MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, SEPTEMBER 19, 2023

8:30 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chairperson

David Miller, Vice Chairperson

Fiona Ma, represented by Patrick Henning

Jose Luis Pacheco

Ramón Rubalcava

Theresa Taylor

Yvonne Walker

BOARD MEMBERS:

Malia Cohen(Remote)

Eraina Ortega

Kevin Palkki

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Matthew Jacobs, General Counsel

Michele Nix, Acting Chief Financial Officer

Scott Terando, Chief Actuary

Julian Robinson, Senior Pension Actuary

Dallas Stone, Chief, Operations Support Services Division

Kerry Worgan, Supervising Pension Actuary

APPEARANCES CONTINUED

ALSO PRESENT:

Steven Hill, FairVote(Remote)

James McRitchie

Charles Weber(Remote)

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PROCEEDINGS

CHAIRPERSON MIDDLETON: Good morning. I call to order the Finance and Administration Committee meeting of September 19, 2023. The first order of business is to call roll.

BOARD CLERK TRAN: Lisa Middleton?

CHAIRPERSON MIDDLETON: Present.

BOARD CLERK TRAN: David Miller?

VICE CHAIRPERSON MILLER: Here.

BOARD CLERK TRAN: Patrick Henning for Fiona Ma?

Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK TRAN: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

BOARD CLERK TRAN: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Here.

CHAIRPERSON MIDDLETON: All right. Thank you. Our next order of business is the executive report. Michele Nix.

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

Each year in July, employers have the opportunity to prepay their annual unfunded accrued liability in one lump sum to save interest. We offer this incentive, because investing employer contributions earlier in the fiscal year provides a longer period of time to earn the expected 6.8 percent investment return.

This year, 65 percent of our agencies made a lump sum prepayment totaling just over $3.3 billion. Last year, I reported that 79 percent of the agencies made a prepayment and this year it's 65 percent. The decrease is due to an increase in fully funded plans. This is because of the 2020 -- 2021 investment gain of 21.3 percent.

Excuse me.

There were 20 fully funded employers in 19-20 jumping to 200 and 2021. With more fully funded plans, there are fewer agencies requiring the UAL prepayment.

The agenda before you today has three information items. The annual actuarial valuation of the TAP, or the Terminated Agency Pool, CalPERS Board election methods and stakeholder engagement, and an overview of the impact of investment returns on employer contributions.

The next Finance and Administration Committee meeting is scheduled November 15th, 2023 here in Sacramento. The November agenda includes the 22-23 mid-year budget revisions and the 22-23 basic financial statements.

Thank you, Madam Chair. That concludes my report. I'll be pleased to take your questions.

CHAIRPERSON MIDDLETON: All right. Are there any questions?

All right. Thank you. Then we'll move on to Item 3, which is the action consent items. Is there any item to be pulled?

COMMITTEE MEMBER PACHECO: Move approval.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON MIDDLETON: Seeing none. Move approval and second.

All in favor, please say aye?

(Ayes).

CHAIRPERSON MIDDLETON: The measure passes.

We will move on now to item 4, which is information consent items. Are there any items to be pulled?

Is there a motion to approve?

COMMITTEE MEMBER TAYLOR: You don't need one.

CHAIRPERSON MIDDLETON: All right, then we will move on, since there is nothing to be -- and move to information agenda items.

5a, annual actuarial valuation Terminated Agency Pool. Mr. Robinson.

(Thereupon a slide presentation).

SENIOR PENSION ACTUARY ROBINSON: Good morning, Madam Chair, Board members. I'm Julian Robinson in the Actuarial Office. Happy to present the terminated agency valuation, which we do every year in September.

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SENIOR PENSION ACTUARY ROBINSON: The fund as of June 30, 2022 is in a well-funded position. It has -- whoops.

--o0o--

SENIOR PENSION ACTUARY ROBINSON: It has approximately $360 million in assets and $180 million in liabilities. The -- which make -- which gives it a funded status of close to 200 percent. Just to put the Terminated Agency Pool in perspective, the total assets are 360 million compared to the whole PERF, so it's about 0.1 percent of the PERF. The size of the liabilities about $180 million is about 0.05 percent of the PERF. So even though this is an important pool, relative to the size of the whole PERF, it's really very small.

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SENIOR PENSION ACTUARY ROBINSON: The -- there were a number of changes which occurred in this valuation. There were four agencies added to the pool, which terminated in the year ending June 30, 2021. Those added approximately $18 million worth of assets and liabilities to the pool.

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SENIOR PENSION ACTUARY ROBINSON: The assumptions also changed for the valuation. The assumptions for the TAP change every year we do the valuation. The discount rate increased up to 3.1 percent and the inflation rate actually went down to 2.2 percent. And that is the changes which were in effect for the TAP for the June 30, 2022 valuation.

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SENIOR PENSION ACTUARY ROBINSON: If you -- you can see that there was a change in the market value of assets that went from 390 million down to 361 million. The main reason for that decrease in the market value of assets was the investment loss. There was a similar decrease in the accrued liability from approximate -- from 196 million down to 182 million. And the main reason that the liabilities dropped was a change in the discount rate and the underlying assumptions.

That's pretty much the description of what the status of the pool is. If there are any questions from the Board, I'd be happy to take them.

CHAIRPERSON MIDDLETON: Are there any questions?

I'm seeing none, but I want to thank you for staying on top of this. And this isn't the program that we like to have people participating in, but it's incredibly important that we maintain this fund adequately.

SENIOR PENSION ACTUARY ROBINSON: Thank you. And I would also like to thank my team of actual analysts that were working with me to produce the report and the many other thousands of reports that we produce each year. I want to do a shout-out for actual analysts that lend a hand in all of that and make It possible to present all this stuff to the Board.

Thank you.

CHAIRPERSON MIDDLETON: All right. Thank you.

Next item is 5b CalPERS Board election methods and stakeholder engagement and for that Mr. Stone.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

Good morning, members of the Finance and Administration Committee. Dallas Stone, CalPERS team member.

At the April 2023 FAC meeting, the FAC directed staff to conduct an analysis related to voting methods, including ranked choice voting, RCV, and asked to engage with stakeholders to understand ways of increasing voter participation in future elections. I'll be reporting on both requests today.

Since April, the Operations Support Services

Division, or OSSD, has collaborated with the Policy Research and Data Analytics Division, also known as PRDA, and the Stakeholder Relations Division, also known as STRL, to fulfill these requests.

For this research, OSSD contacted several public jurisdictions that use ranked choice voting to collect data about their voting education efforts, costs, and results reporting practices. These jurisdictions included: the state of Alaska; City and County of San Francisco; City of Berkeley; Cambridge, Massachusetts; Takoma Park, Maryland; and Palm Desert, California. I do want to make a quick note regarding Palm Desert. At the of our research, this wasn't known, but we recently learned that on June 22nd, 2023, the Palm Desert City Council voted to drop ranked choice voting from being used in future elections.

