MEETING

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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APPEARANCES

COMMITTEE MEMBERS:

Kevin Palkki, Chair

Mullissa Willette, Vice Chair

Fiona Ma, represented by Frank Ruffino

Lisa Middleton

David Miller

Jose Luis Pacheco

Ramón Rubalcava

BOARD MEMBERS:

Theresa Taylor, President

Eraina Ortega

STAFF:

Marcie Frost, Chief Executive Officer

Michele Nix, Chief Financial Officer

Scott Terando, Chief Actuary

Fritzie Archuleta, Deputy Chief Actuary

Robert Carlin, Senior Attorney

Dave Clement, Supervising Actuary

Julian Robinson, Senior Actuary

Kurt Schneider, Supervising Actuary

APPEARANCES CONTINUED

ALSO PRESENT:

J.J. Jelincic

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PROCEEDINGS

CHAIR PALKKI: So I'd like to bring the Finance and Administration Committee to order. Can we start with the roll call.

BOARD CLERK ANDERSON: Kevin Palkki.

CHAIR PALKKI: Good morning still.

BOARD CLERK ANDERSON: Mullissa Willette.

BOARD MEMBER WILLETTE: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Lisa Middleton.

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK ANDERSON: David Miller.

VICE CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Present.

CHAIR PALKKI: And for the record, I'd like to acknowledge Eraina Ortega is with us, as well as -- oh, no, Theresa left.

So, just very quickly, I want to take a point of order. I want to thank Lisa Middleton for joining us back on Finance Committee. Thank you.

And, Mr. Michele Nix, the floor is yours.

CHIEF FINANCIAL OFFICER NIX: Thank you. And welcome, Ms. Middleton. It's glad -- we're glad to have you back. I know this is your favorite Committee.

(Laughter).

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

First, I would like to highlight the Agenda Item 4d, you will find -- where you will find the 457 Plan recognition from the National Association of Government Defined Contribution Administrators or NAGDCA, by being honored with the 2025 NAGDCA leadership award for excellence in plan innovation and participant outcomes. The plan has enhanced accessibility by introducing online enrollment capabilities. We will receive this award later this month at the NAGDCA annual conference.

This same agenda item provides information regarding the CEPPT program, which as of 6-30-25 has assets under management of 312.5 million and an -- this is increase of 19 percent since last year. We've added eight new employers for the CEPPT. And thanks to our ongoing education and outreach efforts through our webinars, meetings with -- and meetings with employers.

During the month of July, 2025, CalPERS Financial

Office offered all contracting public agencies the opportunity to make a lump sum prepayment of the required monthly unfunded accrued liability to receive 3.4 percent discount on their annual payment. During the month of July, 79 percent of the employers made the prepaid lump sum payments totaling 4.6 million -- billion, sorry. This represented 72 percent of our expected UAL payments for the fiscal year 2025-26.

I also wanted to let you know that we are on track to deliver the Annual Comprehensive Financial Report to you in November. Your external audit form BDO U.S.A. is currently working on auditing and verifying the financial statements and their report, as well as the ACFR, which will be presented to you in November.

The agenda before you today consists of the treasury analysis and liquidity status report, prefunding programs annual status report and pension contracts management program annual report.

Additionally, the agenda has two action items seeking your direction. The funding risk mitigation event that was triggered as a result of actual investment performance exceeding the threshold of two percent above the discount rate for the two hundred -- 2025 fiscal year and the proposed regulation changes, Article 7.6, participation and risk pools, that clarify CalPERS operational procedurals for maintaining risk pools and to refine criteria for rate plans to enter and cease participation in the pool.

We also have two information items, annual actuarial valuation for the terminated agency pool and the first reading of the PERF actuarial assumptions associated with the asset liability management cycle.

The next Finance and Administration Committee is scheduled for November 18th, 2025 and will include semi-annual contracting prospective report, contracts administration, affirmation of the investment managers contracts that do not have a defined duration, annual discount of accounts receivable, pension contracts management report, annual contract and procurement activity report, the 2025-26 mid-year budget revisions, the 2024-25 basic financial statements, the asset liability management report, the second reading, for the PERF actuarial assumptions, and lastly, the semi-annual health plan financial report.

Thank you, Mr. Chair. This concludes my report and I'd be happy to take questions, if you have them.

CHAIR PALKKI: So, if anybody has any questions? If there's none, I will congratulate you on your award. This, I believe, is a true testament to the staff and the teams that we put together here at CalPERS. And so again, congratulations on that acknowledgment.

CHIEF FINANCIAL OFFICER NIX: Thank you. Our -- the team here is with us today and they'll be happy to hear that. Thank you.

CHAIR PALKKI: With that, we move into action consent items. What is the pleasure of the Committee?

COMMITTEE MEMBER PACHECO: (Hand raised).

CHAIR PALKKI: I have a motion to approve by Mr. Pacheco. Do I have a second?

ACTING COMMITTEE MEMBER RUFFINO: Second.

CHAIR PALKKI: I have a second by Mr. Ruffino.

All those in favor say aye?

(Ayes.)

CHAIR PALKKI: Any abstentions?

Any nays?

Ayes have it. Thank you.

Information consent items. I do have a request to pull 4d. And -- yep, thank you. Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you for allowing me to speak to that item. I, too, wanted to congratulate the team for the NAGDCA award. So I think it's been covered. So we can move forward with adoption. Thank you.

CHAIR PALKKI: So that moves us into agenda 5a. Necessary

CHIEF FINANCIAL OFFICER NIX: All right. Let's get started with the funding risk mitigation event.

Put the --

(Slide presentation).

CHIEF FINANCIAL OFFICER NIX: There we go. Thank you.

All right. Michele Nix, CalPERS team member.

This item is being brought to you today because of a funding risk mitigation event that has occurred with the investment return at June 30th, 2025 with an investment return of 11.6 percent, so it's a good thing.

Slide two, please.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: The purpose of the policy is to reduce CalPERS funding risk over time and thereby increase the long-term sustainability of the CalPERS pension benefits for our members. The funding Risk Mitigation Policy was changed in April 2024 to require an action item to be brought to the Board when the investment rate of return exceeds the discount rate by two percent or more.

