

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

MONDAY, APRIL 13, 2026

9:15 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chair
David Miller, Vice Chair
Michael Detoy
Kevin Palkki
Ramon Rubalcava
Yvonne Walker
Mullissa Willette

BOARD MEMBERS:

Theresa Taylor, President
Monica Erickson
Troy Johnson

STAFF:

Marcie Frost, Chief Executive Officer
Michael Cohen, Chief Operating Investment Officer
Michele Nix, Chief Financial Officer
Scott Terando, Chief Actuary
Robert Carlin, Senior Attorney
Fritzie Dorais, Deputy Chief Actuary
Liz Drummond, Manager, Information Technology
Randy Dziubek, Deputy Chief Actuary
Jennifer Hafner, Initiative Director

APPEARANCES CONTINUED

STAFF:

Robert Paterson, Investment Director

Janie Rajasuncy, Controller

Nina Ramsey, Senior Actuary

Renee Salazar, Deputy General Counsel

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

Kurt Schneider, Supervising Actuary

Dallas Stone, Chief, Operations Support Services Division

Paul Tschida, Senior Actuary

Prashant Yerramalli, Special Advisor

Emily Zhong, Supervising Health Actuary

ALSO PRESENT:

Margaret Brown, Retired Public Employees Association

J.J. Jelincic Retired Public Employees Association

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1 California Employers' Pension Pre-Funding Trust fund
2 balance is 358 million with 107 contracted employers. And
3 the California Employers's Retirement Benefit Trust Fund
4 balance is 27 billion with 593 employers.

5 The agenda before you today consists of:
6 semiannual contracting prospective report; valuation
7 report for the 1959 Survivor Benefit Program; Judges'
8 Retirement System actuarial valuation report and
9 employer/employee contribution rates; Legislators'
10 Retirement System actuarial valuation report and employer
11 contribution rates; semiannual financial report; and
12 pension contracts management program report.

13 Additionally, the agenda has six action items
14 seeking your approval: modernizing investment data and
15 technology update; the 2026-27 annual budget proposal;
16 annual review of the Board member employer reimbursements;
17 state valuation and employer/employee contribution rates;
18 schools valuation and employer/employee contribution
19 rates; and Judges' Retirement System II actuarial
20 valuation report and employer and employee contribution
21 rates.

22 We also have three information items, long-term
23 care valuation report presented by Fritzie Dorais. Sorry
24 if I got that wrong, Fritzie. Next will be semi-annual
25 health plan presented by Emily Zhong. And we're going to

1 close with the first reading of the Judges, Judges II and
2 Legislators actuarial assumptions.

3 The next Finance and Administration Committee is
4 scheduled for June 2026 and will include the second
5 reading Judges, Judges II and Legislators actuarial
6 assumptions and the modernizing investment data and
7 technology update.

8 Thank you, Madam Chair. This concludes my report
9 and I'd be pleased to take questions at this time.

10 CHAIR MIDDLETON: Great. Are there any questions
11 for Michele?

12 Seeing none, we will move on to the action
13 consent agenda. Items 3a through 3f. Are there any items
14 to pull or for conversation?

15 Mr. Palkki.

16 COMMITTEE MEMBER PALKKI: Nothing to pull

17 CHAIR MIDDLETON: Okay. Motion to approve?

18 COMMITTEE MEMBER PALKKI: Move approval.

19 VICE CHAIR MILLER: Second.

20 CHAIR MIDDLETON: Second.

21 All those in favor say aye?

22 (Ayes.)

23 CHAIR MIDDLETON: Any opposed?

24 Any abstentions?

25 Okay. 3a through 3f is proved.

1 today will -- thank you. Our presentation today will
2 cover an overview and status of the project. We'll review
3 the key accomplishments from last fiscal year and then the
4 milestones that we have identified for the fiscal year
5 coming up. Liz will provide a more in-depth review of the
6 total fund and capital markets project, which is Project
7 1. And then we will present a budget update and a formal
8 request for funding for next year's fiscal budget.

9 Thank you. And then before we start on the next
10 slide --

11 [SLIDE CHANGE]

12 INITIATIVE DIRECTOR HAFNER: -- talking about the
13 updates on the initiative and what has happened since last
14 time we were here, I'd like to highlight again why we
15 believe this work is essential. Our current investment
16 systems, which were implemented over the last 10 to 20
17 years, were managed and set up as separate asset class
18 specific solutions. And now, they are highly customized
19 and some are nearing the end of their vendor support life.
20 These legacy systems lack integration. It results in
21 manual processing and increased operational risk. At the
22 same time, our portfolio strategy has evolved over those
23 years, moving to strategic asset allocation, expanding
24 asset class coverage and now moving a total portfolio
25 approach.

1 So we're advocates for our system that addresses
2 these legacy challenges and positions us to leverage
3 emerging technologies, such as AI.

4 And then on the next slide --

5 [SLIDE CHANGE]

6 INITIATIVE DIRECTOR HAFNER: -- as a reminder
7 what projects comprise this initiative and there's four of
8 them. And on the top box on the blue -- this is the total
9 fund and capital market program. This is the project
10 which consolidates all our tools for the total fund and
11 capital markets and the AIP funds, so PERF and AIP.

12 Bottom left represents the private markets
13 project and then bottom right is the data platform. What
14 you'll notice as the fourth project is developed
15 applications, which if we get to the point where any of
16 the off-the-shelf tools that we select for these other
17 projects don't meet expectations, or the primary business
18 needs, we would consider tapping into this developed
19 application project. We'll look to stand that up next
20 year, but that's an after-the-fact if we need it.

21 And then on the next slide --

22 [SLIDE CHANGE]

23 INITIATIVE DIRECTOR HAFNER: -- for our timeline,
24 this is a multi-year five-year project. And we're
25 currently in year two. The total fund and capital markets

1 positions that were repurposed from other parts of the
2 organization. Four of these roles have been internally
3 staffed at CalPERS and two of those have conditional
4 offers out to them. So that's the core of the project
5 team that is decked against this initiative.

6 Second accomplishment is we have onboarded our
7 independent verification and validation partner. They've
8 been here for five months. There's four people on the
9 team and they've provided coverage across all of our major
10 functions.

11 For the private markets project, we completed a
12 peer analysis and market data research, which has honed in
13 on a very short list now of potential partners for the
14 form for private markets.

15 And then lastly, for the data project, we've
16 established the governance, the workstreams, and have
17 initiated work out of that group.

18 Going forward, our milestones, as we look toward
19 the next fiscal year, are focused on implementing the
20 total fund and capital markets platform, finalizing vendor
21 selection for private markets, delivering incremental
22 business value for the data projects, and then maturing
23 our oversight of all these projects. So this concludes my
24 comments on this slide. I didn't specifically talk about
25 total fund and capital markets, because Liz will be doing

1 that in her section, which is coming up. Thank you.

2 INFORMATION TECHNOLOGY MANAGER DRUMMOND: Thanks.
3 Can we move to the next slide, please.

4 [SLIDE CHANGE]

5 INFORMATION TECHNOLOGY MANAGER DRUMMOND: Thank
6 you. Thanks, Jen and thank you, Chair and Board members.
7 I'm Liz Drummond, CalPERS team member and the business
8 lead for Project 1. And I'm here today to give you an
9 overview of what we're doing on the project, talk about
10 recent accomplishments, and to provide a look ahead to our
11 key milestones.