For this research, PRDA also sourced information from organizations that advocate for ranked choice voting such as FairVote and RankedVote. For cost estimates, we relied on figures provided by Integrity Voting Systems since they are currently CalPERS's contracted vendor for election services and they also service public elections in 12 states in the U.S.

OSSD also requested the assistance from STRL to engage with stakeholders regarding election participation.

I'll first summarize the voting methods researched. The full report is included in attachment 4. PRDA researched four different types of voting methods: majority voting, which is currently used by CalPERS; plurality voting, which was used by CalPERS prior to 2005; and modified plurality and ranked choice voting, both of which CalPERS has never used.

Starting with majority voting. CalPERS implemented this method in 2005 where the candidate with more than 50 percent of the votes wins the election. We've used this method in 26 elections so far, where six elections have resulted in runoffs. Critics argue majority voting could result in additional runoff costs if there is not a majority winner. Since adopting majority voting, CalPERS has spent $6.9 million on six runoffs, averaging $1.2 million per runoff election. While in most cases runoffs see a lower voter turnout, we've seen an average increase of 0.38 percent in voter turnout.

Moving on to plurality voting. Before 2005, CalPERS used plurality voting where the candidate with the most votes wins, even if the candidate doesn't get more than 50 percent of the votes. Critics of this method argued that it favors incumbents and the winner may not be preferred by a majority of voters. In an election with multiple candidates, a small portion of voters could be determined the winner.

Plurality is overall less resource intensive since it doesn't require runoffs. Historically, of the six runoffs held by CalPERS since 2005, five candidates with a plurality of votes in the original election received a majority of the votes in the runoff and won the runoff election. Using this data, proponents of plurality may argue that runoff elections rarely change the result.

The third voting method, which is modified plurality, requires the winning candidate to receive a set threshold of votes, for instance 40 or 45 percent to win. If no candidate reaches this threshold, a runoff is held between the two top candidates. This method ensures that a substantial portion of voters opt for the winning candidate. Compared to majority voting, this method reduces the chances of a runoff and may reduce costs associated with an additional election.

Had a threshold of 40 percent been in place, we've had -- we've had held only two runoffs instead of six. In other words, of the six primaries, four had candidates who received more than 40 percent of the votes. There's only been one case where the candidate with the most votes in the primary didn't win the runoff election. This example shows the risk with modified plurality where the winning candidate may not be preferred by a majority of the voters.

The last voting method that was researched is ranked choice voting. That is described as a single election that determines the candidate who is elected by a majority of voters without the need of a separate runoff election. In elections with two -- with two -- or with more than two candidates, voters rank candidates in order of preference instead of just choosing one. If a candidate receives more than 50 percent of first choice votes in the first round of tabulation, they are declared the winner. If no candidate receives more than 50 percent of the first choice votes, then an elimination process begins where the candidate receiving the fewest first choice votes is eliminated. In the second round of tabulation, voters who selected the eliminated candidate as their first choice vote have their votes redistributed for their second choice. The votes are then recounted and this process is repeated until a candidate receivers more than 50 percent of the votes.

Proponents reasons -- proponents reason that RCV increases voter turnout, because voters are only asked to participate in one election rather than additional runoffs. However, according to a study conducted by the National Conference of State Legislators, included in attachment 1, research on the impact of RCV on voter turnout is limited and conclusions are mixed. Furthermore, CalPERS has seen consistent voter turnout between primaries and runoffs.

Proponents also argue that RCV leads to more positive campaigning and reduces polarization between candidates. It may also eliminate that spoiler effect, also known as vote splitting allowing like-minded candidates to compete without spoiling each other's chances of winning.

A voter experience study done by Joseph Coll, which is included in attachment 2, found that 68 percent of voters find RCV very or somewhat easy and 20 percent found the experience somewhat or very hard. The same report found that older voters were more likely to report difficulty with this voting method. Had this voting method been in place since 2005, nine of the 26 primaries would have required RCV due to having more than two candidates running. Of those nine, six had no majority winner in the initial round of vote counts, meaning subsequent rounds of vote counts would have been needed to determine a majority winner.

PRDA's research found that there were many factors to consider if CalPERS were to implement RCV. The voting method may change from year to year depending on the number of qualified candidates which would likely require ongoing voter education or potentially lead to voter confusion. Ballot changes would result in extra costs related to the production printing times. Additional development time would be needed to emulate the same user experience for online -- for the online voting system.

Our current telephone voting would need to be eliminated as an avail -- as an available option due to the complexity of ranking candidates using a keypad. It would require amendments to the CalPERS Board election regulations. Ballot processing could take longer. A more complex ballot could lead to more ballot errors that would need to be adjudicated.

Our current Board election vendor does not have its own RCV tabulation system and it would require a year your more to develop. We would need to revise our recount procedures for an RCV election and work with our Board election vendor to ensure that the necessary technology is developed to conduct the recount. Because of the complexity of counting votes in an RCV election, a recount by hand would be impractical.

While most jurisdictions using RCV have reported success, the 2022 Oakland School Board race highlights that challenges that can arise with this method. In that race, a program error in the tabulation system resulted in a candidate wrongly declared the winner. The link to that complete article about the selection is included in attachment 3.

CalPERS undergoes a contract bidding process every election cycle, which doesn't guarantee a continued partnership with our current Board election vendor in the next or future election cycles. The current vendor has one time -- a one-time licensing fee, which is paid out in the first election conducted in that election cycle. Because vendors may change from one election cycle to another, it's impossible to know if there would be a benefit from a one-time development fee paid to the current vendor.

PRDA also conducted a cost analysis of each of the voting methods that I've mentioned today, where they reviewed Board election costs from the past five election cycles and the estimated cost to implement RCV, which were provided by our vendor. The analysis determined that RCV would have cost CalPERS 11 percent more or about $880,000 per election when compared to majority voting costs. This increase comes from a variety of factors, which I've mentioned, such as a lengthier more complex ballot, which would also automatically increase printing, production, and ballot processing costs. Developing a ranked choice voting system that can accept votes from multiple voting channels, such as online and mail-in paper ballots and tabulate them also adds to higher costs.

In comparison, plurality voting would have saved CalPERS 23 percent, or $1.9 million, since it would have eliminated the need for runoffs. Modified plurality voting, with a 40 percent threshold in place for the winning candidate, would saved CalPERS 14 percent, or $1.4 million, since it would have eliminated four of the six runoffs that CalPERS held. The complete cost breakdown is provided in attachment 4.

Voter education and outreach costs weren't included in the cost analysis. However, we did ask other jurisdictions to share their costs. Cambridge, Massachusetts reported the lowest voter education cost at $0.33 per voter, which included a voter pamphlet.

The State of Alaska reported spending about $4.69 per voter, which included voter education, materials distributed through traditional media, digital media, direct mail, and educational videos. They also partnered with a vendor to build a mobile application to host a mock election and provide voter guidance. Their cost doesn't include expenses related to translating materials into as many as 10 languages.

Palm Desert also partnered with a vendor for their educational efforts, which included mailers, fliers, and all advertising. Their average cost was $3.36 per voter. Berkeley stated that costs have come down significantly since their first RCV election, because voters are now familiar with the system. The complete table is included in attachment 4.

