

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, NOVEMBER 18, 2025

9:02 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Kevin Palkki, Chair

Mullissa Willette, Vice Chair

Lisa Middleton

David Miller

Jose Luis Pacheco

Ramón Rubalcava

BOARD MEMBERS:

Theresa Taylor, President

STAFF:

Marcie Frost, Chief Executive Officer

Kim Malm, Deputy Executive Officer

Michele Nix, Chief Financial Officer

Scott Terando, Chief Actuary

Fritzie Archuleta, Deputy Chief Actuary

Robert Carlin, Senior Attorney

Dave Clement, Supervising Actuary

Jennifer Hafner, Initiative Director

Robert Paterson, Investment Director

Janie Rajasuncy, Controller

APPEARANCES CONTINUED

STAFF:

Will Schaafsma, Chief, Financial Planning, Policy, and  
Budgeting Division

Emily Zhong, Supervising Health Actuary

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PROCEEDINGS

CHAIR PALKKI: I'd like to call the Finance and Administration Committee to order. Can we please have the roll call.

BOARD CLERK ANDERSON: Kevin Palkki.

CHAIR PALKKI: Good morning.

BOARD CLERK ANDERSON: Mullissa Willette.

VICE CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma.

Lisa Middleton.

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK ANDERSON: David Miller.

COMMITTEE MEMBER MILLER: Here.

BOARD CLERK ANDERSON: Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Here.

CHAIR PALKKI: Thank you. And we can move into the executive report. Ms. Nix.

CHIEF FINANCIAL OFFICER NIX: Good morning, Mr. Chair and Committee members. Michele Nix, CalPERS team member.

First, I'd like to highlight the interactive summary of valuation results tool on the CalPERS website

1 that has been updated with the 2024 valuation results and  
2 has been enhanced to include summary dashboards. The new  
3 dashboards are designed to help employers locate,  
4 navigate, and better understand their plan data and  
5 actuarial results using a clear and interactive format.

6 Next, the recent federal government shutdown has  
7 had a direct impact on the processing of our Section 218  
8 agreements with the Social Security Administration. At  
9 this time, we have 16 218 agreements still waiting federal  
10 review. We will continue to monitor this situation  
11 closely now that the operations have been restored.

12 The agenda before you today consists of  
13 semi-annual contracting prospective report, contracts  
14 administration, affirmation of the investment contracts  
15 without defined duration, annual contract and procurement  
16 activity report, and Pension Contracts Management Program  
17 annual report.

18 Additionally, the agenda has four action items  
19 seeking your direction. The 2025-26 mid-year budget  
20 revisions, the 2024-25 basic financial statements, asset  
21 liability management second reading for the PERF actuarial  
22 assumptions, and the annual discharge of accounts  
23 receivable.

24 We also have two information items. Emily Zhong  
25 will be presenting the semiannual health plan financial

1 report, and next, Robert Patterson along with Jennifer  
2 Hafner will be presenting an update on modernizing the  
3 investment, data, and technology systems.

4 The next Finance and Administration Committee is  
5 scheduled for February 17th, 2026. And it will include  
6 the treasury analysis and liquidity status report, Pension  
7 Contracts Management Program report, and the 2026 CalPERS  
8 Board of Administration State school and special retired  
9 member notice of election.

10 Thank you, Mr. Chair. This concludes my report.  
11 I'd be happy to take questions at this time.

12 CHAIR PALKKI: Thank you for that report. I do  
13 not see any questions. I do want to note for the record  
14 that Frank Ruffino for Fiona Ma is excused.

15 Which brings us to Item 3, action consent items.

16 COMMITTEE MEMBER MILLER: Move approval.

17 COMMITTEE MEMBER PACHECO: Second.

18 CHAIR PALKKI: I have a motion to approve a  
19 second by Mr. Pacheco, A motion by Mr. Miller.

20 All those in favor say aye.

21 (Ayes.)

22 CHAIR PALKKI: Any opposed?

23 Any abstentions?

24 That passes. We can go over to Item 4,  
25 information consent items. I have not received any

1 requests to pull anything, which that will bring us to our  
2 action agenda item, number 5a. Ms. Nix.

3 CHIEF FINANCIAL OFFICER NIX: Thank you. I'll  
4 call Will Schaafsma up to present the budget report.

5 (Slide presentation).

6 FINANCIAL PLANNING, POLICY, AND BUDGETING  
7 DIVISION CHIEF SCHAAFSMA: Thank you, Michele. Good  
8 morning, Mr. Chair and members of the Committee. Will  
9 Schaafsma, CalPERS team member.

10 This morning I will be walking you through the  
11 2025-26 proposed mid-year budget agenda item. This is an  
12 action item which will need your approval.

13 Next slide, please

14 [SLIDE CHANGE]

15 FINANCIAL PLANNING, POLICY, AND BUDGETING  
16 DIVISION CHIEF SCHAAFSMA: The total proposed increase to  
17 the 2025-26 budget is 237.6 million, or 8.7 percent. This  
18 increase is driven by updated estimates for investment  
19 external management fees as well as a smaller increase in  
20 operating costs and third-party administrator fees.

21 Next slide.

22 [SLIDE CHANGE]

23 FINANCIAL PLANNING, POLICY, AND BUDGETING  
24 DIVISION CHIEF SCHAAFSMA: The mid-year proposes a \$16.8  
25 million increase in operating costs, which is a 1.9



1 percent increase over the annual budget. This adjustment  
2 reflects employee compensation changes and refined cost  
3 estimates for the installation of LED lighting in Lincoln  
4 Plaza North.

5 Next slide, please.

6 [SLIDE CHANGE]

7 FINANCIAL PLANNING, POLICY, AND BUDGETING

8 DIVISION CHIEF SCHAAFSMA: Most of the increase in  
9 operating costs is due to an \$11.1 million increase to  
10 administrative costs. This includes eight and a half  
11 million to fund updated contribution rates, retirement and  
12 health, and changes to salaries and benefits resulting  
13 from recent collective bargaining negotiations. 2.6  
14 million is proposed to fund Board-approved salary and  
15 incentive adjustments, as well as key position  
16 reclassifications. Additionally, 5.7 million is requested  
17 to accommodate additional costs for the LED lighting  
18 project at Lincoln -- at Lincoln Plaza North due to  
19 unanticipated scope change for labor and materials.

20 Next slide.

21 [SLIDE CHANGE]

22 FINANCIAL PLANNING, POLICY, AND BUDGETING

23 DIVISION CHIEF SCHAAFSMA: The mid-year budget projects  
24 fees for investment managers and third-party  
25 administrators will increase by 220.8 million or 11.8

1 percent. Fees are estimated prior to the April budget and  
2 then updated at mid-year as new information becomes  
3 available where changes to contract terms are made.

4 Next slide.

5 [SLIDE CHANGE]

6 FINANCIAL PLANNING, POLICY, AND BUDGETING

7 DIVISION CHIEF SCHAAFSMA: External management fees are  
8 estimated to increase by 217.5 million in comparison to  
9 the April budget. Base fees are estimated to increase by  
10 91.2 million, primarily due to expected new investments  
11 and market gains across multiple asset classes.  
12 Additionally, performance fees are estimated to increase  
13 by 126.3 million due to projected global equity manager  
14 performance and improved market conditions for real estate  
15 and infrastructure. Third-party administrator fees are  
16 estimated to increase by 3.2 million. This adjustment  
17 reflects an increase of four million for pharmacy benefit  
18 manager administrative fees, and a \$700,000 decrease in  
19 health program fees due to updated enrollment estimates.

20 I'll stop here for any questions on the mid-year  
21 budget, before moving on to our report on prior year  
22 expenditures.

23 CHAIR PALKKI: I have one person. Mr. Pacheco.  
24 Oops. Sorry. Hold on. Mr. Pacheco.

25 COMMITTEE MEMBER PACHECO: Thank you. Thank you,

1 sir. I'd like to -- first of all, good morning, and thank  
2 you very much for your report right. With respect to the  
3 fee adjustments regarding the external management fees,  
4 you said the performance fees in the global equities and  
5 the real assets. Within that 126.3 million increase,  
6 within the real assets, is that -- is that -- is that  
7 combined with real estate and infrastructure or is it  
8 proportional?

9 FINANCIAL PLANNING, POLICY, AND BUDGETING

10 DIVISION CHIEF SCHAAFSMA: Yes. That's real estate as  
11 well as infrastructure, forestland. So our change in real  
12 estate is 30.2 and our change in infrastructure is 29.

13 COMMITTEE MEMBER PACHECO: Okay. I see. And  
14 then with respect to the 91.2 million increase in the base  
15 fee, that's the -- that's basically the asset under  
16 management fees, correct?

17 FINANCIAL PLANNING, POLICY, AND BUDGETING

18 DIVISION CHIEF SCHAAFSMA: Correct. Those are management  
19 fees.

20 COMMITTEE MEMBER PACHECO: And that's across all  
21 the asset classes, not just private markets.

22 FINANCIAL PLANNING, POLICY, AND BUDGETING

23 DIVISION CHIEF SCHAAFSMA: Right. That's the aggregate of  
24 all asset classes for which we pay base fees.

25 COMMITTEE MEMBER PACHECO: Is this normally

1 the -- we would see this at this time of the year?