12 So, Project 1 will deliver a modernized
13 investment technology platform for total fund and capital
14 markets activities supporting the PERF and the AIP funds.
15 The objective of the project is to reduce operational risk
16 and improved efficiency with the goal of freeing up staff
17 time to focus on higher value analysis and innovation.
18 The overarching objective obviously to enable improved
19 long-term returns.

20 The project scope includes firstly consolidating
21 auto-management and the investment book of record for
22 public equity, for fixed income and for the affiliate
23 investment program funds from multiple platforms in the
24 current state on to the single primary vendor solution.
25 And secondly, implementing a modernized platform for total

1 fund management activities and analytics. As Jen
2 mentioned, Project 1 is the furthest long of the four
3 initiative projects.

4 Selection and onboarding of the primary vendor
5 and implementation partner completed in May of 2025. And
6 the joint project team across all three organizations has
7 been working collaboratively since then. Key
8 accomplishments over the past year include completion of
9 the current state documentation, completion of
10 implementation planning, and delivery of the approved
11 scope document, the integrated project plan and the
12 testing and change management strategies.

13 Based on all of this work, we started mobilizing
14 the implementation proper in February of this year with
15 activities now underway including configuration of the
16 system and definition of future saw State business
17 processes across CalPERS teams.

18 So looking head to key milestones, an important
19 part of the implementation planning was to agree our
20 go-live approach. And we're adopting a phased approach
21 with three main go-live dates. You can see them there on
22 the right-hand side at the bottom of the slide. Firstly
23 Phase 1 intended for March 2027 will migrate the Long-Term
24 Care Fund, one of the affiliate investment program funds
25 onto the new system, as well as private markets fund level

1 data. Then Phase 2 implements the new auto management
2 systems and investment book of record for public equity
3 and fixed income with a target date of October 2027. And
4 finally Phase 3 completes the implementation of the other
5 affiliate investment program funds, brings the performance
6 book of record onto the system and will deliver the fully
7 modernized total fund risk and analytics capabilities.
8 And the intended go-live for Phase 3 is March 2028.

9 Before I hand back to Jen, there is one area of
10 consideration related to the phasing that I'd like to
11 bring to your attention. CalPERS can begin to realize the
12 main benefits of retiring legacy systems once the total
13 fund risk capabilities are migrated to the new system.
14 This is currently planned for Phase 3, and we're actively
15 working with the vendor to assess the feasibility and
16 commercial terms required to accelerate that timeline by
17 six months. While this would introduce some additional
18 complexity to the project, it would also allow us to
19 realize the benefits of the simplified operating model
20 several months sooner. We're continuing to make progress
21 on this front and we'll provide an update the next time
22 that we return.

23 And with that, it's back to Jen.

24 INITIATIVE DIRECTOR HAFNER: Great. Thank you.

25 And on the next slide --

1 [SLIDE CHANGE]

2 INITIATIVE DIRECTOR HAFNER: -- I'm going to
3 cover our budget and the initiative costs for the next
4 fiscal year. This table uses gray, orange and blue
5 columns in order to differentiate the different data
6 points. The gray ones indicate our initial estimates, and
7 that was from June of 2024 in that charter. The orange
8 color is actual expenses. So as you see us more often,
9 you'll have more bars that are turning to orange. And
10 then the blue bars represent our revised estimates fro the
11 next fiscal year.

12 The overall project cost right now are estimated
13 at 181.9 million, which is compared to initial estimate of
14 167.9. Since that initial estimate, there is an increase
15 associated with Project 1 and the descriptions of the work
16 that Liz was describing, primarily around 6.5 million for
17 risk analytics and third-party applications, about the
18 same for almost implementation partner and project
19 management resources and support. And then another one
20 million associated with market data licenses.

21 We're continuing to refine these numbers for
22 Project 1, but our confidence in these numbers have
23 improved significantly since we've completed clarification
24 and design, and the pre-implementation phase.

25 For Projects 2, 3 and 4, those total costs

1 currently remain unchanged. And as each project completes
2 their implementation phase, we'll continue to refine the
3 estimates, share that with you and provide updated
4 information. And we're committed to keeping you as
5 informed as possible in the management of this budget.

6 And there on the next page --

7 [SLIDE CHANGE]

8 INITIATIVE DIRECTOR HAFNER: -- we're asking for
9 approval for \$74.4 million for fiscal year 2026-27. This
10 amount includes 70.9 of project-specific work to progress
11 the milestones that we've discussed today. And it also
12 has a contingency buffer of 3.5 million, which is five
13 percent of that budget. This is also included in the
14 Investment Office initial budget request for this fiscal
15 year, which you'll see later.

16 We will return with regular updates and we're
17 happy to conclude right now and then answer any questions
18 you may have.

19 Thank you so much.

20 CHAIR MIDDLETON: Thank you. Before I turn it
21 over to my colleagues for questions, let's take a look at
22 this increase in the proposed budget from 167 to 181
23 million dollars. Could you highlight for us what you
24 think are the primary drivers of that increase.

25 INITIATIVE DIRECTOR HAFNER: Yeah. The primary

1 drivers of that increase currently are part of the total
2 fund and capital markets clarification and design phase.
3 When we did our initial estimate, that was based on work
4 informed by our strategic consultant, market research and
5 discussions with our peers. Since then, and during this
6 six-month period, where we were learning more detail,
7 about what needed to be implemented, we identified that
8 6.5 of that increase is associated with risk analytics and
9 providing a consolidated risk model, both through two
10 different vendors.

11 The second piece is expenses associated with
12 project implementation partners and project office support
13 in order to provide the right level of expertise in order
14 to push forward the project. And that third one is 1.1
15 million. It's earmarked, because we believe that we'll
16 see an increase related to the market data licenses. And
17 instead of leaving that blank, we decided to foreshadow
18 that and include it in the budget. But those are the
19 three primary areas where we saw changes in the budget
20 since last time.

21 CHAIR MIDDLETON: Has the transition to TPA had a
22 significant role to play in any of the increase in costs
23 and the complexity of the project?

24 INITIATIVE DIRECTOR HAFNER: No. While we keep
25 TT -- TPA in mind as we're considering this project, our

1 planning and the work that we've done has not yet been
2 impacted by TPA. We're anticipating and imagining what
3 we'll need, but many of that is -- many of those things
4 are consistent with what we're already building, a central
5 place for data, a way to manager structure and
6 unstructured data, the ability to create dashboards and
7 reports with a high level of confidence, all of which will
8 be required as part of TPA, but also as part of the
9 overall management of the platform.

10 CHAIR MIDDLETON: Okay. And last question, if we
11 could step back just a little bit. Could you talk about
12 the extent to which these are proprietary programs that we
13 are developing ourselves as opposed to programs that we
14 are purchasing from vendors under leases and other types
15 of arrangements, and the decision-making that went into
16 why you chose which approach?

17 INITIATIVE DIRECTOR HAFNER: Very early on in
18 this project, there was a very clear mandate to use as
19 much as possible off-the-shelf commercial applications.
20 We hold that very tight to our hearts as we're thinking
21 about what those decisions are. Do we sacrifice a bit of
22 functionality, but be able to use what's coming off the
23 shelf? And those principles, that expectation, helps
24 guide us when we're making key decisions on the project.
25 That is specifically in relation to total fund and capital

1 markets.

2 For private markets, it's the same thing, we're
3 just not as far along in that vendor selection, but to the
4 extent possible, instead of having multiple systems, we're
5 looking to consolidate to one or two and to use common
6 code across it.