Apart from looking at voting methods and costs, PRDA also reviewed industry and peer jurisdiction practices among peer pension systems and U.S. elections at all levels. Plurality and majority voting are used most frequently. In California, other voter methods like RCV are increasing in popularity. Six California cities have already implemented RCV and some others are planning to do so in the future. RCV is also used in several professional associations and educational organizations.

This ends my report on the election methods research.

I'll now shift to the stakeholder engagement done by STRL. In 20 -- in June 2023, four 90-minute focus groups were conducted remotely with CalPERS members to investigate a variety of topics, including Board election participation. In these groups, retirees expressed a high level of engagement in CalPERS Board elections, largely driven by wanting to protect their retirement investments. Active members indicated that their lack of participation in CalPERS Board elections was due in part of their confidence in CalPERS's good performance, but expressed a desire for more election information.

In these focus groups, participants were also asked whether there was a preference for the current majority voting system or for changing it to RCV. There was no clear preference for RCV, but some recognized that it could potentially be a cost-cutting measure. The complete focus group report, which was prepared by EMC Research, Incorporated was shared with the Board at the July 2023 off-site meeting.

This includes[SIC] my report and I'm happy to answer any questions you may have.

CHAIRPERSON MIDDLETON: All right. Are there any questions for Dallas? Are there any comments that any Board member would like to make?

COMMITTEE MEMBER TAYLOR: No, me.

CHAIRPERSON MIDDLETON: Ms. Taylor.

(Laughter).

COMMITTEE MEMBER TAYLOR: Am I on?

I am. Okay.

So Dallas, I had received some correspondence, so I had a couple of questions. There was some contention with our saying that it would cost more or -- and then there was another assertion that there's lots of vendors that do this. So could you kind of go into a little of that. You did cover the costs, but -- and I see it on our Board books here, but what -- I guess what I'm looking at is it does look like it may cost less in the long run. But what about the vendors, because I know that we had a hard enough time finding vendors just to run an election.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Thank you, Ms. Taylor. Just with regards to our cost assumptions, I'll just make a general statement that the estimates used in the cost analysis were provided by our current election services vendor Integrity Voting Systems. You know, we sought this information from IVS because of their knowledge of the CalPERS election requirements, industry experience, and because IVS's CalPER -- is CalPERS's current vendor for election services. IVS has been a CalPERS election services vendor for the past two election cycles and is contract -- and is contracted to continue to provide election services through 2025.

Staff can see cost estimate information for RCV implementation from additional vendors if the Board provides direction to that effect. I would just also add that having read that correspondence that the Board received, there's a lot that goes into administering our Board election from partnering with our Public Affairs Office and our Board elections team in the creation and development of our ballot package. The vendor also prints packages and mails out all of our voting information that goes to our members, which, you know, when considering our amounts are over 1.2 or 1.3 million ballot packages that are printed, secured, and mailed out.

The elections vendor is also responsible for, you know, obviously providing a secure, you know, voting platform via online and telephone, and they have to meet certain federal disability requirements --

COMMITTEE MEMBER TAYLOR: Right.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: -- which they do.

I would also add that our current vendor is also expected to provide a 24 by 7 member contact center to help our members during the voting period. They also have to receive and secure all of our paper ballots till the point of our voting period ends, and then the ballot tabulation and extraction begins, right?

So outside of just receiving ballots and putting them through a machine and the overall cost for that, there's a lot of other services that the vendor has to provide us to administer an election appropriately.

COMMITTEE MEMBER TAYLOR: Okay. Thank you.

CHAIRPERSON MIDDLETON: All right. Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Thank you very much for your -- for your report. I just want to kind of piggyback on that vendor aspect of it. So it's my understanding that this may be the last year? Are we in the final year of the vendor's contract or I'm just trying to...

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Our Board election contract runs through 2025, which would also require them to provide services for our member-at-large election. And then if there was any change obviously to our Board, they would be required to have to put on an election for us, between now and 2025.

COMMITTEE MEMBER PACHECO: So the question is, so in the last -- during the last cycle when we were at -- looking for vendors for this particular issue, how many vendors did we actually get?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: I personally reached out to six different vendors in this -- in the election industry, only two provided -- responded to our RFP. YesElections out of New York and IVS out of Washington.

COMMITTEE MEMBER PACHECO: And after they were selected, so -- and of those two, that it was selected by -- I mean, was -- it was by their expertise or I'm just trying to understand.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

There's various requirements and minimum qualifications that the -- that the vendors have to -- have to meet and provide and there is a technical aspect to the scoring through the RFP as well as an interview. And the highest quality vendor, which was IVS, was selected at that time.

COMMITTEE MEMBER PACHECO: In your -- in your humble opinion, do you foresee that the next time we go through this cycle, do you feel that we will have more vendors apply for this particular or the same amount, which would be two?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

Considering that we conducted our RFP I believe in 2020, we will again do our appropriate research to find out if there's any new vendors that are out there that provide this service and we will reach out to them and invite them to participate in the RFP. I can guarantee that.

I think a lot of the vendors that we spoke to after the fact provided feedback just with regards to CalPERS's scope and scale.

COMMITTEE MEMBER PACHECO: Um-hmm.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

And a lot of these election vendors just provide maybe that election piece and they aren't -- they would have to subcontract out for the printing and the mailing of the ballots and a lot of the other work that we guarantee. The other thing that we -- that our vendor had to work through this last period was ensuring that all of our election channels were ADA accessible. That was a -- that was a major lift for them to ensure that as well.

COMMITTEE MEMBER PACHECO: So -- and -- very good then. So I think I kind of understand now. Thank you very much.

CHAIRPERSON MIDDLETON: All right. Are there any comments that any of the Board members would like to make?

Then let me ask one question. Dallas, when is the next scheduled time that we will go through another round of elections?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE:

Our next scheduled election is the 2025 member-at-large.

CHAIRPERSON MIDDLETON: Okay. So that gives us some time but not a tremendous amount of time. All right.

So I want to thank you for the report and for the work that went into this. This was a very exhaustive study and I think you covered the territory extremely well. And as someone who has been observing issues around ranked choice voting for most of the last decade, I did not see anything that I thought was missing from your review in your examination, so thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF STONE: Thank you, Ms. Middleton. I, too, want to thank our team over in PRDA. They did an amazing job conducting the analysis for us.

CHAIRPERSON MIDDLETON: All right. So this is -- Ms. Taylor.

COMMITTEE MEMBER TAYLOR: No, go ahead, Lisa.

CHAIRPERSON MIDDLETON: Okay. This is an information item, so we are not being asked to take any action today. So let me say, as the Chair, based on what I have seen and observed, I am not personally persuaded that a change in our existing election system is necessary or appropriate at this time. I think we have demonstrated with the majority voting that we are ensuring that every person who is elected to this Board has, in fact, received a clear majority of the voters. If there was an issue that's out there in terms of CalPERS that I would love to see us find a solution to, it would be how we would increase the number of individuals who are participating in our election. And while I have heard from advocates of ranked choice voting that this is the magic key that will unlock a substantial increase in the number of voters, I'm not seeing that that has been the case in those jurisdictions that have taken this on.