2 FINANCIAL PLANNING, POLICY, AND BUDGETING

3 DIVISION CHIEF SCHAAFSMA: Correct. We do -- every year,  
4 we do an updated estimate or projection to management  
5 fees. So we do one in April for the annual budget. And  
6 then as new information comes and we can track trends and  
7 we see what capital we're deploying, how our assets are  
8 performing, we'll update those management estimates again  
9 in November for the mid-year budget.

10 COMMITTEE MEMBER PACHECO: Very good then.

11 FINANCIAL PLANNING, POLICY, AND BUDGETING

12 DIVISION CHIEF SCHAAFSMA: And then report on them as well  
13 at the end of the year.

14 COMMITTEE MEMBER PACHECO: And these are just  
15 basically contractual changes that have happened with --

16 FINANCIAL PLANNING, POLICY, AND BUDGETING

17 DIVISION CHIEF SCHAAFSMA: It's a variety. It's  
18 contractual changes. It's capital deployed. It's asset  
19 growth, so it's a variety of factors that contribute to  
20 the increase.

21 COMMITTEE MEMBER PACHECO: Very good then.

22 That's all my questions. Thank you so much.

23 CHAIR PALKKI: I don't see any other requests to  
24 speak -- or questions, so please continue.

25 Next slide, please.

[SLIDE CHANGE]

FINANCIAL PLANNING, POLICY, AND BUDGETING

DIVISION CHIEF SCHAAFSMA: CalPERS ended fiscal year 2024-25 with expenditures and encumbrances totaling 2.3 billion, or 90.1 percent expended, leaving a balance of 250.5 million. Administrative operating costs closed with a balance of 58.2 million due primarily to enterprise vacancies and unpaid incentives. In investment operating costs a balance of 36 million is due to savings and consultant expenses, external legal engagements, appraisal fees, and technology expenses. Headquarters building costs left a \$2.2 million surplus attributable to lower than anticipated costs for utilities, security, general maintenance, and supplies. Investment external management fees came in 151 million under budget due to lower than anticipated increases in active managers and real asset market fluctuations. And finally, third-party administrator fees closed with a surplus of three million resulting from lower than anticipated PBM claims and lower enrollment for health plans than initially projected.

Next slide.

[SLIDE CHANGE]

FINANCIAL PLANNING, POLICY, AND BUDGETING

DIVISION CHIEF SCHAAFSMA: This concludes my presentation. I'm happy to answer any questions you may have.

1 Thank you.

2 CHAIR PALKKI: Thank you so much for that  
3 presentation. I do have one. Ms. Willette.

4 VICE CHAIR WILLETTE: Thank you so much. I don't  
5 have any questions, but I do move to approve the mid-year  
6 budget revision as presented.

7 CHAIR PALKKI: I have a motion to approve as  
8 presented.

9 COMMITTEE MEMBER MIDDLETON: Second.

10 CHAIR PALKKI: There's a second from Ms.  
11 Middleton.

12 Any other discussion?

13 Seeing none. All those in favor say aye?

14 (Ayes.)

15 CHAIR PALKKI: All those opposed?

16 Any abstentions?

17 There you go. Thank you so much.

18 That brings us to 5b, Ms. Nix.

19 CHIEF FINANCIAL OFFICER NIX: Thank you, Chair  
20 Palkki. I'm going to turn it over to Janie Rajasuncy to  
21 present the 2024-25 basic financial statements.

22 (Slide presentation).

23 CONTROLLER RAJASUNCY: Thank you, Michele. Good  
24 morning, Mr. Chair, members of the Committee. Janie  
25 Rajasuncy, CalPERS team member. Today, I'd like to share

1 with you key highlights from our basic financial  
2 statements for the fiscal year ended June 30th, 2025.  
3 Upon your approval, these statements will be incorporated  
4 into our annual comprehensive financial report.

5 [SLIDE CHANGE]

6 CONTROLLER RAJASUNCY: The PERF's total net  
7 position was \$563 billion as of June 30th, 2025. The  
8 annual money-weighted rate of return was 12.1 percent, led  
9 by strong returns across all asset classes. Public  
10 equity, which comprises about 40 percent of the portfolio,  
11 was the largest contributor to overall returns with a 16.8  
12 percent one-year return followed by private equity at 14.3  
13 percent, private debt at 12.8 percent, fixed income at 6.5  
14 percent, and real assets at 2.8 percent.

15 [SLIDE CHANGE]

16 CONTROLLER RAJASUNCY: In September our CIO,  
17 Stephen Gilmore, had shared with the Board that our  
18 time-weighted rate of return was 11.6 percent as of June  
19 30th, 2025. The 12.1 percent that I'm sharing with you  
20 today is our money-weighted rate of return for the same  
21 period.

22 [SLIDE CHANGE]

23 CONTROLLER RAJASUNCY: So the time-weighted rate  
24 of return is the industry standard for evaluating  
25 investment performance. It measures the portfolio's

1 compounded growth rate while removing the impact of cash  
2 flows in and out of the portfolio. For real assets and  
3 private assets, the returns reported in June reflect  
4 performance from April 1st of the prior year through March  
5 31st of the current year. This reporting delay commonly  
6 known as a quarter lag. For the money-weighted rate of  
7 return, this reflects the portfolio's actual performance,  
8 including all cash flows net of investment expenses. This  
9 measure shows investment returns through September,  
10 meaning it captures market movements for real assets and  
11 private assets up to the end of the fiscal year without  
12 any reporting lag. The money-weighted rate of return is  
13 required for financial reporting under GASB and this is  
14 what we use for CalPERS for compliance purposes.

15 [SLIDE CHANGE]

16 CONTROLLER RAJASUNCY: In aggregate, the PERF's  
17 total net position increased by \$56.4 billion, or 11.1  
18 percent, from 506.6 billion as of June 30th, 2024 to 563  
19 billion as of June 30th, 2025. Over the 10-year period,  
20 from June 30th, 2016 to June 30th, 2025, the net position  
21 grew by \$264.3 billion, representing 88.5 percent  
22 increase.

23 [SLIDE CHANGE]

24 CONTROLLER RAJASUNCY: In fiscal year '24-'25,  
25 the PERF received \$30.2 billion in employer and member



1 contributions, a decrease of 3.3 percent from fiscal year  
2 '23-'24 and disbursed \$34.6 billion in benefit payments,  
3 an increase of 5.4 percent from the prior fiscal year.

4 [SLIDE CHANGE]

5 CONTROLLER RAJASUNCY: Looking at the change in  
6 net position more closely, employer contributions  
7 decreased by 5.8 percent from 24.9 billion in fiscal year  
8 '23-'24 to 23.4 billion in fiscal year '24-'25. This was  
9 primarily due to reduced additional contributions from the  
10 State of California. Member contributions increased 6.5  
11 percent from 6.4 billion in fiscal year '23-'24 to 6.8  
12 billion in fiscal year '24-'25. Investments and net  
13 securities lending income totaled 63.4 billion in fiscal  
14 year '24-'25 compared to 46 billion in fiscal year  
15 '23-'24. As mentioned earlier, investment performance was  
16 driven by strong gains in public equity, private equity,  
17 and private debt.

18 Looking at the deductions from the PERF for the  
19 fiscal year, payments for retirement, death, and survivor  
20 benefits increased by \$1.8 billion, or 5.4 percent,  
21 primarily due to cost of living adjustments and a growth  
22 in the number of retirees and beneficiaries. Refunds of  
23 contributions increased by 26.7 million or 7.3 percent  
24 year over year, while administrative expenses decreased by  
25 15.2 million or four percent.

1 [SLIDE CHANGE]

2 CONTROLLER RAJASUNCY: Looking specifically at  
3 the investment portfolio. Net investment income totaled  
4 61.4 billion in fiscal year '24-'25. Notably public  
5 equity generated significant gains of \$34.2 billion during  
6 the fiscal year followed by private equity at 15.5  
7 billion.

8 [SLIDE CHANGE]

9 CONTROLLER RAJASUNCY: Lastly, for your  
10 reference, this chart shows the unfunded actuarial  
11 liability and the market value of assets as of June 30th,  
12 2024, which was the last actuarial valuation. As of that  
13 date, the UAL, which is the amount of the total actuarial  
14 accrued liability exceeds the market value of assets, was  
15 178.6 billion. The increase in the UAL over the past  
16 decade is mainly due to changes in actuarial assumptions,  
17 such as updated mortality rates, and a lower discount  
18 rate.

19 [SLIDE CHANGE]

20 CONTROLLER RAJASUNCY: Mr. Chair, if I may, I  
21 just want to recognize all of the hard work and dedication  
22 from our Financial Office team and our colleagues across  
23 CalPERS. This is a huge effort every year to put together  
24 the basic financial statements and our ACFR. So really  
25 appreciate everybody's time, dedication in contributing,

1 editing, reviewing, you know, all of the hard work that  
2 goes into producing the ACFR every year. So that  
3 concludes my presentation. I'm happy to take any  
4 questions that you may have.

