

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

ZOOM PLATFORM

WEDNESDAY, FEBRUARY 17, 2021

9:00 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Theresa Taylor, Vice Chairperson

Henry Jones

Fiona Ma, represented by Frank Ruffino

Stacie Olivares

Jason Perez

Ramon Rubalcava

BOARD MEMBERS:

Margaret Brown

Rob Feckner

Lisa Middleton

Eraina Ortega

Betty Yee, represented by Lynn Paquin

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Financial Officer

Doug Hoffner, Chief Operating Officer

Matthew Jacobs, General Counsel

Melody Benavides, Assistant Division Chief, Financial Reporting and Accounting, Treasury Management

Pam Hopper, Committee Secretary

APPEARANCES CONTINUED

STAFF:

Andy Nguyen, Assistant Division Chief, Pension Contract
Management Services Division

Michele Nix, Controller

Dallas Stone, Chief, Operations Support Services Division

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PROCEEDINGS

1
2 CHAIRPERSON TAYLOR: Okay. Everyone. Happy
3 Wednesday. I'm calling the Finance Administration
4 Committee to order. And the first order of business is
5 roll call. Ms. Hopper.

6 COMMITTEE SECRETARY HOPPER: Theresa Taylor?

7 CHAIRPERSON TAYLOR: Here.

8 COMMITTEE SECRETARY HOPPER: Henry Jones?

9 COMMITTEE MEMBER JONES: Here.

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

12 ACTING COMMITTEE MEMBER RUFFINO: Present.

13 COMMITTEE SECRETARY HOPPER: David Miller?

14 VICE CHAIRPERSON MILLER: Here.

15 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

16 COMMITTEE MEMBER OLIVARES: Here.

17 COMMITTEE SECRETARY HOPPER: Jason Perez?

18 COMMITTEE MEMBER PEREZ: Here.

19 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

20 COMMITTEE MEMBER RUBALCAVA: Here.

21 COMMITTEE SECRETARY HOPPER: Madam Chair, all is
22 in attendance.

23 CHAIRPERSON TAYLOR: Great. Thank you. Our next
24 order of business is the elections. So for that, I'm
25 going to hand the gavel over to Mr. Miller.

1 VICE CHAIRPERSON MILLER: Okay. Thank you, Ms.
2 Taylor. So we're on to the election of the Finance and
3 Administration Committee Chair. And so I will open the
4 floor for nominations.

5 COMMITTEE MEMBER JONES: I'd like to nominate
6 David Miller for Chair of Finance Committee.

7 CHAIRPERSON TAYLOR: I'll second the nomination.

8 VICE CHAIRPERSON MILLER: Okay. We have a
9 nomination and a second.

10 Are there any other nominations?

11 Are there any other nominations?

12 And for a third time, any other nominations?

13 Okay. I will call for if there's any discussion.

14 Hearing none, I'll call for the vote. Ms.

15 Hopper, will you call the role?

16 COMMITTEE SECRETARY HOPPER: Henry Jones?

17 COMMITTEE MEMBER JONES: Aye.

18 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
19 Fiona Ma?

20 ACTING COMMITTEE MEMBER RUFFINO: Aye.

21 COMMITTEE SECRETARY HOPPER: David Miller?

22 VICE CHAIRPERSON MILLER: Aye.

23 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

24 COMMITTEE MEMBER OLIVARES: Aye.

25 COMMITTEE SECRETARY HOPPER: Jason Perez?

1 COMMITTEE MEMBER PEREZ: Aye.

2 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

3 COMMITTEE MEMBER RUBALCAVA: Aye.

4 COMMITTEE SECRETARY HOPPER: Madam Chair, we have
5 all ayes. Motion made by Henry Jones, seconded by Theresa
6 Taylor for the Chairperson David Miller.

7 COMMITTEE MEMBER TAYLOR: Great. Thank you.
8 David, congratulations.

9 CHAIRPERSON MILLER: Yeah. Thank you all. I
10 appreciate the support and encouragement.

11 So we'll move on to the election of the Vice
12 Chair. And I'll open the floor for nominations for the
13 Vice Chair.

14 Mr. Rubalcava.

15 COMMITTEE MEMBER RUBALCAVA: Good morning. Thank
16 you -- thank you, Mr. Chairman Miller. I'd like to
17 nominate Theresa Taylor for Vice Chair, please. Thank
18 you.

19 CHAIRPERSON MILLER: Okay.

20 COMMITTEE MEMBER JONES: Second.

21 CHAIRPERSON MILLER: Seconded by Mr. Jones.
22 Okay. Do we have any further nominations?
23 Any other nominations?

24 And once more, any other nominations?

25 Okay. We have a nomination and a second for Ms.

1 Taylor for Vice Chair.

2 Any further discussion?

3 Seeing none. I'll ask Ms. Hopper to call the
4 roll.

5 COMMITTEE SECRETARY HOPPER: Henry Jones?

6 COMMITTEE MEMBER JONES: Aye.

7 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
8 Fiona Ma?