Next slide, please

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: This slide is just a reminder that the funding -- that the Risk Mitigation

Funding Policy sets forth thresholds in years where CalPERS has earnings above the discount rate, which currently is 6.8 percent. This year, we exceeded that discount rate by 4.8 percent. The action before you today is to decide whether the discount rate and expected rate of return should be reduced by 0.05 percent.

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[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: This slide shows an actuarial illustration of how a decision to reduce the discount rate would impact employer contributions. Over time, there's a decline in contributions projected for the miscellaneous plan, but lowering the discount rate would slightly lower the -- this decline in contributions. So we're not getting near -- we are getting -- the 11.6 would lower the contributions, but not as much with this change.

And another way to say that is over time contributions would slightly increase from the original projections that make up the reduction in the assumption.

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CHIEF FINANCIAL OFFICER NIX: This slide shows poss -- the possible impact to PEPRA members rate -- and their rates with a reduction in discount rate and assumed investment rate of return.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: The staff is recommending that we make no changes to the discount rate and expected investment rate of return since the formal asset liability management, or ALM, process is currently underway during this time.

I would also like to remind the Board that there are several mechanisms that are currently in place to allow you to lower the discount rate. The first of that is the Board can just decide to lower it at any time. The second is that the ALM process exists for the midyear and every four years the formal process where we -- whereby you get to discuss and lower the discount rate, if you so choose to do. And lastly, this Funding Risk Mitigation Policy discussion that happens when we exceed our investment rate of return and discount rate.

And the last slide.

[SLIDE CHANGE]

CHIEF FINANCIAL OFFICER NIX: All right. So this is an action item for your discussion and consideration. That concludes my presentation, but I'd be happy to take any questions if you have them.

CHAIR PALKKI: I am -- oh, there we go.

Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: No. I understand the policy point is to basically bring stability to the investment return. So given the staff recommendation, I would move that we adopt the staff recommendation and maintain the current discount rate.

COMMITTEE MEMBER PACHECO: I'll second.

CHAIR PALKKI: So I have a motion by Mr. Rubalcava and I have a second by Mr. Pacheco.

Is there any other discussion?

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. I'm going keep to this short. I'm looking forward to voting for this. And the stability that we are providing for our employer community by this maintenance is something that I know finance officers all across the state of California, and city council members, and county supervisors are going to deeply appreciate.

Thank you.

CHAIR PALKKI: Thank you.

Seeing no other requests to speak. What -- let's take a vote. All those in favor say aye?

(Ayes.)

CHAIR PALKKI: All those opposed?

Any abstentions?

Hearing none, it's approved.

5b, Ms. Nix.

CHIEF FINANCIAL OFFICER NIX: All right. Now, we start the actuarial portion -- the actuarial show. So I'm going to bring up Scott and company, and we're going to wow you with the actuarial terms.

Go ahead, Scott.

(Slide presentation).

SUPERVISING ACTUARY SCHNEIDER: Good morning. Thank you. All right. So today, we're talking about the risk pools. And the pools that we're talking about is the pools for the ongoing contracting agencies. We're not talking about the schools pool, terminated agency pool, or anything else. We're talking about the pools that were established for the benefit of small contracting agencies, a couple decades ago. So unlike school employers, who all provide members with the same benefits and all have the same employer contribution rate, public agencies that contract with CalPERS have historically had contribution rates that were specific, not only to the benefits that that employer provides, but also to the experience of their own members.

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SUPERVISING ACTUARY SCHNEIDER: So that last part, that was problematic for the smallest agencies, because individual demographic events for a plan with very few members, like sometimes even a single retirement or a single disability, could result in a relatively large change in the employer contribution rate. So CalPERS eliminated this problem in 2004 when risk pooling for contracting agencies was implemented and mandated for small agencies.

For over 20 years, pooling has successfully provided the smallest contracting agencies with contribution rates that are as smooth as the largest agencies. Over that time, the Actuarial Office has, from time to time, made minor changes in the mechanics of pooling. The most recent change to pooling of any significance was in 2024 following the enactment of PEPRA, which I'll elaborate on that in a little bit.

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SUPERVISING ACTUARY SCHNEIDER: So why are we changing pooling regulations now?

So if you look at the red line of the pooling regulation, it looks like there's a lot of changes being made. Really, these changes fall into three categories. We have some updates in wording. These are procedural changes that have already been made and the terminology has changed, but they're not changes in actuarial methodology. There's some clarifications. Some legislative changes have made some of the regulations obsolete or outdated, so we can simply remove them. And we want to allow the largest agencies that are in the pool to leave the pool. Right now, once an agency enters the pool, there's no provision that allows CalPERS to remove it from the pool and create a non-pooled plan regardless of how large that agency becomes.

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SUPERVISING ACTUARY SCHNEIDER: So originally -- a little history lesson here. Originally, there was a different risk pool for each active benefit formula. So we're talking about two percent at 50, two percent at 55. They all had their own pools, as well as pools for inactive plans.

Gains and losses are calculated in the aggregate for the whole pool and spread across just the employers in that pool. And gains and losses -- well, we'll go on about that. So, some of the risk pools at this time were quite small. The smallest risk pool had fewer than 600 active members, because the benefit formula wasn't that popular. This is the main reason why there was no provision originally to allow pool plans to transition back to non-pools, should they grow, because we want to make sure each pool remained large enough to be viable.

So, when PEPRA was enacted, new benefit formulas came in, but not only that, the classic benefit formulas were basically closed to new members. So there would have been 12 risk pools at that time with all the classic ones beginning to shrink over time. And, at that time, we actually already had a very small benefit formula that was combined, so we did know how to combine different benefit formulas into a single pool, so we had been doing that.

So rather than deal with this one pool after another collapsing, we came up with a different solution, which was to collapse them all. In 2014, the pool structure was collapsed into just two pools. There's one for all miscellaneous members and one for all safety members, and they're quite large. The safety pool has 16,000 active members right now approximately and miscellaneous pool is about 38,000. So there's no longer this concern that a pool could shrink too small if a few agencies were removed from it.