And while it -- as the survey here shows, 60 percent of individuals believe it's relatively easy, another 20 percent believe it's very difficult. When it comes to elections, I think there are some values that are absolutely essential. And one of those is that individuals feel confident that when they have marked a ballot, that they have accurately marked for the individual that they wish to choose to represent them and that we then in turn count these ballots as accurately as possible. And making sure that we have that accuracy in both cases alongside of doing everything that we can to maximize participation and fairness in our elections I think should be our objective.

With that, Ms. Taylor, do you have comments?

COMMITTEE MEMBER TAYLOR: Yeah, a couple of things. Thank you, Ms. Middleton.

I just want to add to this that, yeah, everybody thinks there's a magic button for making more people vote and it, yeah, never works. I mean, we've been doing online and telephone voting thinking that would help and it seems like we're kind of where we have been for each voting cycle that I've been on the Board. So I don't know -- I appreciate the report. It was fulsome. I've looked at the letter and I see the counterarguments here for some of this. I will to have say that one of the things that you brought forward with the cost of development, we have to pay for the cost of development, because the vendor would have to develop this for us. So that's why the cost of development is in there.

But finally, I just want to say, the report was great, but I'm not sure that we need to -- either that we need to move forward with this for the November meeting. I don't agree that we should move into ranked choice voting. I think the majority voting that we do with the runoff definitely secures a person that has the majority votes.

And I think it's interesting -- one of the things I was thinking about, and recently our union voted on this as well, but when you're marking this first, second choice, and you do it early -- say you do it early and then you find something out about those folks that you voted for and you're just stuck with that person, the second choice person, and you may want to change your vote, right? So you may want that runoff type vote rather than -- so that's where you sort of get hemmed in.

And then finally, I just -- I don't -- it came up on my email, Ms. Middleton, there's a public comment before we make a decision here, so...

CHAIRPERSON MIDDLETON: All right. Thank you. Before we move on to any public comments, Controller Cohen is on the phone and I would like to give the floor to her.

BOARD MEMBER COHEN: Good morning, every one. Good morning, everyone. It's Malia. I'll just be calling in today. Thank you.

CHAIRPERSON MIDDLETON: All right. Thank you.

All right. With that are any other comments from the Board?

No. All right, hearing none, we have three public comments. And I'd like to begin with the two callers that are on the phone and then we will move to everyone who's here in the audience.

STAFF SERVICES MANAGER I FORRER: Good morning, Madam Chair. We have Charles Webber to speak to Item 5b. Go ahead, Charles

CHARLES WEBER: Good morning, Board. My name is Charles Weber. I live here in Sacramento. I also am a member of FairVote. FairVote is a national organization that deals with the elections and primarily ranked choice voting. I would just like to start with saying that if you want to get information I think on ranked choice voting, probably one of the organizations you want to approach would be FairVote. It would also be an organization to check for vendors in California that could handle FairVote. As you know, there's a number of cities in California that currently use ranked choice voting.

And one of the things that was just mentioned was that by having a regular system that it's just easier for people, and I'm not sure that's entirely true. The thing that I look for in an election system is how democratic it is. And it seems to me that our current system lacks a certain amount of democracy. For example, a candidate that might be preferred by a majority of the voters might actually be the person that comes in third on the first round. And that person wouldn't have a chance to have voters express their preference because they've been eliminated because of only the top two advancing to the runoff.

As far as plurality, it basically is an oversimplification, but it often means that a majority of the people end up voting for somebody that didn't get elected and that the first elected is opposed by a majority of the voters.

One thing that wasn't mentioned in the outreach was New York City has recently went through a RCV election. And I thought it was interesting that of the 51 city council members that a clear majority, I think it was 29, were women, and of those, 25 were women of color. Almost one more and they would have had a majority. And so I think that's a system that, you know, wasn't studied. Also, I think that one thing we should probably look for is a state vendor. Maybe you can't find a state vendor and maybe that's where you might want to ask an organization such as FairVote for some advice on that.

CHAIRPERSON MIDDLETON: Mr. Weber, your three minutes are -- have been exhausted.

CHARLES WEBER: Okay. Then I won't mention the Oscars or any of the other stuff. Okay. Thank you.

CHAIRPERSON MIDDLETON: Thank you.

Our next caller, please.

STAFF SERVICES MANAGER I FORRER: Yes, Madam Chair. Our next caller is Steven Hill, speaking to Item 5b.

CHAIRPERSON MIDDLETON: Good morning. You have three minutes.

STEVEN HILL: Can you hear me? Hello. Can you hear me?

CHAIRPERSON MIDDLETON: Yes, we can.

STAFF SERVICES MANAGER I FORRER: Yes.

STEVEN HILL: Hello. Great. Thank you very much. Good morning. Pleasure to join you today. My name is Steven Hill. I'm an elections consultant, co-founder of FairVote and the architect the ranked choice voting system in California.

I was in touch with staff earlier this summer, offered to be a source of information on some of these --

this item, but did not hear back from staff. So in reading the report, I've sent you a -- I understand you've had a copy of my response to the report. There are a number of inaccuracies in the report. Saying, for example, phone voting would have to eliminated. No, that's not true. More complex ballot links to your ballot. No, that's not true. The open school board, it was a programming error. That's not true. It was a human error and human errors happen in a lot of elections in the United States, including in our Presidential election, including in a lot of non-ranked choice voting elections.

The voter education costs in Alaska and Palm Desert. Well, Alaska is a state that's four times the size of California. They're going to have a lot higher voting education costs than you're going to have in an election like this. I outlined in my memo the types of things you could do for voter education that would cost you, you know, pennies on the dollar. A lot of the numbers that's cited for the voter education cost as well as implementation costs were original costs when, for example, San Francisco, where I live, for the first election, they spent a million dollars on voter education. It was way overkill, but they really wanted to make sure the first one -- this is the first RCV election done in the United States, they wanted to make sure it went well.

So they spent a lot of money. Since then, the ongoing costs have come way, way down compared to the numbers being cited in that report.

The -- in terms of the costs for running an RCV election, the costs come from your existing vendor who does not have RCV capability. So they're giving you what looks to me like very highball numbers, because I contacted three vendors in the United States that can do RCV elections for you and I had responses back from them within 48 hours. And all of them said that they could do this for a lot less money. For example, the City of Santa Fe recently put in place ranked choice voting at a cost of $25,000 to add the RCV capability.

So if you -- if you actually had an estimate there from an existing vendor that can do RCV for you, I think you'd find the numbers are far, far lower than what staff have cited in their report. And, in fact, the staff did, in fact, talk with a vendor that has RCV capability, and that -- they did not ask that RC -- that vendor for an estimate. I don't know why they didn't ask that vendor who can do RCV, and does RCV, elections here in California for an estimate, but for some reason they didn't.