9 ACTING COMMITTEE MEMBER RUFFINO: Aye.

10 COMMITTEE SECRETARY HOPPER: David Miller?

11 CHAIRPERSON MILLER: Aye.

12 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

13 COMMITTEE MEMBER OLIVARES: Aye.

14 COMMITTEE SECRETARY HOPPER: Jason Perez?

15 COMMITTEE MEMBER PEREZ: Aye.

16 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

17 COMMITTEE MEMBER RUBALCAVA: Aye.

18 COMMITTEE SECRETARY HOPPER: Mr. Chair, we have
19 all ayes. Motion made by Ramon Rubalcava, seconded by
20 Henry Jones for the Vice Chair Theresa Taylor.

21 CHAIRPERSON MILLER: Okay. The ayes have it.
22 Congratulations, Ms. Taylor. Thank you, Ms. Hopper.

23 And we'll move on to Item 3, the approval of the
24 February 17th, 2021 Finance and Administration Committee
25 timed agenda.

1 VICE CHAIRPERSON TAYLOR: Move approval.

2 COMMITTEE MEMBER JONES: Second.

3 CHAIRPERSON MILLER: Moved by Ms. Taylor,
4 seconded by Mr. Jones.

5 Any discussion?

6 I'll call for the question. Ms. Hopper, would
7 you call the roll.

8 COMMITTEE SECRETARY HOPPER: Henry Jones?

9 COMMITTEE MEMBER JONES: Aye.

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

12 ACTING COMMITTEE MEMBER RUFFINO: Aye.

13 COMMITTEE SECRETARY HOPPER: David Miller?

14 CHAIRPERSON MILLER: Aye.

15 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

16 COMMITTEE MEMBER OLIVARES: Aye.

17 COMMITTEE SECRETARY HOPPER: Jason Perez?

18 COMMITTEE MEMBER PEREZ: Aye.

19 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

20 COMMITTEE MEMBER RUBALCAVA: Aye.

21 COMMITTEE SECRETARY HOPPER: Mr. Chair, all ayes
22 for the motion being made by Theresa Taylor, seconded by
23 Henry Jones for the approval of the timed agenda for
24 Finance and Administration.

25 VICE CHAIRPERSON TAYLOR: Do I get to vote?

1 COMMITTEE SECRETARY HOPPER: Yeah, I just saw
2 that.

3 Theresa Taylor?

4 VICE CHAIRPERSON TAYLOR: Aye.

5 (Laughter.)

6 COMMITTEE SECRETARY HOPPER: Thank you.

7 CHAIRPERSON MILLER: Okay. It's unanimous, the
8 ayes have it, and the motion is approved.

9 So we'll move on to Item 4, the executive report.
10 So I'll call on Mr. Michael Cohen.

11 CHIEF FINANCIAL OFFICER COHEN: Thanks, Chair and
12 Committee members. Michael Cohen with the CalPERS
13 Financial Office. Just two things to highlight for you
14 this morning. One, I wanted to just give you a brief
15 overview of the Governor's budget that was released in
16 January. As many of you know, the state's economy is
17 doing better than forecast when the budget was passed last
18 June. That's largely due to the K-shaped recovery that
19 you -- you all talked about yesterday, where the wealthier
20 Californians who pay the majority of California taxes are
21 doing better than those lower income Californians.

22 And as a result, the state budget is in
23 considerably better position than everyone thought when
24 the budget was passed last June. So that leads to two
25 very positive results as it relates to CalPERS. First, is

1 that the State has planned on making an additional \$1.5
2 billion payment on behalf of the State's CalPERS plans to
3 us in the upcoming fiscal year. And second, the Governor
4 has indicated his hope that he'll be able to negotiate the
5 end to the Personal Leave Program that's been in effect
6 for this year and was due to carry on into the next cal --
7 into the next fiscal year. So we're hopeful that will
8 continue good news into the May revision and we'll
9 obviously have an update for you as soon as the May
10 revision is released.

11 And the second item, if we can elevate Billy Kim
12 from your independent auditor BDO to the panel, is just
13 circling back to a public comment we received the last
14 time the Board met in November. There was a comment about
15 one of BDO's slides dealing with an adjustment made from
16 our 2019 books. And rather than me explain it, I thought
17 it would be easier to -- for you all and the public to
18 hear from the auditor. So with that, if -- Mr. Chair,
19 with your indulgence, I'll turn it over to Bill Kim from
20 BDO.

21 MR. KIM: Thank you, Michael. We understand
22 during the recent Board of Administration meeting a public
23 comment was raised in relation to the 582.9 million
24 cumulative effect of uncorrected misstatements in
25 investment for real assets and in the fiduciary funds,

1 which was brought forward from 2019 and corrected in the
2 2020 financial statements as presented by BDO in the
3 fiscal year 2020 audit wrap-up presentation to the Risk
4 and Audit Committee this past November.

5 To give some background, CalPERS has routinely
6 recorded its real asset and private equity investment
7 valuations on a quarter lag, meaning that valuations as of
8 March 31 are used in the June 30 CAFR. Now, this practice
9 is adopted to ensure that both the books are closed and
10 the CAFR is issued timely, as there can be delays in
11 reporting by the underlying real asset and private equity
12 entities to CalPERS.

13 With this said, CalPERS staff, as well as BDO as
14 your auditors, each independently performed an analysis
15 yearly prior to issuance of the financial statements to
16 evaluate whether the market change from April to June has
17 a significant effect on the financial statements using
18 information provided from the real asset and private
19 equity investment entities, which is not available until
20 after June 30th.