7 CHAIR MIDDLETON: Very good. Thank you.

8 INVESTMENT DIRECTOR PATERSON: I was just going
9 to add, I agree with everything that Jen said. Just if we
10 think of the prioritization, first large-scale,
11 commercial, institutional investment platforms, second,
12 integrated commercial applications. And only if and when
13 we need something that is very specific to our investment
14 process that's going to generate additional value-add to
15 portfolio or reduce risk would we do application
16 development.

17 CHAIR MIDDLETON: All right. Thank you.

18 Questions from my colleagues?

19 All right, I'm seeing none. Congratulations.

20 Thank you.

21 INVESTMENT DIRECTOR PATERSON: Just
22 administratively, and I'll look to Michele, because this
23 is an action item, this will ultimately be in the approval
24 item later, are we seeking item action now or later in the
25 discussion?

1 CHAIR MIDDLETON: Now.

2 VICE CHAIR MILLER: Move approval.

3 CHAIR MIDDLETON: Move approval. Is there a
4 second?

5 COMMITTEE MEMBER PALKKI: Second.

6 CHAIR MIDDLETON: All those in favor, please say
7 aye?

8 BOARD CLERK LEMUS: Lisa, we do have a public
9 comment.

10 CHAIR MIDDLETON: Then let's get the public
11 comment in first.

12 Mr. Jelincic.

13 J.J. JELINCIC: It's on the budget.

14 CHAIR MIDDLETON: We had you for 5a. You're
15 passing?

16 J.J. JELINCIC: My mistake.

17 CHAIR MIDDLETON: Okay. Thank you. That was the
18 only public comment I had been made aware of. Are there
19 any other public comments?

20 Seeing none, we'll go to the back vote. All in
21 please say aye?

22 (Ayes.)

23 CHAIR MIDDLETON: Any opposed?

24 Any abstentions?

25 5a is approved. And we'll move on to Item 5b,

1 the annual budget. Thank you.

2 (Slide presentation).

3 CHAIR MIDDLETON: Michele.

4 CHIEF FINANCIAL OFFICER NIX: Yeah. Thank you.

5 CHAIR MIDDLETON: The floor is yours.

6 CHIEF FINANCIAL OFFICER NIX: Thank you. I'm
7 going to turn it over to Will Schaafsma our Budget Chief
8 to present this year's budget. Go ahead, Will.

9 FINANCIAL PLANNING, POLICY, AND BUDGETING
10 DIVISION CHIEF SCHAAFSMA: Good morning, Madam Chair, Vice
11 Chair and members of the Committee. Will Schaafsma,
12 CalPERS team member. Today, I will be walking you through
13 the proposed 2026-27 budget, which is an action item. I
14 will begin with an update on CalPERS current year
15 expenditures.

16 Next slide, please.

17 [SLIDE CHANGE]

18 FINANCIAL PLANNING, POLICY, AND BUDGETING
19 DIVISION CHIEF SCHAAFSMA: As of December 31st, CalPERS
20 had expended 328 million, or roughly 37 percent, of its
21 operating budget for fiscal year 2025-26. Based on
22 current projections, we estimate that CalPERS will end the
23 fiscal year with 34.5 million in operational budget
24 savings.

25 Projected savings in administrative costs are due

1 to salary and benefit savings associated with position
2 vacancies. Savings with the in -- within investment
3 operating costs are due to lower than anticipated data and
4 technology initiative expenditures in 2025-26. CalPERS
5 projects investment external management fees will exceed
6 the 2025-26 estimates by 30.9 million. And CalPERS also
7 projects to realize 2.1 million in third-party
8 administrator fees due to declining enrollment in
9 long-term care.

10 Next slide.

11 [SLIDE CHANGE]

12 FINANCIAL PLANNING, POLICY, AND BUDGETING

13 DIVISION CHIEF SCHAAFSMA: CalPERS proposes a total
14 operating budget of 934.2 million for fiscal year 2026-27.
15 This is a 52.3 million, or 5.9 percent, increase over the
16 2025-26 budget. CalPERS estimates that expenditures for
17 investment external management fees and third-party
18 administrator fees will total two and a half billion, or
19 20.2 percent, over current year estimates. Over the next
20 few slides, I will walk you through each subcategory of
21 our budget proposal.

22 Next slide.

23 [SLIDE CHANGE]

24 FINANCIAL PLANNING, POLICY, AND BUDGETING

25 DIVISION CHIEF SCHAAFSMA: The budget before you proposes

1 678.9 million in administrative operating costs. This is
2 a 4.7 percent increase over the current year budget.
3 Administrative operating costs include the salaries and
4 benefits that we pay to our team, as well as operating
5 expenses and equipment, or OE&E. For a point of
6 reference, our five-year average rate of growth in
7 administrative operating costs is four percent.

8 We propose a \$19 million increase to personal
9 services to align salary and benefit funding with actual
10 pay rates and provide additional budget for incentive
11 based -- for incentives, based on updated population
12 eligibility and payout experience. We also propose 11.4
13 million in an increase to OE&E. This increase includes
14 7.4 million for pro rata accosts, which reimburse the
15 State General fund for centralized State services and
16 annuitant health and dental costs, as well as 5.1 million
17 for various enterprise initiatives detailed further on the
18 next slide.

19 [SLIDE CHANGE]

20 FINANCIAL PLANNING, POLICY, AND BUDGETING

21 DIVISION CHIEF SCHAAFSMA: Annually, the Financial Office
22 receives formal budget requests from divisions throughout
23 the organization for new or increased operational expenses
24 and equipment. The following budget requests were
25 approved for inclusion in this year's budget: 2.3 million

1 The total proposed for investment operating costs in
2 2026-27 is 224.5 million, which is a 38.1 million, or 19.6
3 percent, increase compared to the 2025-206 budget. 36.4
4 million of the increase is provided for INVO's data and
5 technology modernization initiative. I'll note that the
6 amount previously indicated in the presentation you just
7 saw was for the full amount of tech costs in '26-'27,
8 while what you're going to see in the 36.4 is just the
9 incremental from last year's budget to this year's budget.

10 The remainder of the investment operating costs
11 increase is attributable to maintenance and operation for
12 existing systems.

13 Next slide.

14 [SLIDE CHANGE]

15 FINANCIAL PLANNING, POLICY, AND BUDGETING
16 DIVISION CHIEF SCHAAFSMA: The last operating cost
17 category is for headquarters building costs. Due to
18 one-time funding for the LED lighting project that was
19 included in last year's budget, this budget reflects an
20 overall reduction of 16.3 million. For '26-'27, the
21 headquarters budget does include 6.8 million for building
22 improvements, including three million for Lincoln Plaza
23 North elevator modernization.

24 Next slide.

25 [SLIDE CHANGE]

1 FINANCIAL PLANNING, POLICY, AND BUDGETING

2 DIVISION CHIEF SCHAAFSMA: The CalPERS budget includes an
3 estimate of fees paid to investment managers and advisors
4 to manage specific portfolios based on market assumptions
5 and estimated deployment of capital. We estimate total
6 external management fees in 2026-27 to be 2.2 billion,
7 which is a 421 million, or 23.6 percent, increase when
8 compared to the 2025-26 mid-year estimate.

9 This increase is the result of greater private
10 asset allocation and more active management in public
11 markets. Base management fees are expected to increase by
12 344.3 million. 234.4 million of this increase is
13 attributable to new anticipated partnerships and
14 associated capital deployments in private equity.

15 I'd also note that while PE fees increase in
16 total, we expect the fee rate to decrease in the long
17 term, as we enter into more co-investment agreements and
18 renegotiate fees. Performance fees are estimated to
19 increase by 76.4 million, due to a transition to
20 performance based fee structures for global equity and
21 elevated return expectations in real estate.