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SUPERVISING ACTUARY SCHNEIDER: So a couple of the kind of technical changes, one of the procedural changes had to do with something we called side funds, and this is written right into the regulation. This was a mechanism that was used to account for the plan's funded status at the time it entered the pool, but we no longer use this terminology. We still do something similar, but we haven't established the side fund since about 2014. And so the reference to side funds doesn't need to be in the regulation. It's a simple as that.

Next slide.

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SUPERVISING ACTUARY SCHNEIDER: There's some clarifications in terminology that we need, especially, if we're going to talk about which plans go into the pool and which plans go out of the pool. Like what is a plan? When we remove a plan from a pool, which group or groups of members are going to transition from a pooled plan to a non-pooled plan, the regulations need to be written in a way that it's unambiguous.

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SUPERVISING ACTUARY SCHNEIDER: Okay. So now, we're going to talk about the rule for entering and leaving the pool. This is the rule that we have now. If the number of active members in a non-pooled plan falls below 100 on a valuation date - we're talking about June 30 of each year - they're mandated to go into the pool. And we also have a rule where, well, if they're over a hundred and they want to go into the pool, the employer can elect that. This is not something that happens very often, but we do allow it. And those are the only rules. There's no way right now to leave the pool.

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SUPERVISING ACTUARY SCHNEIDER: So the new rule, we basically have four zones, if you want to think about it. So the first one on the left is, again, if the non-pooled plan falls below a hundred active members, they're mandated to go into the pool. This is the same rule we have now.

If they have between 100 and 149 active members, the employer can elect to go into the pool. So, for plans in this range, 100 to 149, there's really no change from what we have now.

Between 150 and to 199 active members, we're proposing that plans in this range, if they're in the pool, they can elect to go out of the pool and become a non-pooled plan.

And then the last one on the right is if there are 200 or more, and this is the real change that would impact employers is if there are 200 or more on June 30, we would take them out of the pool.

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[SLIDE CHANGE]

SUPERVISING ACTUARY SCHNEIDER: So, what would -- what does this mean. How many employers are we talking about?

So right now, CalPERS has about 1,500 contracting agencies. This would impact the miscellaneous plans for about 14 agencies. There's no safety plans that have grown this large. It's just these 14 miscellaneous plans right now. And this would not be implemented until, at the earliest, the 2026 valuation date. So we're not talking about the valuations we just published or the ones that we're working on and were published next summer. We're talking about the June 30, 2026 valuation, which sets the rates for the '28-'29 fiscal year.

So, this chart, the way we laid out this histogram is to illustrate that these 14 plans are somewhat outliers. We have that first group of plans that are under a hundred, which is over 1400. And really, if you want to split it up further, most non-pooled -- sorry, most pooled plans have less than 25 active members, okay? So they're by and large much smaller than these 200. And we do know -- well, some are over a hundred, right, because we move them in when they're under a hundred. They can grow. We don't move them out. We know there's going to be some above a hundred. That's intentional, but even after 20 years, 98 percent of the plans are still below 125, if you look at those first two bars. So these ones that are 200 and over, it sounds like a lot, 14 plans, but it took 20 years for this to evolve to where they were under a hundred to grew over 200. We don't envision this happening very often once these 14 are removed.

Next slide.

[SLIDE CHANGE]

SUPERVISING ACTUARY SCHNEIDER: This is another chart that is to illustrate where they fit in terms of non-pooled plans. So the last chart was pooled plans. This is non-pooled plans. These are all over a hundred, of course. These are the distribution of non-pooled plans. And you can see that the 14 that were -- the orange ones are the pooled ones that would become non-pooled and you can see that they're not particularly small non-pooled plans, right? They're larger than a lot of them.

And it's worth noting that in our experience over the last 20 years, that these plans with over a hundred that are non-pooled are working just fine. There's not -- we've not witnessed any demographic events that made us look at the results and see, wow, this plan would be better off if they were pooled, right? They seemed to operate just fine as non-pooled plans.

And you can also see that there's about 130 of them that are below 200, right? So there's a big block between 100 and 200. All the ones that were moving out of the pool are over 200. There's quite a few of them that are smaller than them.

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[SLIDE CHANGE]

SUPERVISING ACTUARY SCHNEIDER: And this is just to show that the question is like why did we pick 200 as a number. And part of it is what I said is we're confident that they will be fine as non-pooled plans, but for administrative reasons, we don't want plans going in and out of the pool. That's another reason why we didn't want any coming out of the pool before. Now, we do move plans out of the pool, right? We do move them into the pool, when they fall below a hundred and we do move them out of the pool, if they terminate their contract with CalPERS. So we do know how to move them in and out, but it's not something that we want to happen frequently. We didn't want -- we don't want them moving back and forth.

So what this is designed to show that, well, how long, if we move somebody into the pool -- let's say we have a brand new agency. They have 95 members. We're going to put them in the pool. How long can we expect them to stay there? And based on our experience -- well, most of the ones that went from less than a hundred to over 200 it took over a decade. We do have a few there that did it in as little as five years. So that is why we didn't want to set 200 really any lower, because it could mean they move in, only stay there for a few years and move back out. And it's administratively burdensome, not just for the actuarial office, for the Financial Office, and for the employers. So that is why we chose 200.

And with that, that concludes my prepared remarks and I'd be happy to take questions.

CHAIR PALKKI: So I have one question. And just really any -- are you seeing any potential impacts to an agency when the plan is removed from the risk pools?

SUPERVISING ACTUARY SCHNEIDER: Yes. So, we did look closely at these 14 -- well, not these 14, but the 14 that would be removed -- well, which includes the 12 that you see there. We did contact them. We did analyze them and contact them to discuss with them what the impacts would be. There's two main things that are measured differently in the pool versus out of the pool. That's the normal cost calculation, which in the pool we Calculate the normal cost on the entire membership of the pool. And as a non-pooled plan, it just on the members in the non-pooled plan, so the normal cost can be different, and the other is gains and losses. Again, well, the whole reason for the pool is that gains and losses are spread across the pool, whereas a non-pooled plan they're not.

