporting historically to what the actual employees are identifying themselves as, which is I think quite helpful.

You can see the disparity and the difference. That's the county -- so you can see how far they were off. Based on historical data.

CHAIRPERSON TAYLOR: And these are CalPERS employees that you're saying --

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

CHAIRPERSON TAYLOR: Okay. Great. That's what I wanted to know. So that's why it's much more up to where the county populations are. Okay. So it's much more reflective. That's good news.

And I really appreciate the report you guys. I have -- oh, no, Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. On the -- how are we collecting the data from our managers in terms of their makeup of their organizations? Because is that a different -- I know it's a different process, but are we able to collect that information on our managers.

DEPUTY EXECUTIVE OFFICER PACHECO: Are you referring to our Investment managers Mr. Jones?

COMMITTEE MEMBER JONES: Yeah. Yes.

DEPUTY EXECUTIVE OFFICER PACHECO: Clint is here.

CHAIRPERSON TAYLOR: Clint.

INVESTMENT DIRECTOR STEVENSON: Clint Stevenson, Investment Director.

CHAIRPERSON TAYLOR: Pull the mic towards you.

Thank you.

INVESTMENT DIRECTOR STEVENSON: Clint Stevenson, Investment Director.

We do collect that information, but we view it as part of talent management. If you're going to be an effective organization, you need to maximize your human resources. And if you are not considering a broad array of candidates, you're not. So that's one of the questions that we're asking.

COMMITTEE MEMBER JONES: So you feel you're getting proper responses on the designation of the ethnicity of these companies' makeup?

INVESTMENT DIRECTOR STEVENSON: I would say that it's a work in progress.

COMMITTEE MEMBER JONES: Okay.

CHAIRPERSON TAYLOR: Okay. Thank you very much. Thank you for the presentation.

And that is -- do we have a summary of committee direction Mr. Asubonten?

CHIEF FINANCIAL OFFICER ASUBONTEN: Yes, we do. Charles Asubonten, CFO.

We have, in total, about five items. The first one is the prior Committee direction, that staff to continue to work with stakeholders for possible legislation on school employee enrollment as discussed previously. The next item is on the Amortization Policy. We asked staff to bring back the opt-out option addressing hardships and stress relief provisions.

And also to bring back or resurrect the 115 trust initiative.

Next, the election of -- the staff is supposed to review the election process to include candidate's name, as opposed to asking voters to remember candidates order.

CHAIRPERSON TAYLOR: On the phone. I think that was on the phone.

CHIEF FINANCIAL OFFICER ASUBONTEN: Yes, on the phone. That is correct.

And the last item is on the diversity item that we just listened to. One to bring back more granular analysis on slide 10, and on contract diversity as well. And lastly, to also bring back more information on Board diversity. That's all I have.

CHAIRPERSON TAYLOR: Great. That's a lot. Thank you so much.

Our meeting is adjourned. Perf and Comp will meet in 20 minutes.

We have no public comment.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 4:12 p.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, Finance & Administration Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of February 2018.

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