22 Next slide.

23 [SLIDE CHANGE]

24 FINANCIAL PLANNING, POLICY, AND BUDGETING

25 DIVISION CHIEF SCHAAFSMA: Third-party administrators

1 provide administration, record keeping, and participant
2 communication services for numerous CalPERS programs. The
3 2026-27 budget estimates total TPA fees to be 311.3
4 million, which is a 0.9 percent increase over the 2025-26
5 budget. CalPERS estimates administrative fees for our
6 pharmacy Benefit manager will increase by 9.1 for the
7 upcoming year. However, this increase is offset by
8 overall pharmacy program savings.

9 Next slide.

10 [SLIDE CHANGE]

11 FINANCIAL PLANNING, POLICY, AND BUDGETING

12 DIVISION CHIEF SCHAAFSMA: Shown here -- whoops. My
13 colleagues and I are happy to answer any questions you may
14 have.

15 CHAIR MIDDLETON: All right. Thank you.

16 So before we get into some of the other
17 questions, I'm going to go right to the heart of the
18 biggest increase that we have and that's our external fees
19 through the Investment Office.

20 So as I understand it, dating back to
21 approximately 2021, we've increased the amount of external
22 management from 21 to 42 percent of our investments. That
23 makes sense to the extent that we're seeing increased
24 performance. So can you talk to us about the performance
25 increases that we've received as a result of what is a

1 significant investment in external managers?

2 CHIEF OPERATING INVESTMENT OFFICER COHEN: Thank
3 you for the question, Chair. And you're exactly right,
4 these are large dollar increases in isolation, but they
5 really need to be connected to the performance. So I
6 think the best way to answer your question is to just look
7 awe '24-'25, the most recent year, as we've sort of
8 started to see the improvement in the private asset
9 investments. In that year, we paid managers 23.4 basis
10 points, or 41.3 billion. And from that \$1.3 billion, we
11 generated seven and a half billion dollars of excess
12 returns.

13 So the key is this really does tie back to the
14 January proposal -- or discussion of private equity that
15 you heard, where we're certainly well aware of the fees
16 and we were doing everything in our power to lower fees,
17 whether it's through negotiations with our partners,
18 co-investments that are fee free, carry free. But all of
19 those things in the end are done to generate the excess
20 returns. And we -- as I just sort of gave you one
21 example, we do think you're seeing those returns and will
22 continue to see those returns from our investments in the
23 private assets.

24 CHAIR MIDDLETON: So go back to that \$7.3 billion
25 number, is that gross or is that net?

1 CHIEF OPERATING INVESTMENT OFFICER COHEN: And
2 that is another point I should reiterate that every time
3 you see any of our returns, they're net of the fees. So
4 you've already sort of accounted for those expenses.

5 CHAIR MIDDLETON: Right.

6 CHIEF OPERATING INVESTMENT OFFICER COHEN: So it
7 was seven and a half billion of net of fee returns, 1.3
8 billion of increased fees to generate that seven and a
9 half billion.

10 CHAIR MIDDLETON: So I don't want to get too far
11 into what would be proprietary investment strategy moving
12 forward, but this is a fairly significant increase from a
13 budgetary standpoint in the amount of external management.
14 What's your level of satisfaction as to are we getting
15 close to where we need to be or should we be anticipating
16 significant further growth?

17 CHIEF OPERATING INVESTMENT OFFICER COHEN: I
18 think as we continue to make increased dollar investments,
19 you'll see overall fee totals continue to rise. You would
20 expect that as well as we go from a \$600 billion portfolio
21 to a \$700 billion portfolio, the strict amount we're
22 paying in fees is going to continue to rise. That being
23 said, we do think we're continuing to find opportunities
24 to reduce those fees throughout the area. So while the
25 absolute dollars I think you'll continue to see increases,

1 we really tend to look at these things in basis points.
2 And there's a chart, I think it's on page seven or eight
3 in your materials, that sort of translates it into basis
4 points. And you're starting to see those increases
5 moderate a little bit. But that being said, if you see
6 big increases in fees, I would suspect it's because you're
7 seeing big increases in performance. And so, you know,
8 generally, we're going to be happy to pay for higher
9 performance from those fees.

10 CHAIR MIDDLETON: All right. Thank you.
11 Questions from my colleagues?

12 I'm not seeing any, at this point, so, Michael,
13 thank you.

14 CHAIR MIDDLETON: I'm sorry. Mullissa. Okay.

15 COMMITTEE MEMBER WILLETTE: Thank you. Thank you
16 for the presentation. I want to echo the concern Ms.
17 Middleton raised on the fees, but I'm also just wondering
18 in the operating cost increase, what can our -- let me
19 start with just from my perspective, right. At the end of
20 the day, everyone of these dollars is -- comes out of our
21 operating budget is money that is the same money that
22 needs to pay for health care and retirement checks, right,
23 to do right by our members that submitted their life
24 service to public work.

25 And I'm just wondering what's like a specific or

1 some specific services or quality metrics that are member
2 outcomes that this Committee can measure to determine that
3 these cost increases are translating into better delivery
4 for the people that we serve?

5 CHIEF FINANCIAL OFFICER NIX: Well, we
6 certainly -- thank you for that question. It's a good
7 one. We actually measure our cost per member through the
8 CEM, which is the cost effective management out of
9 Toronto. We use that for various programs, including
10 investments and our retirement services. So we keep an
11 eye on that. Also, we have metrics like within our
12 organizations operationally, so that, you know, we are
13 always measuring that year over year as well. And then
14 can you think of anything else, Will, that we measure?

15 FINANCIAL PLANNING, POLICY, AND BUDGETING
16 DIVISION CHIEF SCHAAFSMA: Yeah. We do have a group
17 within the Operations Branch that tracks our proposals and
18 makes sure that the outcomes that they're indicating in
19 the proposals are actually met. So we do follow up on all
20 of the proposals that are included in the -- in the budget
21 every year.

22 COMMITTEE MEMBER WILLETTE: Okay.

23 CHIEF OPERATING INVESTMENT OFFICER COHEN: And
24 then from an investment standpoint, our key number is the
25 funded ratio for system. So you've seen that continued to

1 increase from the 60s into the 80 percent. And that's
2 really a measure of how able we are to know that we're
3 going to be able to make all the promises that we've made
4 to our employees and are clearly much more able to feel
5 comfortable about our commitments to our members than we
6 were say a decade ago. We're in much better fiscal
7 condition using the funded ratio as a simple measure of
8 that.

9 CHIEF EXECUTIVE OFFICER FROST: Yeah. And I
10 would only add that other than the data and technology
11 initiatives, CEM also measures our service score. And so
12 we haven't provided an update to the Board on this year's
13 results, but our service score has improved. Most of the
14 operational budget increases are not related to new
15 systems being put in. It's, for example, the elevators
16 with, you know, lights on, doors open types of expenses as
17 well. But we go through a very rigorous process to
18 approve anything that goes to the budget, because as you
19 said, we -- it's part of the way that we look at
20 everything we spend. But every dollar we spend is a
21 dollar not paid -- or not available to be paid to a
22 member.

23 So we have a tight hold on the budget. Most of
24 this is related to compensation increases that have been
25 negotiated. There are some things on incentives. And if

1 you'd like more detail on that, I think, you know, we
2 could bring Michelle Tucker up for that. But I would say
3 this operational budget, you know, is improving service
4 levels scores, keeps member satisfaction high, but there
5 isn't anything significant this time.