21 Now, if the impact is assessed to be significant,
22 CalPERS would reopen the accounting records and update the
23 CAFR accordingly. The 582.9 million cumulative effect of
24 uncorrected misstatements brought forward from 2019 and
25 corrected in 2020 financial statements represents only 0.1

1 percent of the June 30, 2019 total assets and deferred
2 outflows of the fiduciary funds and about one percent of
3 the fiscal year 2019 total position.

4 Now, this was concluded by management and
5 concurred by BDO not to be significant enough to warrant
6 reopening the books and updating the CAFR prior to
7 issuance.

8 However, it was still large enough for BDO as
9 your auditors, in accordance with our auditing standards,
10 to report to the Risk and Audit Committee of this
11 unadjusted difference in 2019. Since this difference was
12 recorded in fiscal year 2020, when it should have been
13 recorded in 2019, it was reported to you again as part of
14 the fiscal year 2020 audit results.

15 Now, in contrast, for fiscal year 2020, this type
16 of activity from April to June 2020 for real asset and
17 private equity investments was significantly larger. It
18 was at 1.3 billion and CalPERS staff made a decision to
19 reopen the books and update the CAFR prior to issuance and
20 record the activity in 2020 rather than wait to record in
21 the first quarter of fiscal year 2021.

22 Now, as your auditors, we believe this was not
23 just approp -- not only appropriate, but best practice,
24 especially given the size of the movement.

25 CHIEF FINANCIAL OFFICER COHEN: Thanks, Billy,

1 for that explanation. Mr. Chair, that concludes our -- my
2 executive report, unless there are questions or comments.

3 CHAIRPERSON MILLER: Yes, sir. We do have a
4 couple questions or comments. And the first one is from
5 Ms. Brown.

6 BOARD MEMBER BROWN: Thank you. Did you want to
7 take Committee members first or -- I'm willing -- Ms.
8 Frost is saying yes. Why don't I wait and you take
9 Committee members. Thank you.

10 CHAIRPERSON MILLER: Then we'll do that. So
11 President Jones.

12 COMMITTEE MEMBER JONES: Yeah, thank you, Mr.
13 Miller. Yeah, Mr. Kim, just a question regarding whether
14 or not there's a best practice or a audit requirement for
15 a threshold where restatements have to be made or is that
16 left to the agency to determine on its own when
17 restatements are made?

18 MR. KIM: Yes. Well, first off, a restatement
19 has a very specific connotation in the auditing and
20 accounting word -- world, and -- but I take your question
21 as to whether there needs to be an adjustment to the
22 financial statements prior to issuance.

23 So with that respect, you know, it is -- there's
24 judgment involved here. I gave you certain percentages in
25 terms of the 582.9 million in 2019 as it relates to the

1 2020 financial statements. And one percent, or even
2 anything less than one percent, in our -- in the -- in our
3 profession is considered to be, you know, something that
4 is not material. But again, there is still judgment
5 involved in this. And so this is something that is at the
6 discretion of management, but also at the same time, you
7 know, something that your auditors, and BDO being your
8 auditors, would be in discussion with management if we
9 have any disagreements as such on that.

10 COMMITTEE MEMBER JONES: Thank you.

11 VICE CHAIRPERSON TAYLOR: David, are you stuck?

12 CHAIRPERSON MILLER: Oh, there it is. Okay.

13 Next, we have Director Rubalcava.

14 COMMITTEE MEMBER RUBALCAVA: Thank you. Thank
15 Mr. -- Chairman Miller. My question is regarding the
16 State budget report by Mr. Cohen. Mr. Cohen, given the
17 good news on the Governor's budget, do you think there's
18 any possibility that the State will begin to pre-fund the
19 Judges' Retirement System actuarial valu -- sorry, the
20 first plan not the II, but the Judges' I, which is
21 pay-as-you-go. I was reading the report and it's
22 pay-as-you-go and the other one is very well funded, and
23 the other one is a closed system, so it's overfunded. But
24 I know that the cover letter --

25 CHIEF FINANCIAL OFFICER COHEN: Right.

1 COMMITTEE MEMBER RUBALCAVA: -- from CalPERS to
2 the Governor asked that they begin to prefund as opposed
3 to pay-as-you-go, which is a best practice, prefunding.

4 CHIEF FINANCIAL OFFICER COHEN: Yeah, it
5 certainly is the best practice, but I will tell you that
6 CalPERS has sent that letter for years and years to the
7 Governor and Legislature and there hasn't been, in my
8 experience, any real discussion about switching over to a
9 pre-funding system. So in recent years, the real emphasis
10 has been building up the overall State pension plans, in
11 terms of their funded ratio, as well as focusing on the
12 prefunding of the retiree health benefits. So I would
13 suspect, if past practice is an indication, that we
14 wouldn't see a change in practice from the administration
15 on that.

16 COMMITTEE MEMBER RUBALCAVA: Appreciate your
17 insight. Thank you very much. Thank you, Mr. Miller.
18 Thank you, Mr. Cohen.

19 CHAIRPERSON MILLER: Okay. And we'll come back
20 to Director Brown.

21 BOARD MEMBER BROWN: Thank you very much. And my
22 comments are on the \$582 million adjustment to the
23 financials. And first of all, I sit on the Risk and Audit
24 Committee. And this was missed by me. And thank goodness
25 for the speaker who came and brought it to our attention.