And so, you know, there are options available to you. RCV is used in over 60 cities in the United States, five states are using it in one way or another. In terms of the things that staff have to do for your elections, mailing of ballots, most vendors today -- pretty much all vendors mail ballots.

CHAIRPERSON MIDDLETON: Mr. Hill, your --

STEVEN HILL: In fact, the states of South Carolina and Louisiana use overseas ballots and they --

CHAIRPERSON MIDDLETON: Mr. Hill, your three minutes have been exhausted. Thank you.

STEVEN HILL: Okay. Well, thank you very much. And perhaps, down the road, we can revisit this conversation and we'd be happy to work with staff and the Board to come up with a good report for you.

Thank you so much.

CHAIRPERSON MIDDLETON: Thank you, sir.

Next caller.

STAFF SERVICES MANAGER I FORRER: Our next caller is for Item 5e, public comment.

CHAIRPERSON MIDDLETON: Are you --

STAFF SERVICES MANAGER I FORRER: I'm not sure if that's --

CHAIRPERSON MIDDLETON: We're not yet to 5e. We are on 5b as in boy.

STAFF SERVICES MANAGER I FORRER: Okay. So no more callers for 5b.

CHAIRPERSON MIDDLETON: Are you calling on 5e?

We will call you back when it is appropriate time.

Thank you.

CHAIRPERSON MIDDLETON: Mr. McRitchie, I think it's your turn and you've -- thank you for your patience.

MR. McRITCHIE: Thank you very much. I'd like to especially thank Ms. Walker for, during our last session on this issue, asking staff to go back and do an objective report. I know that most of the Board members do not favor ranked choice voting. You look at the Oakland elections and you say, okay, we didn't get the candidate we wanted. And, of course, I look at Presidential elections and say, well, I didn't get the candidate I wanted. And if we had ranked choice voting, probably would have.

But, you know, one of the things is when I look at this report, I think back to when I was testifying before Adam Schiff, when he was a State Senator, about things going on at CalPERS. And ironically, one of my confidants at that point was Fred Buenrostro, who at that point, was not the CEO of CalPERS. That happened later.

Now, there's a lot of things in this report that -- and I'm not saying that staff is corrupt. I'm not saying that at all. But I'm saying if they were, they might not go to a vendor that actually does ranked choice voting and ask them what would the cost be? They might not talk to the Secretary of State's office to find out, oh, it's not complicated to figure out how votes would be counted under ranked choice voting, because the Secretary of State's office has established a method for that. They might not look at the fact that the method doesn't change when you have ranked choice voting. You don't go back and forth between plurality voting and ranked choice voting.

When you have two candidates, you rank one and two. Now, that's a lot easier than ranking five candidates. And, you know, one of the things -- one of canards here is that older people and some people find ranked choice voting harder. Okay. Well, I find ranked choice voting harder, because if I've got to pick out one candidate out of five, well, that's pretty easy. But if I'm looking at five candidates and I want to rank them by preference, well, that takes a little bit more work. So it's not because old people or some people are confused about how to rank their choices, it's about, okay, do I want to leave -- if we've got five candidates, we I want to only count four and then -- or three, you know, and leave the others blank or do I want to be a good citizen and fill out each choice?

So, yes, it's a little bit harder, but the counting method doesn't change. As Steven said, telephone voting, they can do that. It takes the same amount of time. It takes the same amount of time to do a recount, so I think if you look at this report -- you know, and why didn't staff re -- we came here. We testified. We made the offer that we were here. We will connect you to people that do ranked choice voting. We will help you make an objective report. If you take an action -- it looks likes you're going to take no action. Just let it fall by the wayside, but, you know, even that's a decision. And you're making a decision, it appears, based on a report that by no means can be considered to be objective. I -- it just doesn't make sense.

So I think -- I hope you will ask staff to go back. Now, you know, if I was on the Board, I would not want to change the rules to be effective before the next contractor expires. I would make it so that, okay, these rules take effect at the time that you're going through the next contract cycle.

So obviously, the current contractor wouldn't be able to handle this. They'd have to hire somebody else. It would cost way more money. So I hope you will look at this, ask staff to do an objective report, work with us to make sure that they've gotten our feedback before they present it to you.

Any questions for me?

CHAIRPERSON MIDDLETON: No.

MR. McRITCHIE: Okay. Thank you.

CHAIRPERSON MIDDLETON: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you. I just kind of want to give staff a moment to respond to some of these claims, if you want. But also, I think everybody knows that people are very passionate about ranked choice voting, people are very passionate about plurality voting. I don't think either one makes democracy more fair than the other. But if we're talking about the Presidential election, Mr. McRitchie, that's because of our electoral college. That's not because of ranked choice voting or lack thereof.

So if staff doesn't want to answer to that, I'm looking at our report and I think its very fulsome report. There was -- there's some assertions here that, you know, we should go to your folks or whoever. It looks like they went to a lot of different folks to look at this, so -- but regardless, it's -- everybody is very passionate about one way or the other. We just went through this in my union. I get it, but it is up to the pleasure of the Board at this point.

CHAIRPERSON MIDDLETON: Okay. With that, we don't have any other public comments. Is -- are there any further questions, comments, or directions from the Board?

Hearing none, we will move on to Item 5c. And thank you.

5c, investment return impact on employer contributions. Mr. Terando and...

(Thereupon a slide presentation).

CHAIRPERSON MIDDLETON: Go ahead, Scott.

CHIEF ACTUARY TERANDO: All right. Good morning, members of the Committee. Scott Terando with the actuarial office.

Every year at this time after the investment return comes out, we get a lot of questions about what's the impact on contributions, when is -- when is the timing on the contributions. And we thought it would be beneficial to present this item and provide, you know, stakeholders and the members of this Committee an idea of how the rate of return impacts employer contributions, the timing, and just give information and provide some guidance to both employers and Board members about how contributions work and the impact.

So with that, I'm going to pass it Kerry Worgan who's going to step through our presentation.

SUPERVISING PENSION ACTUARY WORGAN: Good morning, Board members. Kerry Worgan, Actuarial Office.

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SUPERVISING PENSION ACTUARY WORGAN: The Actuarial Office just recently completed valuation reports for State and schools at June 30th, 2022 and for all the public agencies at 2022. Those reports will then affect the rates following in fiscal year 23-24 for State and schools, and for 24-25 for our public agencies.

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SUPERVISING PENSION ACTUARY WORGAN: Those valuation reports were based on a set of actuarial assumptions that the Board approved during our asset liability management cycle back in 2021. Those assumptions rely on assumed experience and our valuation reports reflect the actual experience over a one-year period. Typically, the gains and losses reflect investment returns payroll changes, some benefit changes, and some of the other demographic assumptions like mortality, longevity, termination, and retirements. Historically, we've seen that investment returns represent about 85 percent of our gains and losses, so it's the big item.

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SUPERVISING PENSION ACTUARY WORGAN: Now, these assumptions themselves represent long-term assumpt -- expectations. So we're typically looking 20 or more years into the future and setting the assumptions based on that long-term perspectives. So while we know that there's some fluctuation on a year-by-year basis, we don't rely on the short-term period to change our assumptions.