The biggest risk, of course, that employers face is the gains and losses from investment gains and losses. Now, that is not different in the pool versus out of the pool. It's other demographic changes. And those are very difficult to predict how they might be different out of the pool. But we do know that a non-pooled plan is only going to pay for the gains and losses that their own member experiences, which could be viewed as a benefit on its own to a non-pooled plan.

CHAIR PALKKI: Thank you. So, we have a motion on the floor. I'm going to have Ms. Willette.

BOARD MEMBER WILLETTE: Thank you. Thank you for the presentation. Really enjoyed it.

I move to approve the staff recommendation to amend sections 588, 588.1 588.2, 588.3, 588.4, 588.6, 588.7, and 588.8 and repeal sections 588.5, 588.9, and 588.10 of Article 7.6, of subchapter 1, of chapter 2, of Division 1, of Title 2, of the California Code of Regulations to clarify the CalPERS operational procedures for maintaining risk pools and to refine criteria for rate plans to enter and cease participation in a risk pool, followed by submission of the final rulemaking package to the administrative -- office of administrative law upon conclusion of the 45-day public comment period if no public comments are received.

CHAIR PALKKI: I'm going to share my appreciation for recordings on this motion. Is there a second?

VICE CHAIR MILLER: (Hand raised).

CHAIR PALKKI: I have a second from Mr. Miller.

Thank you. So, I have a first and a second. Any other discussion?

Seeing none, what is the pleasure -- all those in favor say aye?

(Ayes.)

CHAIR PALKKI: All those opposed?

Any abstentions?

The ayes have it. Thank you, Ms. Nix.

Moving on to 6A, information items.

CHIEF FINANCIAL OFFICER NIX: Okay. For 6a, we're going to turn it over to Julian Robinson.

SENIOR ACTUARY ROBINSON: Yes. Good morning or good afternoon. I'm Julian Robinson, Actuarial Office. Happy to present the results of the June 30, 2024 valuation for the terminated agency pool, the TAP.

(Slide presentation).

SENIOR ACTUARY ROBINSON: And before I begin, I will -- I'd like to thank all of the actuarial analysts on the team who put in a lot of hard work and long hours in getting the numbers together and appreciate their efforts and all the efforts of the actuarial analysts in the office.

Can we go to slide 5, please.

[SLIDE CHANGE]

SENIOR ACTUARY ROBINSON: The -- as of June 30, 2024, the Terminated Agency Pool, the TAP, is well funded with a funded status of 230.5 percent. The assets are approximately 370 million, liabilities of approximately 160 million. As of June 30, 2023, a year earlier, the TAP was also well funded with a funded status of 209.7 percent.

So the question is why did the funded ratio change? So if you go back to slide four --

[SLIDE CHANGE]

SENIOR ACTUARY ROBINSON: -- the funded ratio increased since the prior valuation. This due mostly to an increase in the assets and a decrease in the liabilities of the TAP. So, on slide four, the reason why the liabilities decreased is because we -- the discount rate changed. In the 2024 valuation, we use a discount rate of 4.34 percent. In the prior valuation, we used a discount rate of 3.75 percent. So when discount rates rise, liabilities fall.

If you look at side -- slide six.

[SLIDE CHANGE]

SENIOR ACTUARY ROBINSON: That's a tongue twister. The increase in the non-immunized portion of the assets significantly increased, and that was because the non-immunized segment of the assets is invested in with the rest of the PERF, and there was a nice investment return in the '23-'24 year, so that was -- that led to an increase in the value of the non-immunized portion of the assets. So putting all those pieces together, that's the reason why the funded ratio moved from 210 percent approximately to 230 percent.

The discount rate that we use in the valuation changes from year to year. And the reason is that the rate that we use is the 30-year U.S. treasury Separate Trading of Registered Interest and Principal Securities, generally known as STRIPS, to determine what the discount rate is.

And the reason why we use a much lower discount rate is because once plans enter the pool, CalPERS has no way of reaching out to the employers for additional contributions, unlike current participants in the -- in the CalPERS system, where we do annual valuations and we determine contributions on the ETA basis, and we can vary those contributions to fund the plan. Once plans go into the terminated agency pool, they become an obligation of

CalPERS. And the position that the system has taken is that the assets of the TAP are invested very conservatively in basically treasuries, or TIPS, or, you know, inflation protected treasury bonds.

So we have part of the assets -- the immunized part of the assets, which, you know, cover the expected cash flows and then any additional piece, the nonimmunized part of the portfolio is invested with the rest of the PERF.

I don't really have any further comments at the -- at the moment, so I will open the floor to any questions which you may have.

CHAIR PALKKI: I am not seeing any questions, which speaks to the point that we have really great teams. Because I think when you guys lay out this information for us with so much detail, it's hard to ask any questions that haven't already been answered just in the material itself. So if there's no other questions, thank you.

SENIOR ACTUARY ROBINSON: Thank you and look forward to coming back next year.

CHAIR PALKKI: Thank you.

(Laughter).

CHAIR PALKKI: 6b.

CHIEF FINANCIAL OFFICER NIX: All right. We have a team for 6b. This is the actuarial assumptions portion of our ALM process.

(Slide presentation).

CHIEF FINANCIAL OFFICER NIX: So you heard the -- our recommendations in the Investment Committee yesterday, but we would like to give you some more detail on exactly how that came about and additional assumption changes that we might recommend. So I'm going to turn it over to the actuarial team.

DEPUTY CHIEF ACTUARY ARCHULETA: I guess it's still morning. So good morning, Mr. Chair, members of the Committee. I'm Fritzie Archuleta member of the CalPERS actuarial team. I'm also joined today by Mr. David Clement. We are here to present Item 6b, which is an information item regarding the 2025 PERF actuarial assumptions, also known as the 2025 experience study. We realize that you might be actuarialed out at this point, so we will keep our presentation short, but informative.

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DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So today, we'll start with what the experience study is and why we do it. Then we'll walk through some of the key assumptions that shaped this study's recommendations. We'll also take a look at the cost impacts to the plans if the recommended assumptions are adopted, and what impacts these recommendations have on member -- PEPRA member contribution rates. Finally, we'll wrap up with next steps.