1 So this adjustment, Mr. Kim, according to you, is
2 because of the -- the change in asset value of real estate
3 assets from -- for that -- for private equity assets, I'm
4 sorry, for that quarter, right?

5 MR. KIM: Specifically real assets.

6 BOARD MEMBER BROWN: Real assets, April, May and
7 June. April, May, and June, right?

8 MR. KIM: (Nods head.)

9 BOARD MEMBER BROWN: And so this -- this always
10 happens and you're always going to take a look at this.
11 Like, this year was 1.3 billion?

12 MR. KIM: Yes. We always look at this just
13 because of the practice that CalPERS takes to close their
14 books. And so they utilize March values to estimate the
15 values as of June 30th. And so that's in order to close
16 the books and to issue the financial statements on time.

17 BOARD MEMBER BROWN: And would we make these same
18 adjustments if there was an increase in the real property
19 values as well?

20 MR. KIM: Yes. It goes either way.

21 BOARD MEMBER BROWN: Okay. Great.

22 MR. KIM: Yeah.

23 BOARD MEMBER BROWN: All right. And then the
24 bigger issue I have is that I know in financial
25 accounting, one percent is not necessarily material, but,

1 you know, we're not a \$2 billion fund, we're \$400 billion
2 fund, so one percent is a lot of money. And so I would
3 hope that maybe in addition to looking at the percentage
4 threshold, that we're also looking at the total dollar
5 amount in making that judgment. And then I would assume
6 for now, Mr. Cohen, when we have these big adjustments,
7 you'll certainly point it out to Risk and Audit and make
8 sure that we understand it, so we don't have to really
9 focus on it from a speaker's comment. That would be
10 helpful.

11 CHIEF FINANCIAL OFFICER COHEN: Sure. And just
12 to respond, Board Member Brown, this was highlighted in
13 one of BDO's slides.

14 BOARD MEMBER BROWN: Yeah.

15 CHIEF FINANCIAL OFFICER COHEN: So we absolutely
16 will make sure that that happens again, but this was an
17 item that was presented to the public through the BDO
18 presentation.

19 BOARD MEMBER BROWN: Yeah. All right. Thank
20 you.

21 CHAIRPERSON MILLER: Okay. I'm not seeing any
22 further requests for questions for or comments and so
23 thank you for the report, Mr. Cohen. And we'll move --
24 was that a -- no. Okay. Nothing.

25 So -- and we'll move on to Item 5, action consent

1 items, and I don't see any requests to pull anything,
2 so --

3 VICE CHAIRPERSON TAYLOR: Move approval.

4 CHAIRPERSON MILLER: Move approval by Ms. Taylor.

5 COMMITTEE MEMBER PEREZ: (Hand raised.)

6 CHAIRPERSON MILLER: Seconded by Mr. Perez.

7 So any further discussion?

8 I'll call for the question. Ms. Hopper, would
9 you take the roll?

10 COMMITTEE SECRETARY HOPPER: Henry Jones?

11 COMMITTEE MEMBER JONES: Aye.

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

14 ACTING COMMITTEE MEMBER RUFFINO: Aye.

15 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

16 COMMITTEE MEMBER OLIVARES: Aye.

17 COMMITTEE SECRETARY HOPPER: Jason Perez?

18 COMMITTEE MEMBER PEREZ: Aye.

19 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

20 COMMITTEE MEMBER RUBALCAVA: Aye.

21 COMMITTEE SECRETARY HOPPER: Theresa Taylor?

22 VICE CHAIRPERSON TAYLOR: Aye.

23 COMMITTEE SECRETARY HOPPER: Mr. Chair, I have
24 all ayes, with the motion made by Theresa Taylor, seconded
25 by Jason Perez for items 5A, 5B, 5C, 5D, and 5E.

1 CHAIRPERSON MILLER: The ayes have it. The
2 motion passes. Thank you, Ms. Hopper.

3 Move on to Item 6, information consent items.
4 What's the pleasure of the Committee?

5 BOARD MEMBER BROWN: (Hand raised.)

6 CHAIRPERSON MILLER: Ms. Brown moving approval.
7 Is there a second?

8 BOARD MEMBER BROWN: I'm not on the Committee. I
9 just want to make sure that 6C gets pulled.

10 CHAIRPERSON MILLER: Okay. Pulling. Oh, okay, I
11 see it now. Okay. So we'll pull 6C, as in cat.

12 CHAIRPERSON MILLER: Okay. So the motion is --
13 so do we have a motion for the remaining items?

14 COMMITTEE MEMBER PEREZ: (Raised hand.)

15 VICE CHAIRPERSON TAYLOR: You don't need a motion
16 for information consent.

17 CHAIRPERSON MILLER: Oh. Okay. Oh, yeah, that's
18 just information. Okay. So then we will move on to item
19 6C, the Treasury Analysis and Liquidity Status Report.
20 Back to you, Mr. Cohen.

21 CHIEF FINANCIAL OFFICER COHEN: Sure. If we
22 could pull Michele and Melody into the panelist. They're
23 from the Treasury Group in the Controller's Office. But I
24 think given the Board has had a chance to review this,
25 perhaps I would ask Chair -- you know, board Member Brown,

1 if you've got specific questions or if you'd like a full
2 presentation.