The next -- so the asset liability review back in 2021 and the experience study of 2021 have a four-year timeline. The mid-cycle review for the asset liability cycle is 2023. And at that point, we kind of review the capital market assumptions, some strategic asset allocations, and there will -- there will be more details following in November of this year. At this point, we are not recommending any changes to our assumptions during the mid-cycle review.

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SUPERVISING PENSION ACTUARY WORGAN: Now, the investment return reporting, you'll notice that preliminary rates come from our Investment Office in July. That was the 5.8 that was reported. And those rates get finalized at the end of September. You'll also note that the ACFR, the Annual Comprehensive Financial Report, gets published in November and that report reflects the final return for the year. So there's always a little bit of a true-up at the end of the fiscal year, because of private equity and real asset valuations. And that report gets published in November. And those are the assets that we use to reflect in our valuation reports going forward.

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SUPERVISING PENSION ACTUARY WORGAN: As an example, you can see the last three years here on this slide. You'll see the fiscal year 21-22. The preliminary number was negative 6.1 that was reported. The final number that comes out in the ACFR was negative 7.5. So you'll see that for fiscal year 22-23, the preliminary number is the 5.8. The final number will be known within the next month or so.

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SUPERVISING PENSION ACTUARY WORGAN: All right. So I just want to step through what that investment loss -- we see that a 5.8 has been reported. Our assumed return is 6.8, so we have effectively a one percent investment loss. And what does that translate into our public agencies in terms of additional costs going forward?

So this hypothetical plan has a hundred million in assets at 6/30/2022. We assumed that they were going to earn the 6.8, so the expected assets would have been 1.6.8. The actual, based on the 5.8 preliminary, comes in at 1. -- 105.8, so that $1 million loss now has to be amortized over the next 20 years going forward by the agency.

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SUPERVISING PENSION ACTUARY WORGAN: So we take that $1 million loss at June 30th, 2023. We have to roll it forward two more years before they start paying it down in 25-26. So the 100 -- or, sorry, the $1 million loss grows at 6.8 percent for two years and then they start making payments on that on a ramp, because it's an investment loss, so there's a five-year ramp-up, and then level payments for the balance of the 20-year period. And you can see this example that that $1 million loss translates into an additional contribution for that agency of 24,517. And again on a five-year ramp climbs up to 122,587.

Now, this example is actually quite helpful, because if I have a plan with 10 million of assets, I'm just going to take 10 percent of those payments, and so yu're going to make a payment of 2,400. It also gives the ability, when we finalize the return -- for example, if the final return was six percent, we can then take 80 percent of these payments as a representative of what their contributions would be.

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SUPERVISING PENSION ACTUARY WORGAN: Finally, we also make available to all our agencies the Pension Outlook Tool, where they can actually go in for their particular plan and input that 5.8 percent return in the first year, or whatever the final rate happens to be and model what their contribution impacts will be for their particular plans. You'll also see on here that we also build in some other parameters for like PEPRA transition. Under our baseline assumption, we assume a 15-year transition through PEPRA. So what they will see when they run the model --

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SUPERVISING PENSION ACTUARY WORGAN: -- is an expectation of what their -- on the blue line what their funded status impact would have been. And this is just a representative plan that I pulled out of Pension Outlook. You'll see that there's a slight decline in their funded status from the baseline down to the model. And you'll also see the red line being the employer rate a slight increase. And you can kind of see that that tracks up a little bit for the first five years and then declines as those existing bases fall off and get paid off. The model also reflects, as I said, the PEPRA transition, that there is some sort of cost savings built in to the projection by assuming a transition over a 15-year period.

So with that, I'm going to pass it on to Scott, if he has any comments on the PEPRA.

CHIEF ACTUARY TERANDO: Yeah, I'll just add a few more comments about including the PEPRA and the PEPRA savings. You know, as, you know, the Board's aware, you know, we switched the PEPRA benefits about 10 years ago, and there's been savings throughout the last 10 years and going forward. Right now, if we look at the whole total population for the system, I think we have around 60 percent PEPRA members. If we compare that to our expected values, if we, you know, go back 10 years and look at what we expected 10 years ago to where we are now, we're, I think, within about five percent for the plans, in terms of where we expected the population to be. I think we're a little bit further long with the -- with the miscellaneous members. I think we're around five percent more. For the safety members, we're seeing a little bit less than expected, around five percent less, in terms of headcount.

Keep in mind, when we talk about PEPRA and the impact on savings, a lot of those savings are based on the payroll of the members as opposed to the headcount. And those numbers are different while we have -- like I mentioned previously, we were within about five percent on the plus side for miscellaneous members and a little on the negative side for safety members. When we look at like where we expected payroll to be, we see that safety is around 10 percent less than where we expected. And so what that is telling us is the savings aren't as high as what we anticipated. For miscellaneous members, we're a bit closer.

We plan to do a more thorough analysis and bring those numbers back to this Committee in November as part of the funding levels risk report, where we will present both past savings and anticipated savings for the next 10 and 20 years going forward, and give some estimates on impacts on rates for employers on the PEPRA side. So that's just a little bit additional information.

You know, the Pension Outlook, you know, it allows you to kind of see where things are going with PEPRA. And, you know, one way of, you know, trying to put some perspective on this is you can eliminate PEPRA going forward and you can see what kind of impacts a particular employer would have in terms of rates. And so you can get -- you know, we're talking generalities here, but using Pension Outlook, you can get a little bit more specific for employers.

And with that, I think we'll open it up for questions.

CHAIRPERSON MIDDLETON: All right. Thank you. Kerry, could we go back to the slide where you're showing the five-year that is added in and then the progression?

Yes, that one. Thank you. So -- and this is a good chart. Now, in the example that you're giving, there was in effect a $1 million loss in one year.

SUPERVISING PENSION ACTUARY WORGAN: Right.

CHAIRPERSON MIDDLETON: But we have a rolling five years, so how do you calculate in the other four years into this process or the other years?

SUPERVISING PENSION ACTUARY WORGAN: Okay. So you're talking about we have a $1 million loss for the one-year.

CHAIRPERSON MIDDLETON: Right.

SUPERVISING PENSION ACTUARY WORGAN: That gets ramped in. So you have a progression over the next five. Are you talking like additional years of investment losses?

CHAIRPERSON MIDDLETON: Yes.

SUPERVISING PENSION ACTUARY WORGAN: So any --

CHAIRPERSON MIDDLETON: Which could have been losses, which could have been gains.

SUPERVISING PENSION ACTUARY WORGAN: Right. So the existing or the past investment returns are reflected in your amortization schedule. So you'll see a schedule of what happened --

CHAIRPERSON MIDDLETON: Right.

SUPERVISING PENSION ACTUARY WORGAN: -- and then the payments that are progressing on there. And then going forward, if you want to model, like Pension Outlook can do, and say, well, if we assume an eight percent return next year or a four percent return, that will kick up a new loss or gain base and it will be amortized again over a 20-year period with a five-year ramp.