6 COMMITTEE MEMBER WILLETTE: Great. Thank you
7 very much. Thank you.

8 CHAIR MIDDLETON: Any other questions?

9 Michelle, it's not nearly as large a -- it's not
10 nearly as large a number, but we also had some significant
11 savings in operation of the buildings. And could you talk
12 a few highlights as to what's produced those savings for
13 us?

14 CHIEF FINANCIAL OFFICER NIX: Sorry. Sure. I'll
15 turn it over to Will. He's ease got the details on the
16 building budget that he can help.

17 FINANCIAL PLANNING, POLICY, AND BUDGETING

18 DIVISION CHIEF SCHAAFSMA: So this year's budget is about
19 a \$16 million reduction from last year's headquarters
20 building budget. And that's really a result of just the
21 way that we do budgeting. So last year's budget included
22 about 18 million, I want to say, for the LED lighting
23 project. So that project is currently underway. They're
24 currently starting the Lincoln Plaza North tower. We
25 expect that project to finish up sometime next year, but

1 the funding is actually included in this year's budget.
2 So next year, what you see is that funding falling out,
3 for lack of a better term. And that's really what's
4 driving that big reduction in headquarter's costs.

5 CHAIR MIDDLETON: All right. Thank you.

6 Seeing no other comments or questions from the
7 Board, we have two public comments that have been
8 requested. First, Mr. Jelincic and then Ms. Brown.

9 J.J. JELINCIC: I guess she's going to stay
10 there. J.J. Jelincic, RPEA.

11 The budget serves two functions. It defines
12 priorities and it's a control document. One of your key
13 jobs is to get the retirement warrants out. The fact that
14 you do that through a contract with the State Controller's
15 office is not -- does not mean there's not an operational
16 expense and you recognize that.

17 Another key factor is to manage a large pension
18 fund. The fact that you choose to do much of that work
19 through contracts does not change it from an operational
20 function to just some below the line activity. You are
21 proposing no new staff, but \$421 million increase in
22 outside investment management costs. 21.8 million of that
23 is for private debt, bringing that to 196.6 million and
24 234.4 million is an increase in private equity to \$968.8
25 million. That is 184 percent of total staff costs, total

1 staff, investments, legal, public relations, Call Center,
2 area offices, accounting, compliance, all of it.

3 You have some highly paid, highly skilled
4 Investment staff. If you choose to assign them to manage
5 assets rather than manage managers, you can cut costs and
6 increase control. As I said, priorities. I encourage you
7 to stop contracting out and bring the work in-house, save
8 trust money, and increase control.

9 I noticed that the health care administer costs
10 are down, because of the new contract. At the same time,
11 the pharmacy benefit manager costs are up. I heard no
12 explanation. I can only assume that you did not negotiate
13 a new improved contract.

14 Thank you for your consideration.

15 CHAIR MIDDLETON: Thank you.

16 Ms. Brown.

17 MARGARET BROWN: Thank you and good morning,
18 Chair Middleton and Committee. I want to talk about
19 something that doesn't get nearly enough attention, but
20 should matter to every CalPERS member, retiree, and
21 taxpayers, the growing cost of external management fees.
22 Fees have grown to \$2.2 billion. And when I look at your
23 agenda item 5b, page three of three, that's a nearly 70
24 percent increase over 2024. In 2024-25, it was 1.3
25 billion and you're proposing \$2.2 billion, nearly a

1 billion dollars more.

2 CalPERS is the largest pension fund in the United
3 States. And with that size comes responsibility, not just
4 to generate returns, but to do so efficiently,
5 transparently and in the best interest of its 2.4 million
6 members. But here's the concern, over the past several
7 years, CalPERS has steadily increased its reliance on
8 externally managed investments, particularly complex
9 assets, like private equity and private credit. And with
10 that shift comes a ridiculous price tag. These external
11 managers don't come cheap. They charge management fees,
12 performance fees, carried interest, and layered expenses,
13 many of which are not known even to the CalPERS staff.

14 In fact, while CalPERS often highlights its
15 investment returns, far less attention -- attention is
16 given to how much of those returns are being paid out the
17 door in fees. And here's the key issue, every dollar
18 spent on excessive fees is a dollar not going towards
19 retiree benefits. Thank you, Ms. Willette, for mentioning
20 that. It's nearly a billion since 2024-25. Let me put
21 that into perspective. That's a real money, money that
22 could strengthen the fund, money that could reduce
23 employer contributions pressures, money that ultimately
24 belongs to the members.

25 I want you to think about this. It's a billion

1 dollars more. And Ms. Middleton asked, are we getting
2 value for that money? And my answer is no though. The
3 public markets have done extraordinarily well, but CalPERS
4 keeps betting and betting on private credit and private
5 equity, and it's a shame. It's a shame what it's doing to
6 the markets. It's a shame what it's doing to retirees.
7 And I'm telling you, you guys are going to -- the Board is
8 going to pay, because you are not fulfilling your
9 fiduciary duty when it comes to this Board choosing to
10 make those bets.

11 Thank you.

12 CHAIR MIDDLETON: Thank you, Ms. Brown.

13 Are there any other public comments?

14 Seeing none.

15 Again, thank you to the staff for the
16 presentation. This is a big budget and it is predicated
17 on achieving the kind of performance that we expect to
18 achieve.

19 VICE CHAIR MILLER: I'll move approval of the
20 proposed budget.

21 CHAIR MIDDLETON: Is there a second?

22 COMMITTEE MEMBER PALKKI: I'll second.

23 CHAIR MIDDLETON: All those in favor please say
24 aye?

25 (Ayes.)

1 CHAIR MIDDLETON: Any opposed?

2 Any abstentions?

3 5b is approved. Thank you.

4 Move on to Item 5c, annual review of Board member
5 employer reimbursements.

6 CHIEF FINANCIAL OFFICER NIX: Thank you, Ms.
7 Middleton. I will turn it over to Janie Rajasuncy, our
8 Controller for CalPERS.

9 CONTROLLER RAJASUNCY: Thank you, Michele. Good
10 morning, Madam Chair, members of the Committee. Janie
11 Rajasuncy, CalPERS team member.

12 Today, we are requesting your approval of the
13 proposed percentages of time elected Board members will
14 dedicate to their CalPERS Board duties. This is an annual
15 item presented each April after Board Committee selections
16 that are done in February and March. These percentages
17 determine the reimbursement of salary and benefits to the
18 employers of elected Board members. The reimbursement
19 process follows our established policy, which ensures
20 transparency, accountability, and fairness for State,
21 school and public agency employers.

22 Reimbursements are processed quarterly with Board
23 members certifying their actual hours spent on Board
24 duties. You'll find the proposed percentages for each
25 elected Board member effective March 18th, 2026 in Table 2

1 of your materials. We are seeking your approval for these
2 percentages today. That concludes my comments. I'm happy
3 to take any questions.

4 CHAIR MIDDLETON: All right. Are there any
5 questions for staff?

6 Seeing none. This is an item that comes up every
7 year, so do I have a motion to approve?

8 COMMITTEE MEMBER DETOY: So moved

9 CHAIR MIDDLETON: And a second?

10 COMMITTEE MEMBER RUBALCAVA: Second.

11 CHAIR MIDDLETON: All those in favor, please say
12 aye?

13 (Ayes.)

14 CHAIR MIDDLETON: All those opposed please say
15 no?

16 Are there abstentions?

17 Motion is approved.

18 CONTROLLER RAJASUNCY: Thank you.

19 CHAIR MIDDLETON: On to 5d, State valuation and
20 employer/employee contribution rates, and Mr. Terando and
21 Ms. Ramsey.

22 (Slide presentation).