3 BOARD MEMBER BROWN: I just have a specific
4 question on the cash flows.

5 CHIEF FINANCIAL OFFICER COHEN: Great.

6 BOARD MEMBER BROWN: So do we need to bring them
7 forward or do you think you can handle this one?

8 CHIEF FINANCIAL OFFICER COHEN: We will see based
9 on the detail of your question, but why don't we go ahead
10 and start the process of bringing them online.

11 CHAIRPERSON MILLER: Yeah. And Director Brown,
12 once they come online, you'll have the floor.

13 MEETING MODERATOR: Michele and Melody, they
14 should be able to share their audio and their video.

15 BOARD MEMBER BROWN: Excellent. So I think my
16 question is fairly simple. I'm looking at Item 6C,
17 attachment 1, page two of 12, where we are looking at the
18 cash flow forecasting. And then I'm really looking at the
19 last chart on that page, which is the actual versus
20 estimated non-investment and investment cash flows. And I
21 like how they look, except December 20 for the actual uses
22 and the estimated uses we -- it looks like we're off by
23 about \$2 billion. I don't know if this -- because we only
24 see a snapshot of one year, I don't have a trend. Is this
25 something that normally happens or can you explain sort of

1 why that big miss there, or maybe I'm reading it wrong --
2 or maybe I'm reading it wrong. I don't know.

3 CHIEF FINANCIAL OFFICER COHEN: No. That seems
4 like the right way to interpret that chart. Melody or
5 Michele, you want to take that one.

6 CONTROLLER NIX: Yeah. Could -- Margaret, could
7 you tell us again what page you're looking at, just so we
8 have the right question.

9 BOARD MEMBER BROWN: Sure. It's page two of 12.
10 And it's the cash flow graphs showing the actual versus
11 estimated uses, the very last chart on the bottom of that
12 page. And, you know, as you look across, they're all, you
13 know, pretty close, you know, sources versus uses. But
14 then you look at the December '20, of course, we got a lot
15 more revenue in. But our use -- actual uses compared to
16 our estimated uses was off by, I think, that's \$2 billion.
17 It's kind of hard to tell. I'm looking at it on a little
18 screen.

19 But I'm just wondering why we were so far off in
20 December and is that normal, because when we see this
21 chart, we don't -- we don't have a trend. We don't see a
22 trend line. And so maybe I can ask for that going back a
23 couple of years what the December -- what the December
24 number is or has been.

25 CONTROLLER NIX: Sure. It is normal to have that

1 kind of a fluctuation. I will say that this particular
2 December activity is just due to investment activities.
3 So there's more opportunities that happen in this
4 particular month and that -- we took advantage of them.
5 It's hard to estimate that. We tried, but we do our best.
6 But in this case, we just -- we were just off.

7 BOARD MEMBER BROWN: Is it -- and no -- nothing
8 specific happened in terms of more uses? I mean,
9 nothing -- nothing existing?

10 CONTROLLER NIX: Melody, you want to jump in on
11 the detail and see if you can give her a little bit more
12 color on that, please.

13 FINANCIAL REPORTING & ACCOUNTING ASSISTANT
14 DIVISION CHIEF BENAVIDES: Sure. I know that this -- that
15 there's volatility that can occur because of investment
16 activities. So I -- my team is kind of looking into it,
17 but we can get back to them on that one.

18 BOARD MEMBER BROWN: That would be helpful. I
19 just want to know and if this is something that normally
20 happens or if we missed? I mean, it's nice to know why we
21 missed, right, if we underestimated. So thank you. That
22 was my only question.

23 FINANCIAL REPORTING & ACCOUNTING ASSISTANT
24 DIVISION CHIEF BENAVIDES: Sure.

25 CHAIRPERSON MILLER: Okay. Seeing no more

1 questions on the information consent items, so we'll move
2 to Item 7, action agenda item, the 2021 CalPERS Board of
3 Administration member-at-large notice of election. And so
4 for that, I will call on Dallas Stone.

5 Welcome, Mr. Stone.

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

7 Good morning. Good morning, members of the
8 CalPERS Board. Dallas Stone, CalPERS team member. A
9 quick congratulations to Mr. Miller and Ms. Taylor on your
10 Chair and Vice Chair selections. This is an action item
11 seeking the Finance and Administration Committee's
12 approval to initiate the 2021 member-at-large election for
13 two seats on the CalPERS Board of Administration by
14 adopting the notice of election.

15 Last December, the Board declared a finding of
16 emergency and approved the initiation of an emergency
17 regulatory action with the Office of Administrative Law to
18 also allow non-original signatures on nomination petitions
19 as a way to mitigate COVID-19 risks from person-to-person
20 contact during signature gathering activities for the
21 upcoming election.

22 The emergency regulations were approved by the
23 Office of Administrative Law on January 11th, 2021.
24 Changes from the approved emergency regulations are
25 reflected in the notice of election, which is included as

1 attachment 1 to this item. The notice of election also
2 outlines the election schedule.

3 In previous elections, we have released the
4 notice of election in late March. Due to the pandemic, we
5 have extend -- extended the nomination petition period to
6 give potential candidates more time in gathering
7 signatures for this election. If approved, we will
8 release the notice of election on March 15th, 2021, which
9 will also start the nomination period.

10 Nomination petitions containing any combination
11 of 250 eligible, original or non-original - and when we
12 say non-original, that's defined as meaning either
13 reproduced or scanned copies of the original signatures -
14 will need to be submitted to CalPERS by 5 p.m. on May
15 13th, 2021.