CHAIRPERSON MIDDLETON: All right. Thank you.

SUPERVISING PENSION ACTUARY WORGAN: Yep.

CHAIRPERSON MIDDLETON: Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Yes. Thank you, Scott. Thank you, gentleman regarding this. So I want to go back to -- actually go back to that particular question on the -- first of all, the PEPRA. You mentioned that we are now at 60 percent, PEPRA versus classic, is that right, Scott?

CHIEF ACTUARY TERANDO: Yeah, that's the latest numbers we got from our -- running through our membership.

COMMITTEE MEMBER PACHECO: And this has begun since 2013. Do you foresee that even accelerating even further to get to maybe 70, 80?

CHIEF ACTUARY TERANDO: I think -- you know, it's been fairly constant about four to five percent, but, you know, as you get more and more PEPRA members, you know, that rate is going to come down, because you're going to have the people -- the classic members who kind of work through the system. And it really depends on -- we'd have to look at our projections and see the remaining classic -- the classic members and look at some projections on that.

COMMITTEE MEMBER PACHECO: Um-hmm.

CHIEF ACTUARY TERANDO: I think, you know, during the last few years during COVID, maybe a number of people retired earlier and we had a higher number of people retiring earlier. And so that bumped up, you know, the attrition of classic members. And then I think what's going to happen probably is that retirement rates are going to come down.

COMMITTEE MEMBER PACHECO: Um-hmm.

CHIEF ACTUARY TERANDO: And so you may just get turnover from PEPRA members -- new PEPRA members and less classic retiring in the next several years. So I think, you know, the rate is going to -- it will continue in terms of the amount of PEPRA members are going to continue to increase, but I think at a slowing pace -- a slower pace than what we've seen.

COMMITTEE MEMBER PACHECO: Okay. Thank you for that question. The next question I have asked is regarding the loss, in this hypothetical, we had the million dollar loss, you know, it's just -- it's just one hypothetical, but it's my understanding that we also have some of the public agencies have this section 115. It's that prepaid -- I believe, it's the prepaid pension trust.

CHIEF ACTUARY TERANDO: Um-hmm.

COMMITTEE MEMBER PACHECO: Is that being utilized a lot? Are there a lot more agencies utilizing that? And is -- it appears that it could be helpful for other -- other -- our other stakeholders in this area. If you guys can elaborate on that, that would be great.

SUPERVISING PENSION ACTUARY WORGAN: You want me to take it?

CHIEF ACTUARY TERANDO: Yeah. I don't have the number of agencies that are actually utilizing the 115 trust. We could provide that information to the Board in a follow-up note in terms of how many agencies are -- have a 115 trust and what the assets are. But what that allows is that allows flexibility for those agencies in terms of when we have losses, they can use that -- they can transfer money from the 115 trust to cover increased costs. I think it -- the 115 trust provides employers the ability to level out the contributions over the years, because, you know, it allows them to transfer assets when there's losses. And when there's additional gains, they may be able to take that money and set it aside in the 115 trust for these type of purchases.

COMMITTEE MEMBER PACHECO: So it's kind of a piggy bank then basically?

CHIEF ACTUARY TERANDO: Yeah. And it's up to the employers. You know, the employers have several options. A number of employers will make additional contributions on their unfunded --

COMMITTEE MEMBER PACHECO: Um-hmm.

CHIEF ACTUARY TERANDO: -- where they pay it down immediately and some will choose to put it in the 115 trust. So you have, you know, choices for employers and where they put the money. Do they want to put it into the system, you know, up front and see a reduction in costs immediately or do they want to kind of have the ability to manage addition -- when they pay those contributions and how they pay them?

COMMITTEE MEMBER PACHECO: And my last question just on a corollary with respect to that is in the Pension Outlook, does that -- does that take into account those kinds of sayings? If you could add -- you know, compute the savings if you were to use the section 115 and figure out savings, is that possible?

SUPERVISING PENSION ACTUARY WORGAN: At the present time, we do not have a 115 trust feature in there. And we're really looking at pension assets within the PERF. But it does give them the ability to download all that information, a 30-year budget sheet of all their costs.

COMMITTEE MEMBER PACHECO: Right.

SUPERVISING PENSION ACTUARY WORGAN: And I've talked to a few agencies that use their 115 trust and supplement that. So they understand that if we have a bad year, we can use that as a rate stabilization account and use some of that money out of that account in bad years or in good years to put money back into that account and use it within their budgeting overall.

COMMITTEE MEMBER PACHECO: Very good then. Thank you so much.

ACTING CHIEF FINANCIAL OFFICER NIX: Director Pacheco, we have -- as of our most current report, we have 89 agencies that are participating in the prefunding trust.

COMMITTEE MEMBER PACHECO: And of the -- out of the -- out of a total of how many of our agencies?

SUPERVISING PENSION ACTUARY WORGAN: Seventeen hundred.

ACTING CHIEF FINANCIAL OFFICER NIX: A little over 1,500.

COMMITTEE MEMBER PACHECO: So there's -- there's still -- there's room for addition --

ACTING CHIEF FINANCIAL OFFICER NIX: It's still fairly new, so, I mean --

COMMITTEE MEMBER PACHECO: Fairly new.

ACTING CHIEF FINANCIAL OFFICER NIX: Yeah. And the schools can't participate yet, so that's part of the --

COMMITTEE MEMBER PACHECO: Is that -- is that something that -- so schools can't participate at all. Okay.

CHIEF ACTUARY TERANDO: I believe there's legislation out this year to allow them.

ACTING CHIEF FINANCIAL OFFICER NIX: Yes.

CHIEF ACTUARY TERANDO: Or proposed legislation that --

ACTING CHIEF FINANCIAL OFFICER NIX: Right.

CHIEF ACTUARY TERANDO: -- will allow them to participate. So that is being looked at.

COMMITTEE MEMBER PACHECO: Very good then. Thank you very much for that information.

CHAIRPERSON MIDDLETON: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Oh, thank you, Chair Middleton. So I thought about this when I was looking through this. So I'm going to light your hair on fire, sorry Scott.

(Laughter).

COMMITTEE MEMBER TAYLOR: But our employers and our PEPRA employees kind of suffer when we have a good year too, and that's because of our smoothing for the 20 years, right? The -- you know, the buyback of the rates or the buydown of the rates, if we do really well. And we implemented that. I was on the Board when we implemented that. I'm wondering if we need to continue that right now? I mean, I know we can make the choice not to implement it, but we can also make the choice to implement it, if we get rid of it. So you understand what I'm talking about? The --

CHIEF ACTUARY TERANDO: You're talking about the ramp-up?

COMMITTEE MEMBER TAYLOR: The ramp -- no, the 20-year of -- yeah, the buydown. The rate buydown.

CHIEF ACTUARY TERANDO: Oh, the rate buydown.

COMMITTEE MEMBER TAYLOR: Yeah.

CHIEF ACTUARY TERANDO: Well, that's a separate policy. That's a -- the Risk Mitigation Policy.