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[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So as a refresher to the April Board presentation, here's an overview of what an experience study is. So in order to assign costs to the system, the actuaries must make assumptions about the future. Using these assumptions, we calculate our best estimate of what the expected costs will be for the future. It is important to note that these assumptions only determine the expected costs for the future. As time goes on, expected costs will likely defer from real life experience and contribution rates will need to be adjusted.

These assumptions play an important role in shaping the funded status, required employer and member contributions and financial reporting information. The assumptions are also used to determine actuarial equivalent factors when a member retires or purchases service credit. In an effort to keep pension contribution rates as stable as possible, we don't want to understate or overstate any assumption, as it is better to collect contributions as service is earned.

So if you'll bear with me for a second, I'd like to just tell you a story. Whenever I talk about actuarial assumptions, it reminds me of the time that Mr. Clement and I went to go play basketball. So, you know, it was a really exciting day, fun. I get out to the court and I make a -- you know, I take my first shot and I miss a little bit to the left. Dave laughs, but then he takes his short and he misses a little to the right. And we look at each other and we high five. So there's a moral to this story. There's actually two morals to this story. The first one is with assumptions, you can miss to the left a little. That's okay, as long as the next year, you miss a little to the right. I mean, it's as if you sank the bucket, right?

Okay. Second moral of the story is actuaries should never play basketball.

(Laughter).

DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So back to the presentation. This experience study is not only important to solidify funding for the system, but it also require -- it's also required in the public retirement law. At CalPERS, we review our assumptions every four years. And the last study of this kind was done four years ago in 2021.

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DEPUTY CHIEF ACTUARY ARCHULETA: So what assumptions did we review? There are two types of assumptions, economic and noneconomic. On the economic side, we review the long-term investment return, discount rate and inflation. For the noneconomic side, we look at expected pay increases, mortality, and expected rates of retirement, disability and termination. All of these assumptions are important, but because the discount rate is so impactful on the costs, it has its own study, which you heard about yesterday at the Investment Committee meeting.

Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Now, that the study is complete, here are some of the key findings. Pandemic experience was largely excluded from the assumption setting, due to anomalous results. By and large for most part -- for the most part, assumptions there were no significant changes.

Inflation was the biggest driver of costs. Higher long-term inflation also has implications on future salary scale increases. Implementing a higher inflation rate will increase costs for plans.

Finally, as you heard yesterday, the team is not recommending any changes to the 6.8 percent discount rate.

We'll now do a deeper dive into some of the important assumptions.

Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Thank you. So yesterday, you heard that we are recommending no change to the 6.8 percent discount rate. Our office believes that this is the correct number given the proposed reference portfolio and risk limits. Even though, the next formal study won't happen for another four years, we will do a mid-cycle review in two years and our office continues to keep a close eye on the expectations and experience along the way. This is to ensure that this assumption continues to be appropriate.

I will now pass the mic to Mr. Clement to go over a few more key assumptions.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: Thanks, Fritzie.

Next. There we go.

Good afternoon. Dave Clement, Actuarial Office team member. Let's look at -- let's look at inflation first. This was the biggest driver of costs during the experience study.

Next slide, please.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: This graph shows the history of inflation --

(Audience member says "Mic").

SUPERVISING ACTUARY CLEMENT: -- specifically CPIU measured since 2009. The blue line shows the year over year inflation, the orange line shows the 20-year rolling average, and the black line shows our inflation assumption. As you can see since 2021, the inflation has been above our assumption -- and so consistently above our assumption.

Next slide, please.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: The Cleveland federal model is a tool developed by the Federal Reserve to forecast inflation trends in the U.S. This is another tool that we look at when we do inflation. The gray, light blue and dark blue jagged lines in the chart are the expected 10-, 20- and 30-year inflation assumptions. The black line is the CalPERS assumed rate of -- assumed inflation. Once again, you can see the expectation is now exceeding our assumption consistently since 2022.

Next slide, please.

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SUPERVISING ACTUARY CLEMENT: Another tool that we look is the difference between inflation-linked and noninflation-linked bonds. This graph shows the yield between inflation-linked and noninflation-linked bonds for 20, 30 -- 20 -- 10, 20 and 30 years compared to the CalPERS inflation. As you can see again, inflation is exceeding our assumption.

Next slide, please.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: Some observations. Not shown in the previous slides is the Social Security trustees intermediate assumption, which is 2.4 percent. The Cleveland Fed range would imply a rate between 2.2 and 2.6 percent. The bond market spread would suggest a range between 2.2 and 2.6. We recommend increasing the inflation assumption from 2.3 to 2.5 percent.

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[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: Now, this is -- now, let's look at salary scale. Salary scales depict the percentage increase in pay a member will receive over their career. Entry age and career -- entry age and service dictate what that percentage is expected to be. Because salary scales are directly tied to the inflation assumption, salary scale was the second biggest cost driver in the experience study.

Next slide, please.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: This table shows the average merit increase by plan type over the last 14 years. The bottom gray row shows the average increase over that time period. For example, CHP had an average of 3.46 percent over the last 14 years. While overall, the average merit increase was 2.7 percent.

Next slide, please.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: Some observations. For salary scale, we are recommending changes to all 10 sets. The results across these sets are mixed, meaning some groups received higher merit increase than expected, while others received lower increases.

The groups which experienced the highest historical merit increases than expected were State miscellaneous, State safety and State peace officers and firefighters. In addition, public agency fire had higher increases than expected.

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[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: Other results, for public miscellan -- public agency miscellaneous, police, CHP, and other safety, we saw moderate increases, while two groups, State industrial and schools, had moderate decreases.

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[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: Mortality. Mortality also seems to be a topic of interest when we do these studies. Mortality rates dictate the probability of death at any given age. Because mortality is improving over time, the Actuarial Office creates mortality tables because on each individual birth year, also known as generational mortality, that is to say that someone born in 2025 would be expected to live longer than somebody born in 1971, say.

Next slide.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: This chart displays actual experience versus expected experience in female mortality over the last eight years. The dotted line strictly -- is strictly based on the number of actual deaths versus the number of expected deaths.

This is a good starting point for our analysis, but you can see that at almost every point, the dotted line is well above a hundred percent. Still, all lives --

since all lives do not receive the same benefit, we made adjustments to our mortality to not only account for the number of deaths, but also to take into account the benefit amount a member receives. Our study consistently proves that people with higher incomes generally live longer.