16 All forms related to nomination requirements will
17 be posted on the CalPERS Board election webpage.
18 Interested candidates may also request a copy of the forms
19 directly by contacting the Board election office.

20 After approval, the Board election team will work
21 with its vendor to print and mail the notice of election
22 to retired members. Active members will receive an
23 electronic notice of election distributed to them by their
24 employers who will receive it from CalPERS via a circular
25 letter.

1 There's a couple of important dates I wanted to
2 highlight and then I can answer any questions that the
3 Committee might have. So on March 15th, we'll be
4 releasing the notice of election and it will be
5 electronically disseminated, as well as mailed to our
6 retired -- eligible retirees. May 13th, the nomination
7 petition, nomination acceptance, and ballot designation
8 forms, and candidate statements are due to CalPERS by 5
9 p.m. On August 27th, ballots will be mailed directly to
10 eligible voters. Eligible voters will have the
11 opportunity to submit their vote, either online, by
12 telephone, or by paper, in accordance with the
13 instructions provided in the ballot package. And our
14 eligible voters will have until September 27th, and that's
15 when all voted ballots must be received by CalPERS on or
16 before this date.

17 I'm happy to answer any questions if you have any
18 at this time.

19 CHAIRPERSON MILLER: Okay. Thank you very much,
20 Mr. Stone. I do have a question from Director Olivares.

21 COMMITTEE MEMBER OLIVARES: Thank you very much.
22 Mr. Stone, I had a question about the -- I'm sorry, about,
23 A, the nomination petition form. So I see that the last
24 four digits of the Social Security number to be verified
25 by CalPERS. Will the last four digits of a candidate's

1 Social Security be on the signed petition form?

2 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

3 Yes, it will.

4 COMMITTEE MEMBER OLIVARES: I'm concerned that
5 poses a risk to identity theft.

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

7 This is something that we're internally
8 discussing with CalPERS. It just, it -- the mandate that
9 the last four of the Social is in our regulations. We
10 would -- again, this is something that we're talking about
11 internally, and we're looking at other options to collect
12 identifying information in order to do the -- our internal
13 validation processes in order to complete the nomination
14 petition process. We're looking at things as maybe an
15 internal electronic nomination petition format behind the
16 members self-service PIN with our IT department.

17 But again, not only will we have to build this
18 internally with our IT team, but we'll also need to pursue
19 regulation changes. And we just did not have enough time
20 within this -- within this election period in order to do,
21 Ms. Olivares.

22 COMMITTEE MEMBER OLIVARES: I would like to
23 suggest that we pursue a bifurcated process by which
24 CalPERS can do validation or verification of the
25 candidate's identity and receive those four digits from

1 the candidate, but that the candidate does not have to put
2 their last four digits on the nomination form that is
3 signed. I don't see any reason for signatories to have to
4 review the last four digits of somebody's Social Security
5 information.

6 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
7 I think that's something that we can discuss with
8 our Legal team. Again, it is in our regulations and it is
9 part of the regulation that --

10 COMMITTEE MEMBER OLIVARES: That it's on the
11 form.

12 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
13 -- defines what that nomination petition is. So
14 it's just a matter of if we would be allowed to do that.

15 CHIEF OPERATING OFFICER HOFFNER: Ms. Olivares,
16 let me maybe weigh in as well. This is -- and this goes
17 back to some -- some point in time that Dallas mentioned
18 in the -- in current regs. This is also consistent with
19 the Secretary of State. They actually request that same
20 information. So I'm pretty sure when that was originally
21 developed many years ago, that was sort of modeled on that
22 requirement. We are looking at it internally. But again,
23 the regulatory process will take at least a year, which by
24 time we will still be in another election process, so...

25 COMMITTEE MEMBER OLIVARES: Just out of

1 curiosity, what if someone doesn't have a Social Security
2 number?

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
4 I don't really have an answer to that question,
5 Ms. Olivares.

6 COMMITTEE MEMBER OLIVARES: Are they then
7 ineligible? What if they just have a taxpayer ID number?

8 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
9 I've never been posed that question before, Ms.
10 Olivares. I'm not -- I'm not sure, but I could -- I'm
11 happy to work with our Legal team and be able to respond
12 back with an answer for you on that.

13 COMMITTEE MEMBER OLIVARES: I just think it's an
14 additional consideration as we go through this process.
15 But, yeah, I just want to stay I am very concerned about
16 the risk of identity theft here, because its name, its
17 employer information, its address, and the last four
18 digits of the Social Security number.

19 CHIEF OPERATING OFFICER HOFFNER: We hear you.
20 It's actually -- when I looked at the Secretary of State's
21 website to register to vote, it's actually -- we're asking
22 for less information than the State does when you go to
23 register originally, so -- I'm not saying it's better.
24 I'm just saying its what was in existence at the time and
25 currently is in --

1 COMMITTEE MEMBER OLIVARES: Yeah.

2 CHIEF OPERATING OFFICER HOFFNER: -- part of our
3 regulatory process. So without that one-year period for a
4 regulatory change and any other modifications, plus the
5 budgetary item that Dallas spoke to from an internal build
6 to have that done in our electronic system, we'd have to
7 bring that back for additional consideration.

8 COMMITTEE MEMBER OLIVARES: I understand these
9 things take time, and I've been through the emergency reg
10 process, and it's not quick. So thank you very much.