COMMITTEE MEMBER TAYLOR: But I just watching as we -- we're in a down year and the year before we were in a -- in a good year and the employers got hit both times, so --

CHIEF ACTUARY TERANDO: Yeah. Yeah. I mean, that's a separate policy. I think if we want to revisit it, then that would be up to the Board --

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF ACTUARY TERANDO: -- to bring that policy back for --

COMMITTEE MEMBER TAYLOR: Okay. It's a thought.

CHIEF ACTUARY TERANDO: Yeah. So I -- what you're saying is back in 2021 when the Risk Mitigation Policy dropped the discount rate two-tenths of a percent.

COMMITTEE MEMBER TAYLOR: Yes.

CHIEF ACTUARY TERANDO: That's right. Okay.

COMMITTEE MEMBER TAYLOR: Yes. And we -- and then thereby increasing the --

CHIEF ACTUARY TERANDO: Yeah. So keep in mind with the Risk Mitigation Policy, it doesn't all -- it's designed so it doesn't take -- when it drops the discount rate, the costs are covered with the remaining gain, so --

COMMITTEE MEMBER TAYLOR: But that's not necessarily true because when we discounted, it hits the employers.

CHIEF ACTUARY TERANDO: Yeah. So the unfunded -- the unfunded liability is pretty much offset for the employers. So, you know, if the -- you know, when we drop the discount rate, the unfunded liability went up and it used about half of the gain and the remaining gain offset that unfunded liability. So when we had the gain, there basically no benefit to the employers. The rate stayed the same for the unfunded. Now, on the normal cost side, dropping the discount rate increases the normal cost --

COMMITTEE MEMBER TAYLOR: Exactly.

CHIEF ACTUARY TERANDO: -- and that would -- that would hit the PEPRA members.

COMMITTEE MEMBER TAYLOR: Right.

CHIEF ACTUARY TERANDO: So that's the policy. You know, it can only -- it could only address trying to, you know, balance the cost on the unfunded, but it didn't address the normal cost side.

COMMITTEE MEMBER TAYLOR: Right, but we wouldn't have thought about reducing the rate had we not had that return, right? That's how it works.

CHIEF ACTUARY TERANDO: It was kind of both, because remember it hit during the middle of the ALM Policy. So, you know, the rate was reduced because of the Risk Mitigation Policy. But we were also doing an ALM during that time, and so, you know, those kind of -- kind of ran into one another, and so it's difficult to say where we would have landed with the ALM if we hadn't dropped that discount rate going into the ALM session.

COMMITTEE MEMBER TAYLOR: Okay. I'm just -- like I said, it would light your head on fire, so --

CHIEF ACTUARY TERANDO: Yes.

COMMITTEE MEMBER TAYLOR: If Ms. Middleton wants to look at that at a different time, that would be a thought.

CHAIRPERSON MIDDLETON: I think that is something to consider at a different time.

COMMITTEE MEMBER TAYLOR: Thank you.

CHAIRPERSON MIDDLETON: Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Scott. Actuarial policy we have to remember is actuarial. It's not accounting. And so we have to look at the long range. So I appreciate the presentation and I'm glad we have models to help employers look at it. And I think what employers look for is stability. They don't like the volatility from -- that happens when we have, you know, positive 22 percent and then a negative 5. -- and then the negative, and 5.81 percent low. So I think -- I think that's what the beauty of actuarial is it allows you that smoothing opportunity, the approach. And so maybe an educational thing would be helpful, Mr. Chair.

But I think this is a very good and we should look at it. It's -- and in the long -- and if we look at your chart, in the long term, yes, there will be immediate impact on the employer, a slight increase, but long term, it would -- we will -- the unfunded liability will decrease as a percentage, the funded policy -- the funded ratio will increase, employer contributions will decrease, and we'll have a more stable and secure retirement for our members and the beneficiaries. So I think that's the beauty of actuarial science, so I appreciate that, and -- but I think an educational would be helpful. Thank you very much. Scott, thank you.

CHAIRPERSON MIDDLETON: Thank you. And I second those comments. I can tell you public employers greatly appreciate predictability, and stability, and the ability to budget for these costs. So I thank my colleagues.

I'm not seeing any other questions or comments and so thank you, gentlemen, for a great report.

With that, we've come to item 5d, which is summary of Committee direction.

ACTING CHIEF FINANCIAL OFFICER NIX: Madam Chair, I just took down one thing and it was to bring back the Risk Mitigation Policy for discussion. I don't know if you want that as an information item or --

CHAIRPERSON MIDDLETON: Okay.

ACTING CHIEF FINANCIAL OFFICER NIX: -- just as educational.

CHAIRPERSON MIDDLETON: Informational.

ACTING CHIEF FINANCIAL OFFICER NIX: Okay. That's all I have.

CHAIRPERSON MIDDLETON: All right. With that, we will move on to 5e. And we had the lady that was trying to make public comment earlier.

STAFF SERVICES MANAGER I FORRER: Yes, Madam Chair. We have William Stuart. Go ahead, William.

WILLIAM STUART: Hello. This may be related to 5a CalPERS strategy to ensure members have access to equitable, high quality, affordable health care.

Are you able to hear clearly?

CHAIRPERSON MIDDLETON: We can hear you, but --

WILLIAM STUART: Hello.

CHAIRPERSON MIDDLETON: We can hear you, sir, but this is not a conversation on health care. That will come up later today.

WILLIAM STUART: Okay. When should I -- how -- who would I talk to to find out about the Health and Pension Committee schedule? It was supposed to be nine o'clock.

CHAIRPERSON MIDDLETON: Sure. If you will remain on the line, we will have someone work with offline and arrange for that --

WILLIAM STUART: Okay.

CHAIRPERSON MIDDLETON: Mr. Palkki, did you have a comment?

WILLIAM STUART: Thank you.

COMMITTEE MEMBER TAYLOR: You have to --

CHAIRPERSON MIDDLETON: Yeah.

There we go.

BOARD MEMBER PALKKI: Thank you, Chair. Just really quickly, I don't want to start the day off on a wrong note. It's -- you know, we're all passionate about our different views and things of that sort. And on a day where we -- especially today, where we're going to appreciate staff for their hard work, I just want to share my appreciation to the management teams and to the staff for all the hard work and the data that was presented this morning, because I know that there's a lot of hours, a lot of lost sleep that goes into preparing all of this work, so I just want to share my appreciation for that. Thank you.

CHAIRPERSON MIDDLETON: All right.

VICE CHAIRPERSON MILLER: Hear, Hear.

(Applause).

CHAIRPERSON MIDDLETON: Hear, hear.

CHAIRPERSON MIDDLETON: All right. Thank you. We are adjourned for Finance and Administration Committee. We will convene the Risk and Audit Committee in five minutes?

VICE CHAIRPERSON MILLER: Well, why don't we just do -- why don't -- we'll just start at 10 o'clock.

CHAIRPERSON MIDDLETON: We will resume with Risk and Audit at 10 a.m. Thank you.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 9:46 a.m.)

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 21st day of September, 2023.

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