23 CHIEF ACTUARY TERANDO: Good morning, Madam
24 Chair, members of the Committee. Scott Terando, CalPERS
25 team member.

1 Today, we have the State valuation for the
2 employer and employee contribution rates. This is an
3 annual action item. It sets the upcoming contributions
4 for the various State plans. At this time, I'll pass it
5 over to Nina, who will step through the required rates and
6 the current liabilities.

7 Nina.

8 SENIOR ACTUARY RAMSEY: Thank you, Scott. Good
9 morning, Madam Chair. Nina Ramsey, CalPERS Actuarial team
10 member.

11 Next slide, please.

12 [SLIDE CHANGE]

13 SENIOR ACTUARY RAMSEY: Today, I am here to
14 present to you the results of the June 30th, 2025 State
15 valuation for the State plans. This valuation sets forth
16 the employee and employer contribution rates for fiscal
17 year '26-'27. The State plan consists of the five member
18 subgroups listed on this slide, State miscellaneous,
19 industrial, safety, peace officers and firefighters and
20 CalPERS Highway Patrol.

21 Next slide, please.

22 [SLIDE CHANGE]

23 SENIOR ACTUARY RAMSEY: There have been a few
24 significant events since our last valuation. First, the
25 PERF has earned an investment return of 12 percent as of

1 SENIOR ACTUARY RAMSEY: Here, we have a
2 comparison of the current year rates and next year's
3 rates. Also, in the center column, we have the projected
4 rates that were provided in a circular letter last fall.
5 You can see that rates for fiscal year '26-'27 are
6 relatively similar to the current year rates for all
7 plans. Yet, the dollar amounts are increasing.

8 As I mentioned, the reasons for the change in the
9 rates are the new assumptions, which increased the normal
10 cost for all plans and the increase to the salary for all
11 plans that generated losses across all plans, but also
12 served to reduce the total rate.

13 This is because when dividing the UAL
14 contribution by larger than expected payroll, it results
15 in a lower total rate. The exception here is CHP, which
16 has a far lower rate than the current year. This plan
17 experienced the same issues that I just mentioned, but
18 also they have a large UAL base that will be dropping off
19 as they will con -- as they will have paid it off in the
20 current year. When we compare our projected rates to the
21 final rates for '26-'27, you can see that miscellaneous,
22 industrial, safety and POFF all have rates higher than
23 what was projected. This is due to the increase to the
24 normal cost, due to the new assumptions, which were not
25 included in last year's projections.

1 For CHP, the same thing they had the large Salary
2 increase, which went to serve -- serve to lower the total
3 rate, the UAL rate. Just for reference, CHP had the
4 largest payroll increase of all the plans at eight percent
5 when we're expecting three.

6 Next slide, please.

7 [SLIDE CHANGE]

8 SENIOR ACTUARY RAMSEY: On this slide, we have
9 the actuarially required contribution rates for fiscal
10 year '26-'27 listed on the left-hand side. We've also
11 included the additional statutory contribution per
12 Government Code 20683.2, which results in a total
13 contribution for '26-'27. This is for information
14 purposes only. We are not asking you to approve the
15 additional statutory contribution. Those will be subject
16 to the State's annual budget process.

17 Next slide, please.

18 [SLIDE CHANGE]

19 SENIOR ACTUARY RAMSEY: Moving on to member
20 contributions. Separate member contribution rates have
21 been set for PEPRA since January 1st, 2013. PEPRA member
22 contributions were originally Calculated as half the
23 normal cost rounded to the nearest quarter percent. The
24 normal cost is calculated annually. And if it is
25 determined that the normal cost has changed by one percent

1 their member contribution rates for fiscal year '26-'27.
2 You can find plan specific information for these employee
3 rates on Attachment 5.

4 Next slide, please.

5 [SLIDE CHANGE]

6 SENIOR ACTUARY RAMSEY: We also have a handful of
7 bargaining units that have agreed that their Classic and
8 PEPRA member rates will contribute half of the normal
9 cost. These bargaining units are bargaining units 2, 5,
10 12, 16, and 18. Each of these bargaining units has their
11 own criteria for when to change the employee rates. Plan
12 specific information for these groups can be found on
13 Attachment 6. But it is the same for them as well that
14 the normal cost has not changed by one percent or more, so
15 they will also not be seeing any change to their member
16 contribution rates for fiscal year '26-'27.

17 Next slide, please.

18 [SLIDE CHANGE]

19 SENIOR ACTUARY RAMSEY: Lastly, we have the
20 projected required contribution rates. You can see that
21 rates are expected to increase for fiscal '27-'28. This
22 is the final year that the June 30, '22 investment loss
23 will be fully ramped in. After '27-'28, the rates are
24 declining as we continue to ramp in the investment gains
25 from the last two years. These projections you see on the

1 slide assume an annual investment return of 6.8 percent
2 and no other gains or losses. We will release updated
3 projections this year after the investment return as of
4 June 30th, 2026 is published. We will also be publishing
5 our full valuation report later this year, which will
6 include our methods, assumptions and participant data.

7 This concludes my presentation and I would be
8 happy to take any questions.

9 CHAIR MIDDLETON: Are there questions?

10 Mr. Rubalcava.

11 COMMITTEE MEMBER RUBALCAVA: Thank you for the
12 presentation. It's -- I appreciate all the charts and
13 the cover -- the little summary in the letter. I think
14 it's good to see that the employer contributions will be
15 starting to decrease after the '27-'28. But it's also
16 good to see that -- I mean, you know, it's a snapshot. I
17 mean of what saw, because in November we adopted new
18 assumptions and that had a -- you know, it impacts one
19 way -- it's uneven. I mean, on one hand, the -- where's
20 my little notes here. Normal costs were -- normal costs
21 decreased because of demographics, but on the other hand,
22 there was a -- because of the assumption changes more
23 conservative, the -- it had a negative impact.

24 But overall, I think it's good to see the funded
25 level has improved and it will -- it has been continuing

1 to improve. And at the same time, we're going to see --
2 if we meet all our assumptions, which we will I'm sure, on
3 the actuarial -- on the return assumptions, we should see
4 employer contributions go down.

5 And I thank you for including -- you had a little
6 chart as to the percentage of PEPRA members from 64 down
7 to I forgot what number. So that would -- employers
8 should like that too.

9 So thank you very much for the presentation. I
10 found it very forward-looking and beneficial. Thank you.

11 CHAIR MIDDLETON: Are there any other questions
12 or comments from the Board?

13 Ms. Willette. Go ahead, Ms. Willette.

14 COMMITTEE MEMBER WILLETTE: Thank you so much. I
15 appreciate the presentation as well. And I'm going to
16 drill into Mr. Rubalcava's comment again, as I had the
17 same thinking. If you could walk us through the impact of
18 those November assumption changes, the mortality -- I
19 think and how they offset the rate relief that we expected
20 to see from the strong investment returns.

21 SENIOR ACTUARY RAMSEY: Yeah. So if you look at,
22 let's see, Attachment 1. I'm sorry I don't -- we don't
23 have that to pull up here, you can see that there's a
24 reconciliation for how the rates have changed with several
25 line items, one of them being the new assumptions. So you

1 can see that the change in assumptions across the Board
2 has increased the total rate, but then there are other
3 line items reducing that rate to kind of offset. So, I'd
4 say it's pretty luck that we had an investment gain when
5 we have an assumption change just cause they w8ll offset
6 each other. But as far as specific decrements, mortality
7 inflation, we don't separate that out. It's just included
8 in the assumption change line item.