With benefit amounts taken into account, the solid line below the dotted line is now the actual to be expected. You can see these numbers are much closer to a hundred percent on average. You can also see from the chart that the actual expected ratio is higher than 100 percent in the pandemic years of 2021 and 2020, but revert back to a hundred percent in 2022.

Next slide.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: This chart is similar to the previous chart, except it's for males.

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[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: Some observations. Overall, we decided to exclude pandemic data as it did not provide any value towards shaping future trends. Prior to COVID and in the years following, the CalPERS mortality rates aligned well with prior actuarial experience.

Mortality is set by two factors, a base table and a table forecasting improvement for the future. Our recommendation for this assumption is to keep our base table the same as the table used in the previous study, except for some minor changes to the female base rates, and to update the improvement scale based on the newest table published by the Society of Actuaries.

Next slide, please.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: This chart compares life the expectancy of a 55-year old. The current study are in the solid bars versus the prior study in the dotted line -- dotted bars. Females are expected to live one-tenth of a year longer, while males are unchanged.

Next slide, please.

[SLIDE CHANGE]

SUPERVISING ACTUARY CLEMENT: This chart here is similar to the last slide, but now displaying the life expectancy of a one-year old. As with the previous chart, females are expected to live one-tenth of a year longer, while males are unchanged. Now, I'll pass it over to Fritzie for overall cost impacts.

But before I pass it over, that -- obviously, that story earlier was fictional, because I would be swishing it and she would be bricking it.

(Laughter).

DEPUTY CHIEF ACTUARY ARCHULETA: That's not true. Thank you, Dave.

Next slide, please.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So before we go over the overall cost impacts, I just want to point out that all of these numbers were calculated based on no change to the discount rate.

Okay. Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So this chart shows the cost impact of every major assumption change recommended in this study. The column to the far right sums these changes to show the total impact to the employer rate. This chart pertains to State miscellaneous, State industrial and the schools plan. You see a lot of arrows in this chart. And I just want to explain them a little bits. The little arrows numerically mean that the impact of that assumption was less than half a percent. The number is underneath the arrow, but -- and then a bigger arrow means that the impact was greater than half a percent.

So as was mentioned previously, the two biggest cost drivers were larger than expected salary increases and larger than expected inflation. Although salary did not impact State industrial in State -- in school's plan as much as it did the State miscellaneous plan.

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[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So similar to the previous chart, this chart shows the impact to the employer contribution rates for State safety plans.

Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So for public agencies, there is a range of impacts, based on the benefit formula the plan offers. So let's just take a look at that top row. If you're a plan that offers two percent at 60, to your members, you would likely see and increase in your rate anywhere between 0.1 percent to 0.9 percent.

Okay. Now, the median change is also displayed there for reference. And so, just as a reminder, the median refers to the middle data point set, where, you know, half the data points fall below, half fall above. So again, for the two at 60 miscellaneous formula, half of the plans will see an increase above 0.3 percent and the other half will see an increase below 0.3 percent. Sorry.

The bottom two rows of this table correspond to the PEPRA formulas. Anytime we make changes to the actuarial assumptions, the changes could trigger a change to the PEPRA member contribution rate. And so we'll discuss that in a few slides.

Next slide, please.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So before we move on to PEPRA impacts, here is a chart disclosing the impacts to the funded ratio of the system. As a reminder, the funded ratio is simply the ratio of plan assets to plan costs. So as of June 30th, 2024, our most recent valuation date, we estimated the funded ratio of the system to be 74.4 percent. If we were to implement that assumption change or the proposed assumptions, that would lower the funded ratio by 0.3 percent to 74.1. This is depicted in the two columns right above the 6-30-2024 mark.

So by -- recall the recent July press release where the funded ratio was reported to be 79 percent because of that 11.6 percent return, if we were to incorporate the recommended assumptions, the funded ratio would drop slightly to 78.6 percent. And that is depicted by the two columns over the 6-30-2025 date.

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[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So this chart shows the estimated changes in total normal costs for all PEPRA groups belonging to the State and schools pool. The billion two rows of the table show the range of possible changes to the total normal cost for both miscellaneous and safety public agencies. Recall that a change of one percent to the base total normal cost rate would trigger a change to the PEPRA employee contribution rate. From the table, you can see that the recommended assumptions will likely trigger a PEPRA employee rate change for some public agency plans as well as the peace officer and firefighter State plan.

And I just -- the formatting on the last line is a little confusing to read, so I just want to clarify that the range of normal cost changes to public agency safety plans is anywhere from negative 1.8 percent to positive 1.5 percent.

Next slide, please.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: This slide quantifies how many plans we anticipate will see a PEPRA employee rate change and how many actives will be impacted. Let's take a look at the not affected row. This means that there are 1,400 -- roughly 1,400 miscellaneous plans corresponding to about 155,000 active members and 227 safety plans corresponding to about 10,000 actives that will likely not see an increase to the employee contribution rate. Good news.

But the next row down, there are about nine miscellaneous plans, 1,700 actives, and 551 safety plans, roughly 16 thousand actives, that will likely see an increase to their PEPRA employee rates. So there are some actives that will be affected.

And finally, there are even four plans that will see a PEPRA employee rate discount -- decrease, which is good.

All right, so let's go ahead and go to next steps.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: So this -- next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Thanks.

This presentation is the first reading and it's an information item. We will bring this item back to you in November for a second reading and we will ask you to adopt the recommended assumptions as an action item.

A coordinated effort is taking place behind the scenes to make sure that my CalPERS, along with internal spreadsheets and external calculators are updated, so that if this item is approved in November, there will be no disruptions to member services

Next slide.

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DEPUTY CHIEF ACTUARY ARCHULETA: So that concludes the prepared remarks for our presentation and we're going to open it up to questions.

CHAIR PALKKI: Thank you so much for that presentation. And thank you for the basketball analogy.

I have Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you, Chair Palkki and thank you for your presentation.