5 CHAIR PALKKI: Thank you so much. And again,  
6 Chair, my thanks as well to all the staff for putting this  
7 together. I'm so appreciative of everything that you guys  
8 do for our members, so thank you.

9 CONTROLLER RAJASUNCY: Thank you.

10 CHAIR PALKKI: Mr. Pacheco.

11 COMMITTEE MEMBER PACHECO: Yes. Thank you very  
12 much. And, first of all, good morning and thank you so  
13 much for the information. I really appreciated the  
14 analysis of the returns on the investments, in terms of  
15 the asset class, and also with respect to the -- let me  
16 see what else is there? Let me -- one more thing. Give  
17 me one minute here.

18 I really appreciated the breakdown of the money  
19 of the weighted -- the weighted process between other --  
20 the two, because it shows how much we've done in terms of  
21 our returns in terms of the GASB. Am I correct, the GASB  
22 requirements?

23 CONTROLLER RAJASUNCY: Right, yes.

24 COMMITTEE MEMBER PACHECO: And then are we -- we  
25 are required to do that every year, is that correct?

1           CONTROLLER RAJASUNCY:   Correct.

2           COMMITTEE MEMBER PACHECO:   Okay.   Very good then.  
3 But besides that, I think it was very well stated.   So I  
4 would like to move to approve this item.

5           CHAIR PALKKI:   Before we take any motions, I want  
6 to get through everybody's questions.

7           COMMITTEE MEMBER PACHECO:   Sure.

8           CHAIR PALKKI:   So we have some more questions  
9 before we do a motion.   Do you have any more questions?

10          COMMITTEE MEMBER PACHECO:   No, I don't have any  
11 more questions.   Thank you.

12          CHAIR PALKKI:   Ms. Middleton.

13          COMMITTEE MEMBER MIDDLETON:   All right.   Mr.  
14 Chair, thank you.   And Michele, Janie, thank you.   This is  
15 a very encouraging report.   And whenever you have a year  
16 that is about as much good news as this one has, it's  
17 tempting to sit back a bit.   But we know that things do  
18 run in cycles.   So given the position that we're in today,  
19 which is a very positive one, what kind of steps do you  
20 think we need -- should be taking over the course of the  
21 next year to take advantage of the positive position that  
22 we have today and to be prepared for what we know is the  
23 inevitable downturn at some point?

24          CHIEF FINANCIAL OFFICER NIX:   Thank you for that  
25 question, Ms. Middleton.   I would have to say that the

1 majority of our increase or decrease is primarily due to  
2 our investment program. And so that will lie on their  
3 expertise and the markets, of course. And, you know, they  
4 have processes and strong processes in place. And when  
5 they follow those, we -- that will be the best we can do.

6 COMMITTEE MEMBER MIDDLETON: All right. And we  
7 know the market is volatile.

8 CHIEF FINANCIAL OFFICER NIX: Yes, it is. And in  
9 addition, as you saw on our budget presentation, we're  
10 very cognizant of our administrative expenses. We try to  
11 control those. We do everything we can to make sure that  
12 we keep control over those and that we spend wisely.  
13 That's something that's always in the back of our mind as  
14 we budget, and as we go throughout our year in the normal  
15 course of business. So we're very cognizant of that, so  
16 that also will help mitigate.

17 COMMITTEE MEMBER MIDDLETON: All right. This may  
18 be a question more for later when Scott and his team are  
19 coming up, but we are seeing benefit increase -- benefit  
20 total dollars beginning to increase. And trying to  
21 anticipate what the increase is going to continue to be  
22 over the next few years is going to be incredibly  
23 important to maintaining the liquidity that we need to be  
24 strong when the investment market turns down.

25 CHIEF FINANCIAL OFFICER NIX: Absolutely. Our

1 team in the Finance Office works very closely with the  
2 Investment team on liquidity. Our team, the Finance team,  
3 does the operational liquidity, so we make sure there is  
4 enough money to meet our obligations on a daily, weekly,  
5 monthly annual basis. And we communicate closely with  
6 investments. Anything extra goes straight into an  
7 investment in some format. And, you know, we just -- we  
8 try to keep track of that as closely as possible. So our  
9 liquidity I feel like has gotten -- our liquidity programs  
10 have gotten stronger over the past few years. And I  
11 anticipate that we have a really good handle on that right  
12 now.

13 COMMITTEE MEMBER MIDDLETON: Well, I don't have  
14 any more questions. My compliments and my appreciation to  
15 all of -- you, everyone on your team.

16 CHIEF FINANCIAL OFFICER NIX: Thank you.

17 CONTROLLER RAJASUNCY: Thank you.

18 CHAIR PALKKI: Thank you.

19 If there's no other questions what is the  
20 pleasure of the Committee?

21 COMMITTEE MEMBER PACHECO: I'll move to approve.

22 CHAIR PALKKI: So I have a motion by Mr. Pacheco  
23 to approve the '24-'25 basic financial statement as  
24 presented. Is there a --

25 COMMITTEE MEMBER MILLER: Second.

1 CHAIR PALKKI: Second by Mr. Miller.

2 Any other discussion?

3 Seeing none. All those in favor say aye?

4 (Ayes.)

5 CHAIR PALKKI: Any opposed?

6 Any abstentions?

7 Thank you so much.

8 And again, please share my thanks with the staff  
9 and everybody that put this together.

10 That brings us to Item 5c, asset liability  
11 management, second reading, PERF actuarial assumptions.

12 Ms. Nix.

13 (Slide presentation).

14 CHIEF FINANCIAL OFFICER NIX: Thank you, Chair  
15 Palkki. I'm going to turn it over to our amazing  
16 actuarial team to present this item. It is an action  
17 item, so I'll let them take it away. Scott.

18 CHIEF ACTUARY TERANDO: All right. Thanks,  
19 Michel. As -- good morning. I'm Scott Terando, CalPERS  
20 team member. As Michele mentioned, this is an action item  
21 and it's seeking the adoption of a new set of actuarial  
22 assumptions. Every four years, the Actuarial Office  
23 performs this analysis and it's part of the asset  
24 liability management process.

25 What we're going to present here is we're going

1 to have key findings and go over the potential impacts for  
2 both employers and possibly PEPRA member employees in  
3 terms of contributions. At this point, I'll pass it to  
4 both Fritzie and David to go over our results of the  
5 study.

6 DEPUTY CHIEF ACTUARY ARCHULETA: Good morning,  
7 Mr. Chair, members of the Committee. Fritzie Archuleta,  
8 CalPERS team member. Today's discussion, like Scott said,  
9 will largely be a review of what we did in September.

10 Oh, I'm sorry. Next slide.

11 [SLIDE CHANGE]

12 DEPUTY CHIEF ACTUARY ARCHULETA: Thank you. So  
13 topics of discussion for today are the review of the  
14 experience study and why we do it, what our  
15 recommendations are, the overall cost impacts, PEPRA  
16 impacts, and next steps. For your convenience many of the  
17 graphics, not included in today's presentation, but  
18 included in the September presentation, have been repeated  
19 in the appendix.

20 [SLIDE CHANGE]

21 DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So why do  
22 we do an experience study? In order to assign costs to  
23 this system, actuaries must make assumptions about what's  
24 going to happen in the future. So using these  
25 assumptions, we calculate our best estimate of what the



1 expected costs will be. It is important to note that  
2 these assumptions only determine the expected costs for  
3 the system. And as time goes on, to the extent that our  
4 estimates are different from the actual experience,  
5 adjustments will need to be made to our contribution  
6 rates.

7           These assumptions play an important role in  
8 shaping the funded status, required employer  
9 contributions, and also PEPRAs member contributions. The  
10 assumptions are also used to determine actuarial  
11 equivalent factors when members retire or purchase service  
12 credit. In order to keep pension contribution rates as  
13 stable as possible, we make every effort not to overstate  
14 or understate any assumption, as it is better to collect  
15 contributions attributable to each generation. To keep up  
16 with the times, we review our assumptions every four  
17 years. And the last study was completed in 2021.

18                           [SLIDE CHANGE]

19           DEPUTY CHIEF ACTUARY ARCHULETA: So what sorts of  
20 things do we look at? There are two types of assumptions.  
21 There are economic assumptions and non-economic  
22 assumptions. On the economic side, we have the long-term  
23 investment return, which in turn turns into the discount  
24 rate, and then we have inflation. On the non-economic  
25 side, and this is not an all-inclusive list, but this is

1 probably the big hitters, we look at pay increases,  
2 longevity, which is mortality, retirement rates,  
3 termination rates, disabilities. So all these assumptions  
4 are very important for the system, but because the  
5 discount rate is so impactful on its own and the costs, we  
6 had its own study, and you guys heard about that yesterday  
7 and voted on it in the Investment Committee meeting.

8 So I want to make a note that all the numbers  
9 that Mr. Clement will go over shortly do not account for  
10 any changes to the discount rate.