11 CHAIRPERSON MILLER: Okay. Next, it looks like I
12 have Mr. Rubalcava.

13 COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair
14 Miller. I had a question on the schedule. On the very
15 bottom talks about the sitting of Board member-elect. It
16 says the effective date will be January 16th, 2022. I
17 don't know if that's regulations or what, but that's a
18 Sunday. Does that matter, according to the regulations?
19 Just thought I'd ask.

20 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
21 No, sir. We just noted that the current Board --
22 Mr. Miller and Mrs. Brown's current Board election -- or,
23 I'm sorry, their term ends on January 15th, 2022. So this
24 would be the official start date of the new term for
25 the -- for the two candidates that win the election.

1 COMMITTEE MEMBER RUBALCAVA: So it doesn't matter
2 that it's a Sunday then? I just not -- okay. Thank you.

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:
4 No, sir.

5 CHAIRPERSON MILLER: Okay. Next, Ms. Taylor.

6 VICE CHAIRPERSON TAYLOR: Yes. Thank you.

7 Stacie, good question, because I think everybody has to
8 sign -- everybody that signs the form also has to put
9 their last four, if I recall correctly.

10 But anyway, I'd like to make a motion to adopt
11 the changed notice of election.

12 CHAIRPERSON MILLER: Okay. We have a motion.

13 COMMITTEE MEMBER JONES: Second.

14 CHAIRPERSON MILLER: And we have a motion and a
15 second from who was that?

16 COMMITTEE MEMBER JONES: (Raises hand.)

17 CHAIRPERSON MILLER: Oh, Mr. Jones.

18 Okay. So we have a motion and a second.

19 Any further discussion?

20 Seeing none.

21 I'll call for the question and ask Ms. Hopper to
22 please take the role.

23 COMMITTEE SECRETARY HOPPER: Henry Jones?

24 COMMITTEE MEMBER JONES: Aye.

25 COMMITTEE SECRETARY HOPPER: Frank Ruffino for

1 Fiona Ma?

2 ACTING COMMITTEE MEMBER RUFFINO: Aye.

3 COMMITTEE SECRETARY HOPPER: Stacie Olivares?

4 COMMITTEE MEMBER OLIVARES: Aye.

5 COMMITTEE SECRETARY HOPPER: Jason Perez?

6 COMMITTEE MEMBER PEREZ: Aye.

7 COMMITTEE SECRETARY HOPPER: Ramon Rubalcava?

8 COMMITTEE MEMBER RUBALCAVA: Aye.

9 COMMITTEE SECRETARY HOPPER: Theresa Taylor?

10 VICE CHAIRPERSON TAYLOR: Aye.

11 COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a
12 motion made by Theresa Taylor, seconded by Henry Jones for
13 Item 7A with all ayes.

14 CHAIRPERSON MILLER: Okay. The ayes have it.
15 The motion passes.

16 And we'll move on to Item 8, the information
17 agenda items. And 8A, Pension Contracts Management
18 Program Report. Mr. Cohen, would you like to introduce
19 our presenters?

20 CHIEF FINANCIAL OFFICER COHEN: Certainly. This
21 is a quarterly information report, but we did want to
22 highlight in it -- in particular, some changes we're
23 making to the termination process. Let me turn it over to
24 Andy Nguyen in the Pension Contract Division to walk you
25 through the slides.

1 (Thereupon a slide presentation.)

2 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT

3 DIVISION CHIEF NGUYEN: Thank you, Michael. Good morning,
4 Mr. Chair and members of the Committee. My name is Andy
5 Nguyen, CalPERS team member. I'm here this morning to
6 present information Item 8A, the Pension Contract
7 Management Program quarterly report.

8 Slide 2, please.

9 --o0o--

10 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT

11 DIVISION CHIEF NGUYEN: The collection activity report
12 provides a summary of collection activity during the
13 second quarter of fiscal year 20-21 and provide a snapshot
14 of outstanding cases to January 31st, 2021. Of the 27
15 outstanding cases that presented at the end of last
16 quarter, seven were resolved and 20 remain outstanding,
17 totaling over \$500,000. We are actively working with the
18 employers to resolve these delinquent cases and think they
19 are solvable.

20 Slide 3, please.

21 --o0o--

22 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT

23 DIVISION CHIEF NGUYEN: Pension contract is currently
24 managing four ongoing payment plans, three for termination
25 costs and one for annual UAL payments. We received

1 good-faith payments from Central Sierra Planning Council
2 and Shasta LAFCO totaling \$200,000. All payment plans are
3 current.

4 Lastly, we are working with the -- with San
5 Luis -- San Luis Obispo Regional Transit Authority to
6 resolve the remaining termination payments.

7 Slide 4, please.

8 --o0o--

9 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT
10 DIVISION CHIEF NGUYEN: There are two active termination
11 cases, but these are hold -- hold over from the first
12 quarter and were reported last quarter. There were no new
13 termination requests during the second quarter.

14 Slide 5, please.

15 --o0o--

16 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT
17 DIVISION CHIEF NGUYEN: In 2020, three employers
18 experienced a significant increase in their final
19 termination costs compared to the preliminary estimated
20 cost, mainly due to the bond market volatility. In
21 response, a cross-divisional working group reassessed the
22 termination process and implement improvement for new
23 termination cases going forward.