I want to go back to the question on the -- let me just get it right now. I'm getting -- yes, on the inflation and the inflation -- price inflation adjustment, you went from 2.3 percent to 5 percent. And you utilized several of the Cleveland Federal Reserve model as well as the -- I believe, the bond model as -- bond market model. And I'm just wondering, would -- did you give any particular weight to either one of those models in your determination for 2.5 percent?

DEPUTY CHIEF ACTUARY ARCHULETA: These are all just metrics that we use. One of the things that we didn't point out in the presentation, you know, we also looked at like what the other systems and, you know, across the state and across the country are doing as well. And so, I would -- I don't know that we necessarily assign a weight to either of those measures, but they're just kind of things that we use to guide us in what we believe is the right direction.

COMMITTEE MEMBER PACHECO: So you use other -- you used the system -- other systems.

DEPUTY CHIEF ACTUARY ARCHULETA: We also looked at other systems and what they're assuming at this point. And it's a range. You know, definitely 2.5 is in there, but some are higher, some are lower.

COMMITTEE MEMBER PACHECO: Some are higher, some are lower --

DEPUTY CHIEF ACTUARY ARCHULETA: Yeah.

COMMITTEE MEMBER PACHECO: -- because of the -- but given the current economic inflationary status right now and taking that into account, that's where we landed on the 2.5?

DEPUTY CHIEF ACTUARY ARCHULETA: Yeah, absolutely that's correct. We believe the 2.3 is too low.

COMMITTEE MEMBER PACHECO: Okay. Very good then.

And then the second question is on the mortality, you're making the assumption that we would use 80 percent of the mortality table. I'm just wondering if that --

that's -- can you explain the rationale behind that?

CHIEF ACTUARY TERANDO: I'll take that one. So when we're saying we're using 80 percent, it's -- the tables we're talking about is an improvement factor. So that means how quickly are -- is mortality rates decreasing? You know, how much -- when we say an improvement factor, that means people are living longer. So the rates of mortality are decreasing. So how quickly are those rates decreasing over the years?

And the Society of Actuaries publishes a table based on -- they collect a lot of information and data from, you know, various retirement systems. CalPERS does participate in that. And they create a, what we call, an improvement table. What we do is we look at that improvement table and we compare it to what we've experienced for our population and we make a judgment on how does our rates of improvement compare to those tables.

The reason we're using 80 percent is, you can think about it, I think we have a healthier population to begin with. So, we have less room to improve going forward than a more general population that has worse mortality to begin with.

So when you think about it, we're in a better spotted. We have better mortality, but how many -- how many -- how likely is it that everyone is going to live well beyond 120, 130, 140 years? You're going to hit a point where the mortality kind of converges and everyone has the same mortality at those upper ages. And that's kind of what we're seeing with us using an 80 percent improvement factor versus the hundred percent.

COMMITTEE MEMBER PACHECO: I see. And then like, for instance, in the begin -- you know, when we had the COVID impact, the COVID, that -- we had a spike in mortality.

CHIEF ACTUARY TERANDO: Yeah. We did and pretty much everyone across the country did. And even the Society of Actuaries, when they developed the tables, they excluded the COVID years as well, because, you know, there were seeing spikes in their information that they received. And they felt, just like we did, that, you know, it was a short-term occurrence and we didn't want to use that in our projections for long term.

COMMITTEE MEMBER PACHECO: Excellent then. And that's why we excluded it from our -- from our analysis.

CHIEF ACTUARY TERANDO: That's correct.

COMMITTEE MEMBER PACHECO: Okay. Excellent then. Those are my questions. Thank you, sir.

CHAIR PALKKI: Thank you.

Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr.

Chair. And before I ask the question, I want to come back and on behalf of the Treasurer, Fiona Ma, congratulations to the entire -- to the entire team, Ms. Nix, on your remarkable achievement on the award. Obviously, your dedication, your teamwork, commitment to excellence has paid off, making everyone proud. So, well done.

CHIEF FINANCIAL OFFICER NIX: Thank you. It was all the team though, not me.

CHAIR PALKKI: With respect to question. First of all, I wanted to ask about the demographic assumptions. So retirement behavior shifted obviously during COVID, right? Do we have reason to believe that those changes are permanent, such as early retirements, for example, or delayed retirements, and how have those patterns been reflected in the assumptions?

DEPUTY CHIEF ACTUARY ARCHULETA: I can take that one. So, yes, we did actually see a spike in retirements during those pandemic years, but we also had the luxury of seeing the next two years after that. And what we did see for most of those retirement termination, things like that, those all kind of returned to normal. And so, you know, because of that reason, we largely just excluded pandemic data. And so to answer your question, how did that affect what we ended up setting in the end? It really didn't. We just kind of ignored those years and moved on. And so, you know, by and large, there were not too many significant changes to the retirement patterns.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Got it. On governance and oversight, what metrics or perhaps signals will staff track over the next four years to determine if these updated assumptions remained valid or need earlier adjustments?

DEPUTY CHIEF ACTUARY ARCHULETA: Yeah. So every year, we just incorporate a new set of, you know, extra four years of data and we probably drop off the years in the older years. But when we take a look at that, you know, we look and see, did we miss to the left four times in a row? If we did, we probably need to make an adjustment. But did we miss to the left, to the right, to the left, and the right, then we don't need to make an adjustment. And so that's kind of what we're looking at, like, you know, are we constantly seeing losses because we have too many retirements? Then we probably need to up the probability that people are going to retire. So those are the kinds of things that we're looking at when we do our study every four years. Does that make sense?

ACTING COMMITTEE MEMBER RUFFINO: Sure.

DEPUTY CHIEF ACTUARY ARCHULETA: Okay.

ACTING COMMITTEE MEMBER RUFFINO: Yeah. Okay. Great. Thank you. Thank you, Mr. Chair.

CHAIR PALKKI: Thank you. I probably shouldn't ask this question, but I am. But knowing how wonderful our teams are, I know you guys are already on top of it, but as far as communications, is there anything in the works?