11 Okay. And with that, I will pass it over to him.

12 [SLIDE CHANGE]

13 SUPERVISING ACTUARY CLEMENT: Good morning, Mr.  
14 Chair and members of the Committee. Dave Clement, team  
15 actuary.

16 Now, let's look -- now, let's look at the  
17 recommendations.

18 [SLIDE CHANGE]

19 SUPERVISING ACTUARY CLEMENT: This slide shows  
20 the summary of the recommended demographic assumptions for  
21 retirement and mortality. Most assumpt -- most  
22 assumptions have minimal changes. However, we are  
23 recommending lower disability rates -- industrial  
24 disability rates for sheriffs.

25 [SLIDE CHANGE]

1           SUPERVISING ACTUARY CLEMENT: This slide shows a  
2 summary of recommend demographic assumptions for  
3 terminations, salary scale, and marriage. We are  
4 recommending minimal changes to most assumptions. The  
5 most impactful demographic assumption change was the  
6 salary scale. They were higher in moderate increases  
7 above our previous assumptions for all categories, except  
8 State, industrial, and schools. And there was no changes  
9 to the marriage assumptions.

10                           [SLIDE CHANGE]

11           SUPERVISING ACTUARY CLEMENT: This slide shows a  
12 summary of the recommended economic assumptions, as was  
13 discussed yesterday, the discount rate was unchanged at  
14 6.8 percent. We recommend increasing the inflation rate  
15 from the 2.3percent to two and a half percent, and the  
16 wage inflation from 2.8 percent to 3 percent. However, we  
17 are keeping the payroll growth assumption at 2.8 percent.

18                           [SLIDE CHANGE]

19           SUPERVISING ACTUARY CLEMENT: While performing  
20 this experience study, we hired Gallagher and Company  
21 under a Letter of Engagement to perform a peer review of  
22 our -- of our assumptions. They reviewed our proposed  
23 economic and demographic assumptions, and concluded that  
24 they were reasonable and were developed in accordance with  
25 generally accepted actuarial principles.

1           Next slide. It's not going.

2                           [SLIDE CHANGE]

3           SUPERVISING ACTUARY CLEMENT: Oh, there we go.  
4 Now, let's take a look at the cost effects.

5                           [SLIDE CHANGE]

6           SUPERVISING ACTUARY CLEMENT: For public  
7 agencies, here is a range of employer contribution rate  
8 impacts based on the benefit formula the employer offers.  
9 For example, if your agency offers a 2 percent at 60  
10 benefit to its members, you would likely see an increase  
11 of anywhere between 0.1 and 0.9 percent to your rate for  
12 the next 20 years. The median change is also displayed  
13 for your reference.

14           The median refers to the point where half the  
15 numbers are above and half are below. So again, for two  
16 percent at 60 plans, half of them will see an increase  
17 above 0.3 percent, while the other staff will see a rate  
18 increase below 0.3 percent. You see the bottom rows --  
19 two rows correspond to the PEPRA formulas. Any time we  
20 make changes to the assumptions, the changes could trigger  
21 a change to the PEPRA member rates. The next section will  
22 display those results.

23                           [SLIDE CHANGE]

24           SUPERVISING ACTUARY CLEMENT: This chart shows  
25 the estimated impact to the State due to the proposed

1 assumptions. As an example, the total change to the rate  
2 for miscellaneous Tier 1 will be 1.6 percent. There will  
3 be a permanent increase of 0.9 percent, for example, the  
4 normal cost, while the UAL change refers to the UAL change  
5 that is amortized over 20 years.

6 [SLIDE CHANGE]

7 SUPERVISING ACTUARY CLEMENT: Before we move on  
8 to the PEPRA impacts, here is a chart disclosing the  
9 impacts to the funded ratio of the system. As a reminder,  
10 the funded ratio is simply the ratio of plan assets to  
11 plan liabilities. The proposed assumption changes cause  
12 the liabilities for the system as a whole to go up  
13 slightly. We estimate the impact of the assumption  
14 changes is a reduction of about 0.3 percent as of June  
15 30th, 2024. The 79 percent funded ratio reported in June  
16 30, 2025 return would be slightly reduced to 78.6 percent.

17 Now, I'll hand it back over to Fritzie to discuss  
18 the PEPRA impacts.

19 DEPUTY CHIEF ACTUARY ARCHULETA: Thank you, Dave.

20 [SLIDE CHANGE]

21 DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So PEPRA  
22 impacts.

23 [SLIDE CHANGE]

24 DEPUTY CHIEF ACTUARY ARCHULETA: So should you  
25 adopt the recommended assumption changes, we anticipate

1 that some PEPRA member rates will be impacted. This slide  
2 shows how many plans we estimate will see a PEPRA member  
3 rate change and the corresponding number of active members  
4 that will be impacted. These estimates are all based on  
5 June 30th, 2024 data. So you can see from the chart, I'm  
6 looking at now the middle row. Those are all the plans  
7 that are going to see -- or estimate to see an increase in  
8 the member contribution rate. You can see from the chart  
9 that only nine miscellaneous plans will likely see an  
10 increase in the PEPRA member rate, whereas on the safety  
11 side, you have two-thirds of plans that will see an  
12 increase to their member rates.

13 [SLIDE CHANGE]

14 DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So next  
15 steps.

16 [SLIDE CHANGE]

17 DEPUTY CHIEF ACTUARY ARCHULETA: So some next  
18 steps. We are recommending that you vote to approve the  
19 assumption changes prescribed by our Actuarial Office. If  
20 you approve the assumption changes, they will go into  
21 effect beginning the June 30th, 2025 valuations. The 2025  
22 valuation sets the '26-'27 contribution rate for the State  
23 and school plans, and the '27-'28 contribution rates for  
24 public agencies. In addition, all retirements and service  
25 credit purchases after 11-20-2025 will be using the new

1 assumptions.

2           So this concludes the prepared remarks of the  
3 presentation. We'd be happy to answer any other  
4 questions. But if I can also take a moment like Janie to  
5 say thank you to the team. This started in the Actuarial  
6 Office, and it really is our entire office working on this  
7 above and beyond our normal workload. But on top of that  
8 behind the scenes, we are working with IT, disability,  
9 retirements, and service credit purchases teams to verify  
10 and make sure that we're all ready to flip the switch  
11 should the vote go the way that we are recommending.

12           And so I just wanted to say thank you. And with  
13 that, I will open it up to questions.

14           CHAIR PALKKI: Thank you so much.

15           There we go. Let me start with Mr. Rubalcava.

16           COMMITTEE MEMBER RUBALCAVA: Thank you, Mr.  
17 Chair. Very good presentation and very good report. I  
18 know we discussed a lot of the demographic and economic  
19 changes in the last meeting, so I won't repeat all the  
20 questions that now are more clear to me. But I do want to  
21 comment, this -- your staff and this Board made a great  
22 decision to change the -- go to a generational mortality a  
23 couple years ago and then the benefit -- weighted benefit  
24 I think reflects more accurately the -- our experience  
25 with our members. So I thank you for that.

1           And I'm glad we're moving up to updating the  
2 mortality table. And on the assumptions proposed, I  
3 commend you for making the changes necessary to be  
4 realistic going forward, but keeping the discount rate the  
5 same amount, so there's minimal impact -- I'll say  
6 minimum, but it mitigates any impact on the employers and  
7 members as much as possible.

8           Although, we -- as you mentioned, there will be  
9 some impact. So my question is how is the -- once the --  
10 how is the change in the contribution rates communicated  
11 both to the members and to the employers?

12           DEPUTY CHIEF ACTUARY ARCHULETA: Sure. So we're  
13 actually working with Public Affairs to get the word out.  
14 We have a couple of articles drafted, if this change does  
15 go through. And it talks about what changes to expect in  
16 contribution rates. We also have something on our website  
17 for PEPRA members and employers, even letters that they  
18 can draft to help notify their members, if their member  
19 rates are changing. And then, of course, on the employer  
20 side, we always have Pension Outlook. Starting probably  
21 December 1st, we believe that that will be ready to  
22 incorporate any changes to employer contribution rates.  
23 It will just be like a radial button that they can click  
24 to say see what the impact is, like it was last time. And  
25 so, we're getting ready. We just have to flip the switch.



1 COMMITTEE MEMBER RUBALCAVA: Flip the switch.

2 DEPUTY CHIEF ACTUARY ARCHULETA: Yeah.

3 COMMITTEE MEMBER RUBALCAVA: And then my other  
4 question is I'm -- I was pleased that Gallagher agreed  
5 that it was very reasonable, very well done experience  
6 report and I commend you for that. But just so they don't  
7 be nitpicky at us on this, code of professional conduct,  
8 please make sure that the actuary signs the report next  
9 time. Thank you.

10 DEPUTY CHIEF ACTUARY ARCHULETA: Thank you.

11 COMMITTEE MEMBER RUBALCAVA: It's something to be  
12 proud of. Thank you.

13 If there's no more questions, I'd like to move to  
14 adopt the -- okay. Sorry.

15 CHAIR PALKKI: I've got one more. Mr. Pacheco.

16 COMMITTEE MEMBER PACHECO: Thank you. First of  
17 all, thank you so much for your presentation and your  
18 analysis. I want to go back to page 12 of 42 on the  
19 impact on the proposed assumptions for the contribution  
20 rates for the State. And with respect to the peace  
21 officers and firefighter plans and the CHP, I noticed  
22 those are really high. I just want to understand the  
23 genesis of how that came about relative to the other ones  
24 that -- of the other changes -- total changes.