9 COMMITTEE MEMBER WILLETTE: Okay. And then I
10 think -- so the rates -- or what we were seeing is based
11 on the jet -- June 2025 rates, but we've already seen like
12 significant volatility this year. And I want to make sure
13 our employers and participants know what to budget, right,
14 off of these rates maybe -- or not know what to budget,
15 but can, you know, project, given the market turbulence,
16 even in just the last few weeks. Can staff speak to what
17 a sustained investment loss of like 5 to 10 percent in
18 fiscal year '25 would do to employer contribution rates
19 for '27-'28?

20 SENIOR ACTUARY RAMSEY: Yeah. So the Investment
21 returns will have a big impact on the rates. I don't have
22 calculations for the numbers that you suggested. However,
23 our projections later this fall do include some kind of,
24 "What if" scenarios for different investment returns.

25 COMMITTEE MEMBER WILLETTE: Okay. Thank you. So

1 I look forward to seeing those "What if" scenarios, as
2 employers probably will too.

3 And then finally, my final question is my
4 understanding is that even though the 11.6 percent return
5 was strong, we have a five-year ramp-up organization
6 policy, right? And so only a portion of that gain is
7 being recognized in this valuation. So can staff let
8 us -- like show us how much of the investment gain is
9 flowing into fiscal year '26-'27, given the fact that we
10 may see volatility or decreased returns and how that's
11 being phased over the -- maybe the next four years, so
12 that employers can -- what trajectory can our employers
13 anticipate?

14 SENIOR ACTUARY RAMSEY: Yes. So there is --
15 there is an area that -- in the attachments that shows the
16 impact of the investment gain. But if you look at the
17 slide we have right now, you can see that we going to
18 continue to ramp in. So those decreases every year are
19 the compound of the investment gain from this year and
20 last year. So you can see, for example, miscellaneous is
21 going to drop off, what is that, 1.2 percent between
22 '27-'28 and '28-'29. As you can see, that like that's
23 what the investment gains from the last two years will be
24 doing as they go into the future. So as we continue to
25 ramp, you'll see bigger decreases in this projection.

1 Now, these projections assume no future gains and
2 losses. So as soon as we get our investment return as of
3 this year, these are all going to change, but that would
4 be one way for employers to kind of see where -- see where
5 they're headed.

6 COMMITTEE MEMBER WILLETTE: Okay. Thank you.

7 Thank you.

8 CHIEF ACTUARY TERANDO: If I could add a quick
9 comment. I'd like to remind everyone that we do have the
10 Pension Outlook Tool for all the employers. And that
11 would give you the opportunity or employers to put a
12 negative five percent or negative 200 -- or 10 percent in
13 terms of return and see the impact directly on their --
14 your -- the individual plan's rates. So we do try to put
15 this information in the report. As Nina mentioned, once
16 we have the returns for the end of the fiscal year, we'll
17 put out new projections for the State. But, in the
18 meantime, employers can go out to the website and, you
19 know, pick their own scenario and returns and get
20 estimates right now on potential impacts of the volatility
21 for investment returns.

22 CHAIR MIDDLETON: All right. Thank you. Are
23 there any other questions or comments from the Board?

24 Seeing none.

25 Do we have any public comment?

1 We do not.

2 This is an action item. Is there a motion to
3 approve?

4 VICE CHAIR MILLER: Move approval.

5 CHAIR MIDDLETON: And a second.

6 COMMITTEE MEMBER RUBALCAVA: I will second.

7 CHAIR MIDDLETON: All right. All those in favor,
8 please say aye?

9 (Ayes.)

10 CHAIR MIDDLETON: Any opposed?

11 Any abstentions?

12 Thank you. We have approved 5d and we'll move on
13 now to 5e, which is the schools valuation employer and
14 employee contribution rates. Mr. Terando and Mr. Tschida.

15 (Slide presentation).

16 CHIEF ACTUARY TERANDO: Thank you, Madam Chair.
17 This is similar to the State. It's an annual item, which
18 sets the school contribution rates for the upcoming fiscal
19 year. I'll pass it to Paul who will go through our
20 presentation.

21 SENIOR ACTUARY TSCHIDA: Good morning, Madam
22 Chair, members of the Committee. Paul Tschida with the
23 CalPERS Actuarial Office. I'm here to present the results
24 of the schools pool evaluation and the suggested employer
25 and PEPRA employee contribution rates.

1 Next slide, please.

2 [SLIDE CHANGE]

3 SENIOR ACTUARY TSCHIDA: Like State, the
4 actuarial valuation date is June 30th 2025. And the rates
5 we are proposing will be for fiscal year '26-'27. So
6 coming up starting in July. The schools pool covers
7 classified employees of local school districts, community
8 college districts, and most county offices of education in
9 the state. And it is a risk pool, so all of the employers
10 in the schools pool pay the same rate. And like the
11 State, the contribution is one rate -- has one percentage
12 of payroll. There's not a separate dollar contribution
13 for the UAL. The unfunded liability and the normal cost
14 is combined and is paid as a single rate as a percent of
15 payroll.

16 Next slide, please.

17 [SLIDE CHANGE]

18 SENIOR ACTUARY TSCHIDA: So there are a few key
19 items of experience since the prior valuation, a couple of
20 which are the same as the State valuation. The first is
21 the 12 percent money weighted investment return that was
22 experienced in the PERF. That, of course, served to drive
23 an actuarial investment gain that helped reduce rates a
24 little bit. We also made assumption changes in
25 conjunction with the experience study that was finalized

1 by about \$5 billion down to \$35.7 billion.

2 It's good to see that going in the right
3 correction. Now, the bottom half of the table are the
4 contribution rates that are being recommended in this
5 evaluation. The employer contribution rate is a -- is
6 decreasing by a little over 40 basis points to 26.4
7 percent. And the PEPRA member contribution rate is
8 staying even and staying unchanged at eight percent.

9 All right. Next slide, please.

10 [SLIDE CHANGE]

11 SENIOR ACTUARY TSCHIDA: So drilling down a
12 little bit into the employer rate of 26.4 percent for this
13 coming fiscal year. Again, like I said, that represents a
14 decrease of roughly 40 basis points. It's also spot on
15 with what we estimated in our circular letter that was
16 published in November of last year, which was projecting a
17 rate of 26.4 percent.

18 Now, despite the fact that the rate is declining,
19 the dollar amount -- expected dollar amount of
20 contributions coming in next fiscal year is higher solely
21 because the projected payroll for next year is projected
22 to be higher.

23 Next slide, please.

24 [SLIDE CHANGE]

25 SENIOR ACTUARY TSCHIDA: So a few slides ago, I

1 Office also sets the PEPRA member contribution rate for
2 the schools pool for schools employees, because they are
3 subject to the PEPRA requirement that they contribute 50
4 percent of normal cost.

5 Now, we do the measurement every year. And if it
6 changes -- if the total normal cost for PEPRA members
7 changes by more than one percent then we have to reset the
8 member contribution to be half of it. But in this
9 valuation, the total normal cost did not change by more
10 than one percent. So the PEPRA member rate will stay at
11 its current level of eight percent. Classic members pay
12 seven percent, and that is set statute, so there's no
13 involvement with the actuarial valuation.

14 And the -- our favorite informational item, the
15 PEPRA membership statistics, just data statistics here.
16 The schools pool is fairly well advanced in terms of the
17 progression of -- from Classic to PEPRA. Seventy percent
18 by headcount of the schools pool -- of the active
19 headcount is PEPRA now, so 30 percent is Classic. And by
20 payroll, that PEPRA percentage is 62 percent.