DEPUTY CHIEF ACTUARY ARCHULETA: Sure. We are actually already working with Public Affairs. This is actually, you know, the second time around that we're pretty good about communicating, and so we have a whole comms plan. There's going to be a couple circular letters. We update our website, to ensure that, you know, employers that are affected by this we'll have form letters to inform their employees, if there's, you know, a PEPRA member rate change. And, of course, we'll model these changes in pension outlook as well. If the changes are actually adopted, employers will have the ability to do a radio button toggle and see what the impact is due to theirs -- you know, for their specific plan due to these assumptions. And then obviously at the Ed Forum, we'll do a big, you know, presentation about these assumptions.

CHAIR PALKKI: Sorry, before I get to Mr. Rubalcava's question, the toggle button is that part of the myCalPERS account or how does -- how does that work?

DEPUTY CHIEF ACTUARY ARCHULETA: Yeah. So in Pension Outlook there's a bunch of modeling assumptions.

And usually what we do is, you know, we'll ask a yes/no question, model the new assumptions. If the user puts yes, then it will revise the projection for their contribution rate and funded ratio with, you know, incorporating the new assumptions in there. So they'll see if their costs go up or down, due to that?

CHAIR PALKKI: Great. Thank you.

Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you.

Great work. One thing actuarial assumptions always -- I mean, you want to make sure the experience matches the -- your assumptions. And as we can tell from the colleagues, mortality is of much interest, and that is a key democratic -- demographic assumption that impacts the rates, and -- but the economic ones are the ones that actually make the bigger impact. And one them is inflation. That increased. And traditionally, the expected rate of return includes an inflation factor. So, our recommendation is to not change the rate of return and the discount rate, which are similar right now. How do we adjust that, given that we're changing -- how do we -- I'm not saying it's not justified but how do we -- how do we calculate that, given that the inflation rate did increase?

CHIEF ACTUARY TERANDO: Can you repeat? I'm

trying to understand your question. How do we --
COMMITTEE MEMBER RUBALCAVA: Yeah, because isn't -- inflation is always a component when you calculate the rate of return.
CHIEF ACTUARY TERANDO: Yeah, so -- yeah. So when we -
COMMITTEE MEMBER RUBALCAVA: We're inclusive -- we're changing one but not the other.
CHIEF ACTUARY TERANDO: Yeah. So when --
COMMITTEE MEMBER RUBALCAVA: I just want to make sure we're within the --
CHIEF ACTUARY TERANDO: Yeah. We're --
COMMITTEE MEMBER RUBALCAVA: -- actuarial standards of practice.
CHIEF ACTUARY TERANDO: Yeah. So -- yeah, so we're within the standards of practice. So, when we looked at the -- like the CMAs yesterday, if you remember, we had a list of CMAs for the various asset classes. And when we developed the reference portfolio and the active risk, inherent with those returns that were displayed yesterday, is an inflation assumption. And, you know, the surveys that came back there were, I think, 21 responses. And the inflation assumption varies between those responses.
But when we look at the returns, you know, it

takes into account the inflation. It's not like the net return that we're looking at. We're looking at the nominal rate of return. So when we -- we're looking at the 6.8 for the 75/25 portfolio, that's a nominal return. And underlying that is an inflation assumption. Based on, you know, the work we've done, you know, our recommendation was a 2.5 percent inflation assumption. And, you know, we had conversations with the Investment Office in terms of where they -- where they felt the inflation was, you know, and they had, you know, a very tight range and our numbers were consistent with theirs, in terms of 2.5 was an appropriate assumption, for their numbers and for ours as well.

So we kind of came at it from two different sides, but we made sure there were consistency between them.

COMMITTEE MEMBER RUBALCAVA: Maybe I'll follow up later. I was not suggesting it was not a reasonable assumption. I'm just trying to figure out. You see they move -- usually there's a movement in both and I didn't see that.

CHIEF ACTUARY TERANDO: Sometimes --

COMMITTEE MEMBER RUBALCAVA: Maybe I'm wrong.

CHIEF ACTUARY TERANDO: They don't always move together. I mean, they've -- convenience -- basically, what you're saying is real rate of return stays constant and it fluctuates when you change inflation.

In this case, the inflation is going up and has been elevated for the last four years and projected to remain higher with the returns just not being there, there was kind of no justification -- something has to give in terms of that equation. Inflation is higher and the returns weren't going up. We didn't see inflation jumping up.

COMMITTEE MEMBER RUBALCAVA: So that's the answer. The real rate of return is sort --

CHIEF ACTUARY TERANDO: Decreasing, yes.

COMMITTEE MEMBER RUBALCAVA: -- went down.

CHIEF ACTUARY TERANDO: Yes.

COMMITTEE MEMBER RUBALCAVA: Okay. Thank you. Appreciate it. Good work. Thank you. And thank you for explaining the -- what do you call it, the weighted generation mortality where depending on your income, you tend to live longer and that's something that has been studied at least recently. It's very interesting. Thank you for mentioning that.

CHAIR PALKKI: Thank you. Not seeing any other questions. Thank you for the presentation.

DEPUTY CHIEF ACTUARY ARCHULETA: Thank you.

CHAIR PALKKI: 6c, Summary of Committee

Direction.

CHIEF FINANCIAL OFFICER NIX: Thank you, Chair Palkki. I took no Committee direction for this particular agenda.

CHAIR PALKKI: Nor did I.

ACTING CHIEF FINANCIAL OFFICER NIX: All right. Great.

CHAIR PALKKI: Thank you so much.

That leads us into 6d, public comment. I have one request to speak. Mr. J.J. Jelincic.

J.J. JELINCIC: J.J. Jelincic, speaking for myself.

It doesn't relate directly to this Committee, but I would urge you to immediately go into the Perf and Comp open session, which is probably going to last about 10 minutes, before you go to lunch. That way those of us can listen to Doug's comments and then disappear for the day. So I would encourage the Board to take that action.

Thank you.

CHAIR PALKKI: Thank you for your comments.

That concludes our open session. And we do not have a closed session today, so we will reconvene with PCTM.

CHIEF EXECUTIVE OFFICER FROST: Just a reminder to the Board, the ice cream social starts at one o'clock, while we're serving ice cream to the team.

CHAIR PALKKI: So we'll start up with PCTM just after 2:30, yeah. See you all at the social. Thank you.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 12:29 p.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 24th day of September, 2025.

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