25 DEPUTY CHIEF ACTUARY ARCHULETA: So I can answer

1 the question about CHP. I know that we've been monitoring  
2 their salary a lot over the last couple of experience  
3 studies. And we do notice that them, in particular,  
4 across the state are higher. And so we have a little bit  
5 of a higher increase embedded into that salary scale, you  
6 know, the assumptions at which we assume their salaries  
7 are going to go up, because we have been noticing over the  
8 last eight years that they're somewhat higher.

9 As far as the peace officers, I'm not sure if I  
10 have. We could -- we could go back and take that as an  
11 action item on the peace officers. We don't have that  
12 information right now.

13 COMMITTEE MEMBER PACHECO: No worries at all.  
14 And the second question is on the -- on page 15 of 42 on  
15 the affected PEPRA member contribution rates.

16 DEPUTY CHIEF ACTUARY ARCHULETA: Um-hmm.

17 COMMITTEE MEMBER PACHECO: As you mentioned, for  
18 the miscellaneous plans, it's only about nine plans, but  
19 for the safety plans, it's almost like you mentioned  
20 two-thirds, 551 plans. How many -- I mean, I noted over  
21 time, PEPRA has been increasing and we have more members  
22 in the system, and we're getting them more and more as  
23 every year as it -- how is that -- how do you see this  
24 happening? Do you feel this is going to change more?

25 DEPUTY CHIEF ACTUARY ARCHULETA: So this data is

1 as of 2024. I do think that probably about two-thirds of  
2 how many ever PEPPRA members we have will see an increase.  
3 It all just depends on, you know, what their employer  
4 offers as far as benefits. We know, in particular,  
5 because we're increasing that inflation assumption, that  
6 any plan that offers anything higher than a two percent  
7 COLA, which is the base, and there's only about five  
8 percent of plans that do that, but any of those plans will  
9 definitely see an increase, and then they're on the larger  
10 side.

11 COMMITTEE MEMBER PACHECO: Okay.

12 DEPUTY CHIEF ACTUARY ARCHULETA: But no, as far  
13 as like these numbers, I mean, I think that the ratio is  
14 probably about right, about two-thirds of plans will see  
15 it, and 60 percent of actual members. Right. Right. And  
16 Dave just pointed out that safety plans do have a higher  
17 normal cost in general.

18 COMMITTEE MEMBER PACHECO: Right.

19 DEPUTY CHIEF ACTUARY ARCHULETA: So when you get  
20 that kind of compounding going on, it's easier for them to  
21 have that trigger of that one percent.

22 COMMITTEE MEMBER PACHECO: And that's  
23 inherited in their -- in their -- in their demographics  
24 because of that.

25 DEPUTY CHIEF ACTUARY ARCHULETA: It's not just --

1 it's their benefits as well. They're just a lot more  
2 expensive than the miscellaneous ones in a lot of cases,  
3 especially the 3 at 50, which is what most of our safety  
4 classics are at.

5 COMMITTEE MEMBER PACHECO: I see. I see. Well,  
6 that's the classic, but for the PEPRA, it's -- they're --

7 DEPUTY CHIEF ACTUARY ARCHULETA: Oh, right. It's  
8 the same thing though, the expense is a lot more than what  
9 the miscellaneous is.

10 COMMITTEE MEMBER PACHECO: Oh, I see. I  
11 understand. Okay. Very good then.

12 And then the other last -- let me just -- let me  
13 just get one more thing. And just one more thing. I know  
14 there's an observation. I know that we just -- we were  
15 just dealing with the State and with the safety. What  
16 about the school experience? When is that -- when do  
17 we -- when do we evaluate that?

18 DEPUTY CHIEF ACTUARY ARCHULETA: So that is also  
19 evaluated in this study. Let me go back and see. I  
20 think -- yeah, so at the very bottom there, do you see the  
21 school plan?

22 COMMITTEE MEMBER PACHECO: I see.

23 DEPUTY CHIEF ACTUARY ARCHULETA: That was also  
24 evaluated in this.

25 COMMITTEE MEMBER PACHECO: So it is -- so of

1 the -- of the -- so it's actually the smallest increase.

2 DEPUTY CHIEF ACTUARY ARCHULETA: Correct.

3 COMMITTEE MEMBER PACHECO: And that's because of  
4 its -- the way it's structured, because it's pooled? I  
5 mean, you know, they -- we have it -- we have a pooled --

6 DEPUTY CHIEF ACTUARY ARCHULETA: I think that,  
7 you know, it's partly due to demographics, but also due to  
8 the benefits that they offer. I think it's 2 at 55. And  
9 I'm pretty sure they have a two percent COLA, correct?  
10 Dave, did you want to add anything on the school stuff?

11 SUPERVISING ACTUARY CLEMENT: On the State plans  
12 here, the State industrial and schools had salary  
13 increases less than what we expected.

14 COMMITTEE MEMBER PACHECO: That's right.

15 SUPERVISING ACTUARY CLEMENT: So that was -- that  
16 was the big difference here.

17 DEPUTY CHIEF ACTUARY ARCHULETA: So on the  
18 demographic side, salary is probably, you know, one of the  
19 biggest contributing factors, right?

20 COMMITTEE MEMBER PACHECO: I get it now. That's  
21 excellent then. That's all my questions. Thank you very  
22 much. Appreciate it very much what you've done.

23 DEPUTY CHIEF ACTUARY ARCHULETA: Of course.

24 CHAIR PALKKI: Thank you so much.

25 Mr. Rubalcava.

1 COMMITTEE MEMBER RUBALCAVA: Thank you, Mr.  
2 Chair. I would like to move to adopt the new actuarial  
3 assumptions as reported in the experience study by --  
4 produced by this excellent CalPERS actuarial staff and  
5 office -- Financial Office.

6 COMMITTEE MEMBER PACHECO: I'll second.

7 CHAIR PALKKI: I have a motion by Mr. Rubalcava  
8 and a second by Mr. Pacheco. Is there any other  
9 discussion?

10 Seeing none, all those in favor say aye?

11 (Ayes.)

12 CHAIR PALKKI: Any opposed?

13 Any abstentions?

14 There you go. It passes.

15 DEPUTY CHIEF ACTUARY ARCHULETA: Thank you.

16 CHAIR PALKKI: Thank you, Ms. Archuleta, Mr.  
17 Clement, and Mr. Terando. Great report. And again, share  
18 my thanks with the staff. I cannot say enough about our  
19 staff.

20 So that brings us to 5d, Ms. Nix.

21 CHIEF FINANCIAL OFFICER NIX: Thank you, Chair  
22 Palkki. The annual discharge of accounts receivable.  
23 This is an annual report that we provide to you every  
24 year. And we've in -- I've invited Kim Malm up, because  
25 her team works closely with ours. They do a majority of

1 the investigative work before the write-offs happen. So I  
2 will turn it over to Kim to talk about the receivables.

3 DEPUTY EXECUTIVE OFFICER MALM: Great. Thank  
4 you, Michele. Kim Malm, CalPERS team member.

5 Last November, I reported to the Finance  
6 Committee that we discharged \$6.3 million dollars as part  
7 of a cleanup project of almost 3,600 cases that were past  
8 the statute of limitations. As you know, overpayments can  
9 occur in several areas, including refund overpayments,  
10 retirement benefit overpayments, but our largest  
11 overpayments are when death occurs and is not reported  
12 timely.

13 The statute of limitations for refund and  
14 retirement benefit overpayments are three years. It's 10  
15 years for the death overpayments. I've shared the next --  
16 the new steps we're implementing to collect on those  
17 overpayments more timely. Today, I thought I'd give you  
18 an update on our progress.

19 First, we automated manual processes to ensure  
20 overpayments are addressed and to support our team's  
21 collection activities. Our system, myCalPERS, sends out  
22 letters, called Dunning letters, 30-, 60-, 90-day  
23 intervals. Additionally, we now notify our Financial  
24 Office Collections Unit under Michele at day 120, and they  
25 make contact with the estate. We implemented automation

1 utilizing the system to transfer money from benefits  
2 payable in their account to offset the overpayments, which  
3 minimizes the amount of owed, and in some cases,  
4 eliminated the amount owed in full.

5           To further enhance our collection efforts, we  
6 implemented the Franchise Tax Board Intercept Program.  
7 This program allows to us collect outstanding payments by  
8 intercepting taxes for up to three years on CalPERS  
9 benefits -- CalPERS behalf. So far this effort has  
10 collected over \$87,000, and we are now using the FTB  
11 program for all of our overpayment collection efforts.

12           We also partner with an external legal and  
13 collections firm to assist with nonresponsive liable  
14 parties, including those outside of California. Through  
15 this partnership, we've recovered almost \$115,000.