24 Our goal for employers considering or entering
25 termination is to provide as much information as possible

1 to inform their decisions, whichever direction they go and
2 make the process as smooth as we can. This slide
3 summarized changes made to the termination process.

4 We will increase cross-program consultation to
5 employer regarding termination costs and process. We will
6 provide a broader range of termination cost estimates to
7 the employer -- in the employer preliminary valuation
8 report. We will accelerate the completion of the data
9 verification process and the valuation report. And
10 lastly, we will engage earlier with employer on
11 negotiating how they will pay for the termination costs
12 before the contract is terminated.

13 That concludes my presentation. I am happy to
14 answer any questions.

15 CHAIRPERSON MILLER: Okay. Thank you for that
16 presentation. And I do have a question from President
17 Jones.

18 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
19 Miller. Yeah. And thank the team for the improvement in
20 this termination process, because we looked at this a
21 couple years ago and it was taking too long to resolve
22 these cases. So I really want to applaud the team for the
23 steps you've taken to improve the process.

24 I do have a question on slide 3 of your -- 3 of
25 5, where it talks about the payment terms were five,

1 seven, pending, two-year designation there. My question
2 is what is the maximum length of time that we would allow
3 for them to make these payments before we take some kind
4 of more drastic action?

5 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT
6 DIVISION CHIEF NGUYEN: So when we're working with the
7 employer negotiating for the -- how they want to pay for
8 the termination costs, we -- if they're asking for a
9 payment plan, we typically negotiate for either three or
10 five years. It's all depend on -- we review their
11 financial situation, their financial position to see if
12 it's -- you know, if it's affordable for them to enter
13 into a payment plan agreement for three or five years.

14 COMMITTEE MEMBER JONES: So does that mean they
15 can go beyond the seven years, as you listed here?

16 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT
17 DIVISION CHIEF NGUYEN: For Shasta LAFCO case is -- it's a
18 special case. And the circumstance for that one was
19 because the final cost increased drastically, over 30
20 percent. And when we first working with them, they has
21 already worked with the Board and agreed to pay based on
22 the estimated cost over a five-years period. But when the
23 cost went up significantly, they asked if they can extend
24 that to seven years.

25 So we assessed their financial situation and able

1 to -- be able agree to let them pay this off over seven
2 years.

3 COMMITTEE MEMBER JONES: So there is no maximum
4 is -- am I hearing you correctly?

5 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT
6 DIVISION CHIEF NGUYEN: It's -- we -- we do have maximum,
7 but we're typically working with our Actuarial Office to
8 ensure that whatever the payment term, it's not longer
9 than what they -- whatever their future expected balance
10 for the remaining of the members.

11 COMMITTEE MEMBER JONES: Okay. Thank you.

12 CHAIRPERSON MILLER: Okay. I'm not seeing any
13 further questions or commence. And I just want to thank
14 our presenters and the teams that put together the
15 presentations. They were nice, concise, clear
16 presentations, and very responsive to our questions, and
17 appreciate all the work that went into them.

18 PENSION CONTRACT MANAGEMENT SERVICES ASSISTANT
19 DIVISION CHIEF NGUYEN: Thank you.

20 CHAIRPERSON MILLER: Okay. 8B, Summary of
21 Committee Direction. Mr. Cohen.

22 CHIEF FINANCIAL OFFICER COHEN: Thanks, Mr.
23 Chair. I do have two items of follow up. First, in
24 relation to the liquidity report on the page two, the
25 bottom chat just to follow up in terms of December '20 and

1 we'll also pull together the last couple of years of
2 charts for the Committee and the Board. And then finally,
3 on the election Social Security number conversation, we're
4 continuing to work on that issue, but we will give you an
5 answer regarding CalPERS voter who does not have a Social
6 Security number, how that gets handled.

7 And I think, unless I missed something, those are
8 the two items.

9 CHAIRPERSON MILLER: Okay. Yep, it looks --
10 looks like we have agreement on that.

11 And so we'll move to 8C, public comment.

12 I'll call on staff, Mr. Fox or Cheree, do we have
13 any public commenters queued up?

14 MS. SWEDENSKY: David, this --

15 STAKEHOLDER RELATIONS CHIEF FOX: Mr. Chair, this
16 is Kelly Fox.

17 CHAIRPERSON MILLER: Yes, go ahead, Mr. Fox.

18 STAKEHOLDER RELATIONS CHIEF FOX: Yes, just as
19 Cheree indicated, there are no callers as yet.

20 Thank you.

21 CHAIRPERSON MILLER: Okay. So we have no public
22 comment. So at this point, hearing no objections, I will
23 call to adjourn the meeting. Okay. We are adjourned.

24 And I think we were -- we'll be coming back at what time?

25 COMMITTEE MEMBER JONES: Ten o'clock for Perf and

1 Comp.

2 CHAIRPERSON MILLER: Ten o'clock for Perf and
3 Comp. It's 9:43 by my clock, so we'll see you all in a
4 little less than 15 minutes.

5 COMMITTEE MEMBER FECKNER: Thank you.

6 CHAIRPERSON MILLER: Thanks.

7 (Thereupon the California Public Employees'
8 Retirement System, Board of Administration,
9 Finance & Administration Committee meeting
10 adjourned at 9:43 a.m.)

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CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of February, 2021.

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