16           In addition to these recovery efforts, we've also  
17 focused on two other key initiatives that I've presented  
18 to you guys throughout the year, first being the benefit  
19 verification or alive and well program and Socure death  
20 verification. We transitioned from an every other year  
21 benefit verification cycle to an annual cycle. This  
22 process supplements our death matches by Socure.

23           This year alone, the benefit verification project  
24 identified 366 deaths for a total of 3.7 million in  
25 overpayments and we've collected \$2 million, so far, which



1 is about 77 percent.

2           Additionally, Socure's death verification, since  
3 implementation in June of 2024, has identified 626 deaths  
4 for a total of \$6.4 million of overpayments, and we have  
5 collected 5.2 million so far, so over 81 percent.

6           For retirement overpayments, we also developed a  
7 reporting tool to identify data ab -- anomalies and  
8 potential errors providing early notification for  
9 additional reviews to ensure retirement benefit  
10 calculations are accurate and prevent future overpayments.  
11 To ensure we stay on top of our progress, we've introduced  
12 new tracking tools for overpayment processes. These tools  
13 now allow us to monitor the total amount of overpayments  
14 and track how our collection efforts are going. I'm  
15 pleased to report that today, with the efforts we've put  
16 in place that last two years, we've collected over \$172  
17 million in overpayments. This continues to validate that  
18 by collecting these overpayments immediately, we have a  
19 much better chance of getting money back into the fund.

20           It's a testament to the hard work and dedication  
21 of our team, as well as the effectiveness of the processes  
22 we put in place. In closing, we remain committed to  
23 minimizing overpayments and improving our collection  
24 efforts.

25           That concludes my comments, Mr. Chair. I'm happy

1 to answer any questions.

2 CHAIR PALKKI: Thank you so much for that report.  
3 I am not seeing any questions. I do want to say that even  
4 though this is sort of a sombering topic, I honestly and  
5 truly thank you for all the work that you do. I've gone  
6 to multiple conferences where a lot of this work is done  
7 out of house. And I'm glad that we're able to contain  
8 costs in-house. But every dollar that we're able to bring  
9 back into the fund, that's a benefit to our members and  
10 our employers. So I truly thank you for the work that  
11 you're doing.

12 DEPUTY EXECUTIVE OFFICER MALM: Thank you.  
13 Thanks to the team.

14 CHAIR PALKKI: Oh, I do have a question.  
15 Ms. Taylor.

16 COMMITTEE MEMBER TAYLOR: Actually, I do not have  
17 a question, but I'd like to thank Ms. Malm for calling out  
18 my agency for helping collect. There's a reason my agency  
19 is known as the collection agency for the State of  
20 California, but thank you.

21 DEPUTY EXECUTIVE OFFICER MALM: Yeah. We  
22 appreciate that \$87,000. Thank you.

23 (Laughter).

24 CHAIR PALKKI: And with that, this is a action  
25 item.

1 COMMITTEE MEMBER PACHECO: I'll move.

2 CHAIR PALKKI: So have a motion from Mr. Pacheco.

3 COMMITTEE MEMBER MIDDLETON: Second.

4 CHAIR PALKKI: And a second by Ms. Middleton.

5 Any other discussion?

6 Seeing none, all those in favor say aye?

7 (Ayes.)

8 CHAIR PALKKI: All those opposed?

9 Any abstentions?

10 The ayes have it. Thank you so much.

11 That brings us to our Item 6, information agenda  
12 items. Ms. Nix.

13 (Slide presentation).

14 CHIEF FINANCIAL OFFICER NIX: Thank you, Kevin  
15 Palkki. I'm going to turn it over to Emily to present the  
16 semi-annual plan financial report for the health plan.

17 SUPERVISING HEALTH ACTUARY ZHONG: All right. If  
18 my Chair works. All right.

19 (Laughter).

20 SUPERVISING HEALTH ACTUARY ZHONG: Sorry.  
21 Apologize for the technical thing.

22 Good morning, Mr. Chair and members of the  
23 Committee. Emily Zhong, CalPERS team member. This is  
24 Agenda Item 6a, semi-annual health plan financial report.  
25 This report is provided to the Committee twice a year, as

1 part of the monitoring and reporting process for Health  
2 Care Fund, which include health plan account balances,  
3 actuarial reserve amount, and surpluses or deficits for  
4 the health plan subaccounts. This semi-annual report  
5 provide the financial performance for the PPO and  
6 flex-funded HMO as of June 2025 at this time.

7 Next slide, please.

8 [SLIDE CHANGE]

9 SUPERVISING HEALTH ACTUARY ZHONG: Before going  
10 through the Health Care Fund status update, I want to  
11 share the recent improvement we've seen on the PPO  
12 program. This graph shows the history for PPO fund  
13 balance to actuarial ratio for the past five years. As a  
14 reminder, our Health Care Fund Reserve Policy provide a  
15 framework for maintaining appropriate reserve for the PPO  
16 plans. When the fund balance is less than 90 percent of  
17 actuarial reserve, a premium surcharge may be considered  
18 to help replenish the fund. If the fund balance is at or  
19 above 90 percent of actuarial reserve, no action is  
20 needed.

21 So in this graph, the dashed line indicate a 90  
22 percent benchmark of actuarial reserve needed for 2025.  
23 As shown on the graph, there has been a research funding  
24 shortfall for our PPO plans in 2021. That year the fund  
25 balance fell below 90 percent of actuarial reserves and

1 continue to decrease through 2023. This was mainly due to  
2 a combination of premium buydown for plan year 2020 to  
3 2022, and the unexpected high health care costs for a  
4 couple of years post-COVID. After a few years of premium  
5 surcharge, the ratio has increased to 66 percent as of  
6 June 2025. We expect the PPO funded status will continue  
7 to improve through the end of 2025, and optimistically  
8 speaking, likely to reach the 90 percent reserve level in  
9 2026.

10 So depending on the year in 2025 status, we may  
11 be able to remove, or at least reduce, the, PPO premium  
12 surcharge starting from 2027 premium.

13 Next slide, please.

14 [SLIDE CHANGE]

15 SUPERVISING HEALTH ACTUARY ZHONG: Here we have  
16 the recent Health Care Fund performance for the HMO basic  
17 and PPO Medicare and Basic plans. Starting with HMO Basic  
18 plan, the estimated fund balance as of June 2025 was 278  
19 million. The next column shows the HMO Basic estimated  
20 claim liability of 111 million, with the last column  
21 showing the surplus of 167 million. This is the 39  
22 million improvement from the end of 2024.

23 On the PPO side, starting with Basic plan, the  
24 estimated fund balance was -- as of June 2025, was 437  
25 million with estimated liability and required actuarial

1 reserve level of 589 million for a fund status of 152  
2 million below the fully reserve level, or 93 million below  
3 90 percent of reserve.

4           For the PPO Medicare plans, the estimated fund  
5 balance as of June 2025 was 84 million after required  
6 actuarial reserve of 196 million. The fund status for PPO  
7 Medicare plans was 112 million below the fully reserve  
8 level, or 92 million below 90 percent of reserve. The  
9 overall PPO status improved by about 147 million from the  
10 end of 2024. As mentioned in the previous slide, the fund  
11 balance to actuarial reserve ratio improved from 38  
12 percent at the end of 2024 to 66 percent in June 2025.  
13 I'll go through some detail for the Basic and Medicare --  
14 for the Basic and PP plan performance in the next couple  
15 of slides.

16                               [SLIDE CHANGE]

17           SUPERVISING HEALTH ACTUARY ZHONG: For the Basic  
18 plan in April, we reported that the Basic PPO was 355  
19 million below the fully reserved level as of the end of  
20 2024. As more claim has been processed, the updated  
21 status improved by 100 million, which is 259 million below  
22 the fully reserved level. In the first half of 2025,  
23 there was about 42 million increase in the fund balance  
24 related to medical experience. The PPO Basic member  
25 satisfied their annual deductible earlier in the year, so

1 medical costs are lower in the first half of the year and  
2 are anticipated to increase in the second half of the  
3 year.

4           There was a small gain of 10 million due to  
5 pharmacy experience as well. The PPO Basic premium  
6 includes surcharge of four percent in Platinum and five  
7 percent in Gold to replenish the PPO reserve. We have  
8 collected about 55 million in the first six months of  
9 2025.

10           The overall Basic PPO funded status improved by  
11 107 million from the end of 2024, bringing the total fund  
12 status to 152 million below the fully reserved level, or  
13 93 million below 90 percent of the reserve as of June  
14 2025.

15                           [SLIDE CHANGE]

16           SUPERVISING HEALTH ACTUARY ZHONG: Moving on to  
17 Medicare. In April, we reported that the PPO Medicare was  
18 152 million below fully reserved status as of the end of  
19 2024. There is no change on the updated fund status. So  
20 in 2025, there was about two million decrease in fund  
21 balance due to seasonality. The PPO Medicare claim  
22 pattern is normally higher in the beginning of the year  
23 and decrease later in the year. This is because the plan  
24 covered the Medicare deductible for our members and as the  
25 deductible is satisfied, the medical costs decrease.

1           There was also 42 million increase in fund  
2 balance for pharmacy related experience mainly due to  
3 lower than expected pharmacy claim and a little bit higher  
4 than expected rebate that we received. The overall PPO  
5 Medicare fund status improved by about 40 million in the  
6 end of 2024. In bringing the fund balance 112 million  
7 below the fully reserved level, or 92 million below 90  
8 percent of reserve.

9           Next slide, please.

10                       [SLIDE CHANGE]

11           SUPERVISING HEALTH ACTUARY ZHONG: So looking  
12 forward, with the premium surcharge approved by the Board  
13 for the PPO premium for both plan year 2025 and '26, we  
14 expect the PPO fund status will continue to improve. And  
15 additionally, we have implemented other way to improve the  
16 PPO program. On the medical side, there's a new five-year  
17 contract from 2025 to 2029. This new contract has  
18 significant performance guarantee to ensure Blue Shield of  
19 California and Included Health are financially responsible  
20 for keeping costs at or below the agreed upon threshold.

21           On the pharmacy side, we have a new contract with  
22 CVS, which also has strong performance guarantees to CVS  
23 to control costs. That contract will begin in January  
24 2026.

25           That conclude my presentation. I'm happy to take



1 your questions.

2 CHAIR PALKKI: Thank you so much.

3 I am not seeing any questions. So again, thank  
4 you for the report. Appreciate it.

5 SUPERVISING HEALTH ACTUARY ZHONG: Thank you.

6 CHAIR PALKKI: That brings us to our last  
7 information item, Modernizing Investment Data and  
8 Technology Update. Ms. Nix.

9 CHIEF FINANCIAL OFFICER NIX: Thank you, Chair  
10 Palkki. I'm going to invite the investment team up here  
11 to present on the modernization project.

12 (Slide presentation).

13 INVESTMENT DIRECTOR PATERSON: Perfect. Hi,  
14 Chair. Hi, Board Members. My name is Rob Patterson,  
15 CalPERS team member. I lead the Investment Technology and  
16 Performance Analytics Group. And I'm also joined today  
17 with Jen Hafner who is leading the initiative that we're  
18 here to provide an update on today.

19 [SLIDE CHANGE]

20 INVESTMENT DIRECTOR PATERSON: So as we move on  
21 to kind of the topic of conversation today, this is an  
22 update. We're not asking any action today. What I'm  
23 really pleased to share is that all of the activities that  
24 we set in motion that we committed to do when we were here  
25 in April are on track. So we're on track as it pertains

1 to budget, as it pertains to scope, and also timeline, and  
2 also given that those things are on track, we're not  
3 seeking a mid-year update, which is why that wasn't  
4 included in the materials that Michele and team shared  
5 earlier today.

6 As we move on to the next slide --

7 [SLIDE CHANGE]

8 INVESTMENT DIRECTOR PATERSON: -- before I get  
9 into a review of what we were looking to accomplish this  
10 year, I wanted to take a moment just to reorient us in  
11 terms of what we're looking to do. From an overall  
12 objective standpoint, the initiative is seeking to reduce  
13 operational complexity within the Investment Office,  
14 thereby kind of reducing operational risk. We also want  
15 to better leverage technology to increase operational  
16 efficiency, also giving time back to our investment team  
17 to better focus on investment outcomes through investment  
18 innovation. Really all of that in support also of the TPA  
19 conversations that we heard quite a bit about yesterday.

20 In terms of the projects, you'll see some of them  
21 listed here. There's four that we're focused on. Project  
22 one is focused on total fund and capital markets. That is  
23 very much seeking to consolidate public equity and fixed  
24 income as well as total fund management capabilities onto  
25 a single platform, very much enabling things like exposure

1 monitoring and liquidity monitoring. Again, those  
2 activities in support of total fund, TPA, not only for the  
3 PERF, but also for management to the affiliate investment  
4 program of those funds.

5         The second project focused on private markets is  
6 very much looking at making sure we have the tools that  
7 allow our investors in public -- I'm sorry, in private  
8 equity, private credit, real estate, and infrastructure to  
9 be able to manage those investments. And it becomes  
10 increasingly important as we're increasing the allocation  
11 or having a larger allocation to private markets into the  
12 future.

13         The third project is the data platform. This is  
14 one that will improve efficiencies again. It will also  
15 allow us or create a single source of information for  
16 reporting and analysis. And it will also create the  
17 integration capabilities between the platforms delivered  
18 in the first two projects.

19         The fourth project that you don't see listed here  
20 today, because it's not yet in progress, is that of  
21 internal application development. We've pushed that  
22 further down the timeline, that timeline being in the  
23 appendix, because we want to first make sure that what we  
24 deliver is focused on leveraging commercial applications  
25 first, that we're delivering by way of the first two

1 projects, and we'll focus on filling any gaps of those  
2 systems, when it becomes clear and when it's approved to  
3 do so.

4           So with that background, let's take a moment to  
5 revisit what we wanted to achieve this year. As we're  
6 looking at mobilizing all of these activities, it's  
7 increasingly important that we move out of the posture of  
8 really building the case for the change and beyond the  
9 communication activities, and much more focused on --  
10 focusing on stakeholder engagement as we move through  
11 defining new processes, and getting adoption of the system  
12 into the future.

13           The second activity that we wanted to focus on  
14 was bringing on an independent firm to focus on observing  
15 us through the process, in terms of the independent  
16 verification and validation activities. Did we deliver  
17 what we said we would and did we do it well? Within total  
18 fund and capital markets, we committed to completing the  
19 implementation -- the planning phase. That allowed us to  
20 define -- or would allow us to define what the overall  
21 implementation would be. It also then moved into defining  
22 what data we would need to be able to hydrate or to be  
23 able to kind of fill the system, generally that being  
24 market data.

25           We then needed to work with our enterprise IT

1 folks to build out the infrastructure, so that we can  
2 access those core platforms, and then lastly that we would  
3 begin implementation of that platform. Within the private  
4 markets effort, we needed to make sure that we completed  
5 an RFP, so that we could ultimately select a vendor and  
6 then we could begin or initiate the implementation  
7 planning phase, in terms of what it would look like to  
8 implement that solution or solutions. And then lastly, we  
9 committed to standing up the data project. And that means  
10 defining a charter, defining a scope of what we wanted to  
11 do, and then mobilizing that team.

12 So where are we today? As we move to the next  
13 slide --

14 [SLIDE CHANGE]

15 INVESTMENT DIRECTOR PATERSON: -- I'm really  
16 pleased with the work that the team has done. And when I  
17 say team, it is, of course, the Investment Office, but a  
18 lot of the work that we've done has required support from  
19 our enterprise peers. You'll see lot of these updates  
20 relate to things like recruitment, which required support  
21 of our HR counterparts. When we think of, you know, some  
22 of the budget related activities, that required support of  
23 the Financial Office, and also the Financial Office  
24 assisting in some of the reviews of the platforms as it  
25 pertains to their responsibilities. We look at ITSB and

1 making sure that they're partnering with us and we're  
2 partnering with them to clarify our responsibilities and  
3 also to build out the IT infrastructure.

4 And so very much a collaboration in terms of the  
5 things that we're doing. And lastly, but not least,  
6 working with OSSD and the Legal Office to make sure we  
7 have the necessary procurement and contracting in place.

8 So where we are from an overall initiative  
9 standpoint, we've onboarded a number of project resources  
10 making sure that we had the right folks to be able to  
11 progress each one of the projects that I discussed on the  
12 prior slide. And that now leads us to the point that  
13 we're onboarding the IV&V vendor, again to make sure we  
14 stay on track and that we deliver a quality solution.

15 As we look to total fund and capital markets,  
16 we're wrapping up a phase, which is called clarification  
17 and design, or pre-implementation planning. And that  
18 really allows us to understand what specifically the  
19 system is going to do, where the gaps are, so we can begin  
20 implementation in the second half of this fiscal year,  
21 which we're on track to do. Private markets, as I  
22 mentioned, we completed an RFP. We're in the evaluation  
23 phase of that at this point, so things are progressing  
24 well there.

25 And then lastly, on the data platform, we drafted

1 the project charter. We formalized the project team, the  
2 project structure. We've had the initial steering  
3 committee kick-off. We're bringing together the project  
4 team in the upcoming weeks, and then really focusing on  
5 building out that project team. So as we move to the next  
6 slide --

7 [SLIDE CHANGE]

8 INVESTMENT DIRECTOR PATERSON: -- I wanted to  
9 give an update, since this is Finance and Admin Committee,  
10 on where we are with the budget. Just to orient yourself  
11 to what we're looking at here, the blue lines that we're  
12 looking at, the \$10 million last year and the \$38 million  
13 this year were the approved funds for this initiative and  
14 all the projects that I've mentioned.

15 As we look to the right years '26-'27 beyond,  
16 those are the estimates that we have at this point. Those  
17 are informed by work that we a did a couple of years ago  
18 with McKinsey. They've also been informed by some recent  
19 RFI work that we've done. Those remain reasonable.  
20 They're informed. And as we move from the implementation  
21 planning phase into the implementation phase, for each one  
22 of the projects, we will improve those estimates and we'll  
23 come back with any kind of revisions that we have in this  
24 forum.

25 Where are we? In terms of last year's spend, we

1 spent \$5.4 million of the \$10 million that was approved.  
2 The reason we underspent was really because we started a  
3 couple of months late in terms of the body work. As we're  
4 looking at the spend this year, we've very much on track.  
5 We look to spend right about what we've estimated, which  
6 means -- or is consistent with us being on track from a  
7 scope and timeline perspective. Again, we'll come back in  
8 April with additional estimates for the next fiscal year.

9 [SLIDE CHANGE]

10 INVESTMENT DIRECTOR PATERSON: So as we look at  
11 returning, we've been providing, we'll continue to provide  
12 updates in IC as informational items. We'll return here  
13 in April and also November next year with any budget  
14 requests. And then as things arise, we'll make sure that  
15 you're aware of any concerns or challenges that we're  
16 experiencing that require your attention.

17 So with that, I'll pause and we'll open it up for  
18 any questions that you guys have.

19 CHAIR PALKKI: Thank you so much for that report.  
20 And I appreciate you staying on track and staying within  
21 budget. I know that inflation is not easy when it comes  
22 to procuring items, so I appreciate staying within that  
23 budget.

24 Mr. Pacheco.

25 COMMITTEE MEMBER PACHECO: Yes. Thank you, Mr.



1 Paterson for your -- for your work and for the update. I  
2 really do appreciate this. And to me this is kind of a --  
3 hits home to me, because this is -- this is my job. This  
4 is what I do as a -- as a IT professional.

5 So I'd like to ask you about the -- on page four,  
6 the data platform. You mentioned you completed the  
7 project charter and established the governance process.  
8 Is that the governance -- the response -- the roles and  
9 responsibilities, is that the -- that area?

10 INVESTMENT DIRECTOR PATERSON: It is. I'll start  
11 and if Jen has anything she wants to add, we can do that.

12 COMMITTEE MEMBER PACHECO: That would be awesome.

13 INVESTMENT DIRECTOR PATERSON: So in terms of  
14 roles and responsibilities, that would first be as it  
15 pertains to who has decision authority. We set it up, so  
16 that there are sponsors of that project that are able to  
17 provide recommendations that ultimately go to our  
18 executive team for ratification or for approval. The  
19 sponsors at the executive level remain Marcie and Stephen  
20 Gilmore. And then from a composition of the team,  
21 building out between the Investment Office, between ITSB,  
22 as an example, who's responsible for what? We want to  
23 make sure that it's very clear that folks are set up to  
24 succeed. And we believe that to do so, they need to have  
25 clear sets of responsibilities and accountability. And so

1 that's been defined, as well as the scope of what we're  
2 looking to achieve, in terms of the core data platform and  
3 the governance around it, as it pertains to kind of future  
4 support.

5 Jen, anything you'd want to add?

6 INITIATIVE DIRECTOR HAFNER: Yeah, the one thing  
7 that I would add at the initiative level, we have an  
8 initiative charter that governs all of the projects that  
9 are underneath it. So this new charter that was approved  
10 for the data project, project 3, flows up also into --

11 BOARD MEMBER PACHECO: Excellent.

12 INITIATIVE DIRECTOR HAFNER: -- all of that  
13 oversight that's been discussed on the initiative level.

14 COMMITTEE MEMBER PACHECO: That's excellent. And  
15 that's -- that falls under the umbrella of the steering  
16 committee, right?

17 INITIATIVE DIRECTOR HAFNER: Correct.

18 COMMITTEE MEMBER PACHECO: So -- and that's  
19 steering committee is already underway and doing what it's  
20 supposed to be doing. That's wonderful.

21 INVESTMENT DIRECTOR PATERSON: Yeah, we were just  
22 talking meeting weekly. So since we met with you last --

23 BOARD MEMBER PACHECO: Yes.

24 INVESTMENT DIRECTOR PATERSON: -- in April, we've  
25 had more than 20 meetings on this topic just to remain

1 organized and focused.

2 COMMITTEE MEMBER PACHECO: That's excellent.  
3 That is actually excellent. My next question is on the  
4 private markets. That same -- that same page. You  
5 mentioned that you are -- you had evaluated the RFP  
6 responses, but also drafting the case studies -- the  
7 business case studies. How is that going? What's the  
8 status of those base -- those business cases?

9 INVESTMENT DIRECTOR PATERSON: So I would  
10 describe it as very much focused on the use cases that  
11 need to be addressed. And so, those use cases were  
12 described actually last fiscal year. And we defined  
13 those, so that we could subsequently evaluate the vendors  
14 during the RFP. And now, we're -- as we're narrowing that  
15 selection process or narrowing to the selection of a  
16 specific vendor --

17 COMMITTEE MEMBER PACHECO: Um-hmm.

18 INVESTMENT DIRECTOR PATERSON: -- we're able to  
19 confirm that they can or cannot deliver on our core  
20 requirements.

21 COMMITTEE MEMBER PACHECO: Oh, excellent then.  
22 And that's -- that is very -- that's very good.

23 And then you mentioned -- in your remarks, you  
24 mentioned the -- you had -- you had not introduced the  
25 internal applications process. You are still -- if I

1 remember -- if I recall our discussion about this, you  
2 know, create in-house applications have some -- have  
3 inherited issues. And so trying to find a vendor that  
4 could do the out-of-the-box solutions, is that still a  
5 priority and is it -- is that incorporated in the  
6 governance documentation?

7 INVESTMENT DIRECTOR PATERSON: It is. And the  
8 hierarchy that we have defined is, first, large-scale core  
9 commercial applications, second would be integrated  
10 commercial applications that we can license, and third  
11 would be, only when required, and to meet CalPERS specific  
12 investment needs would we do any development of  
13 applications. That -- and again, that would have to go  
14 through its own governance process --

15 COMMITTEE MEMBER PACHECO: Right.

16 INVESTMENT DIRECTOR PATERSON: -- to make sure  
17 it's approved, and also overseen along the way.

18 COMMITTEE MEMBER PACHECO: No, that's excellent,  
19 because trying to move away from internal in-house  
20 applications, there's -- there are really a lot -- you  
21 know, first of all, how would you take care of it? I  
22 mean, it's -- or even the institutional knowledge around  
23 that, having out-of-the box solutions is definitely -- and  
24 I'm glad that you've incorporated that governance and that  
25 particular thing within the selection process of the -- of

1 the vendor.

2 Other than that, I do -- I do want to mention I  
3 do appreciate your -- the budget. You're under budget  
4 right now and you are -- you are anticipating that you  
5 will be able to spend the 38 -- the 38 million next fiscal  
6 year on plan. So thank you so much for that.

7 Those are my questions.

8 CHAIR PALKKI: All right, Ms. Middleton.

9 COMMITTEE MEMBER MIDDLETON: Mr. Chair, thank  
10 you. And to both of you and all of your team members,  
11 thank you for this effort.

12 Having, in a prior career, been involved in some  
13 massive IT reformation projects, I've got a very small  
14 sense of the undertaking that you have before you. My  
15 question would be the feasibility of bringing members to  
16 the Committee or members of the Board into the Investment  
17 Office and giving us an opportunity, at some point in  
18 time, to see first-hand what it is that you're undertaking  
19 and to spend time with the actual users, and be able to  
20 get a presentation on what the prior systems look like and  
21 what it is that you're actually taking and providing to  
22 them, so that not just simply that we've got a better  
23 understanding, but at -- over the next 24 months, we're  
24 going to spend an enormous amount of money on this  
25 project. And if there are things that we need to be

1 intervening at the Board level on, I think we need a  
2 better sense, I know I do, of when is the right times to  
3 be intervening in those questions and decisions. So thank  
4 you.

5 CHAIR PALKKI: Thank you so much.

6 I don't have any other requests for questions, so  
7 again thank you so much for your presentation.

8 That brings us to Summary of Committee direction.

9 CHIEF FINANCIAL OFFICER NIX: Yes. If it pleases  
10 the Chair to use this as Committee direction, I noted that  
11 we want to identify the reason for the peace officer's  
12 rate increase from the Actuarial Office.

13 CHAIR PALKKI: I would -- I would think that  
14 would be appropriate. So thank you.

15 And I do not have any requests for public  
16 comment.

17 So while I get the microphone, I'm going to take  
18 a minute here for personal privilege to thank my Committee  
19 for the work that we did and the team that put everything  
20 together. The ALM process is not an easy process, so I  
21 truly want to thank everybody involved. And I do want to  
22 thank Mr. Pacheco for his contribution to the Committee as  
23 well and wish you the best in your future endeavors.

24 An with that, that brings us to a close. And 10  
25 minutes? Yeah, so 10 minutes and we'll rejoin for Pension

1 and Health.

2 Thank you.

3 (Thereupon the California Public Employees'  
4 Retirement System, Board of Administration,  
5 Finance & Administration Committee meeting  
6 adjourned at 10:16 a.m.)  
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CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of November, 2025.



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