21 Next slide, please.

22 [SLIDE CHANGE]

23 SENIOR ACTUARY TSCHIDA: Now, in conjunction with
24 coming up with the employer rate, we always like to do a
25 projection of what we -- where we see the employer

1 contribution rate going in the next few years. And the
2 pattern, the overall pattern here of the projection you're
3 seeing on the screen is similar to what you saw for the
4 State's valuation where we are projecting a modest bump
5 next year. And then followed by a steady decline for the
6 following years after that ending up 24 percent -- a
7 little bit sub 24 percent four or five years from now.

8 Now, we'd like to note that again similar to the
9 conversation that we just had for the State, this assumes
10 6.8 percent investment return after June 30, 2025. So
11 after the valuation date of June 30, 2025, we're still in
12 the '25-'26 fiscal year. We don't know what the return
13 will be. So this assumes the 6.8 percent return for that
14 and all future years, as well as all other experience
15 matching our actuarial assumptions.

16 But again, if that were to come to -- if that
17 were to pass, then we would see -- we would see the
18 projected rates as shown here. So it's nice to see a
19 decline -- sustained decline hopefully in the future and
20 let's hope that comes to pass.

21 All right. That is the end of my prepared
22 remarks. I'm happy to take any questions.

23 CHAIR MIDDLETON: Thank you.

24 Are there questions?

25 Mr. Palkki.

1 COMMITTEE MEMBER PALKKI: Thank you, Madam Chair.
2 Since we're on this slide, the -- sort of the large drop,
3 is that due to the investment returns that we're seeing in
4 these last couple years?

5 SENIOR ACTUARY TSCHIDA: It is. It is. The
6 little bump coming up in the next fiscal year is because
7 the -- we had a large investment loss in fiscal year
8 '21-'22. And this is the fifth and final year of the
9 five-year phase-in or the ramping of that loss is
10 occurring '27-'28. So we get a small bump up from that
11 big a loss finally like coming into full place. Then
12 after that, now, we have the ramping in of the investment
13 gains that we've seen the last couple years. So those are
14 continuing their five-year ramp up, which is causing the
15 rate to decline in the future after the '27-'28.

16 COMMITTEE MEMBER PALKKI: Thank you. And I mean,
17 looking at the numbers, I'm quite happy with what I'm
18 seeing. So again, thank you to the teams that are doing
19 this great work. And I'll be interested to see what
20 happens in the future by -- when we're keeping the
21 employee rate static. But again, only the future will
22 tell on that one, so thank you.

23 CHAIR MIDDLETON: Thank you.

24 Any other questions?

25 Well, I will second Mr. Palkki's thanks and

1 appreciation. When we look at this chart, we're starting
2 to see some progress. May of us have been waiting for
3 some years for things to begin to turn around in terms of
4 employer contribution rates. We're not there yet, but we
5 see the horizon out there and that is -- that is
6 reassuring, so...

7 This is an action item. Is there a motion to
8 approve?

9 COMMITTEE MEMBER PALKKI: Motion to approve.

10 CHAIR MIDDLETON: And second?

11 VICE CHAIR MILLER: Second.

12 CHAIR MIDDLETON: All those in favor, please say
13 aye?

14 (Ayes).

15 CHAIR MIDDLETON: Any opposed?

16 Any abstentions?

17 The item is approved. We'll move on to our last
18 action item, which is the Judges' Retirement System number
19 II actuarial valuation report.

20 (Slide presentation).

21 DEPUTY CHIEF ACTUARY DZIUBEK: Good morning,
22 Madam Chair, Committee members. Randy Dziubek, CalPERS
23 Actuarial team.

24 You're getting a steady stream of actuaries this
25 morning. I'm sure you're happy about that. Item 5f is a

1 presentation of the Judges' II actuarial valuation as of
2 June 30, 2025. This presentation will look very similar
3 to the last two presentations, although a little slimmed
4 down. This plan is not nearly as large as the previous
5 two.

6 Next slide.

7 [SLIDE CHANGE]

8 DEPUTY CHIEF ACTUARY DZIUBEK: So first of all,
9 why is this called the Judges' II system? Back in 1994,
10 the Legislature created a new benefit design for judges
11 hired after November 9th, 1994. Judges hired prior to
12 that date are in our Judges' plan, a separate plan 25,
13 that was part of the action consent items earlier this
14 morning. Not nearly as much interesting information in
15 that plan to warrant a Board presentation. However, this
16 plan is a little bit more interesting.

17 This valuation determines required employer and
18 member contributions for the '26-'27 fiscal year. And
19 unlike the last two presentations, there are no assumption
20 changes that were reflected in this year's valuation
21 results for Judges' II, and we'll talk about why that is.

22 Next slide.

23 [SLIDE CHANGE]

24 DEPUTY CHIEF ACTUARY DZIUBEK: So as far as the
25 experience of the previous year, investments performed

1 very well, as we've seen with the last two presentations.
2 The return for the Judges' plan was 11.5 percent relative
3 to the 6.0 expected return for that plan. In terms of
4 actuarial gains and losses that are not related to
5 investments, we call those demographic gains and losses,
6 the total sum of those was less than 0.1 percent of the
7 accrued liability for this plan. And that basically means
8 that the experience during the last year tracked almost
9 exactly with our actuarial assumptions.

10 Next slide.

11 [SLIDE CHANGE]

12 DEPUTY CHIEF ACTUARY DZIUBEK: Now, the asset
13 liability management process is something we do every four
14 years. It's separate from the valuation process. And in
15 the last two presentations, you heard that some new
16 assumptions were incorporated into the valuation results.

17 The Judges' II plan is what we call an affiliate
18 plan within CalPERS lingo. And our experience study
19 processes and ALM process lags that of the PERF a little
20 bit. So we're right in the middle of that right now. The
21 Investment Committee heard a first reading of potential
22 alternate asset allocations for the Judges' II plan.
23 There will be a second reading in June. And so that's
24 where the asset allocation going forward and the discount
25 rate assumption will be decided. None of that is part of

1 my presentation today, including any changes to the
2 demographic assumptions. That's also part of the ALM
3 process. And actually later today, you'll see the first
4 reading of proposed demographic assumptions for this plan,
5 the Judges' II plan.

6 Next slide.

7 [SLIDE CHANGE]

8 DEPUTY CHIEF ACTUARY DZIUBEK: Now, in terms of
9 results, the assets performed very well, as you know,
10 producing a pretty large increase from 6-30-24 to 6-30-25.
11 The accrued ability increased exactly -- almost exactly as
12 we had expected. And combined, those two factors resulted
13 in a funded status of 108.9 percent. You don't often see
14 a funded status greater than a hundred percent. So this
15 is -- this is a very good number. Discount rate is six
16 percent, as I discussed previously.

17 So what does it mean to be over a hundred percent
18 funded? It generally means that for retirees of this
19 plan, separated members with deferred benefits, the value
20 of those benefits is completely covered by the assets in
21 the plan today, as long as it continues to earn on average
22 six percent. So we've essentially paid for all future
23 benefits of our inactive workforce in this plan.

24 Now, for actives, the goal is to fund their
25 benefits over their working career. And so as of right

1 now, as of 6-30-25, we're a little ahead of schedule, as
2 far as funding those active members, but we haven't funded
3 all of their future benefits. In other words, they'll
4 continue to earn service and additional benefits going
5 forward. And those benefits are not part of this funded
6 status calculation.

7 Next slide.

8 [SLIDE CHANGE]

9 DEPUTY CHIEF ACTUARY DZIUBEK: So in terms of the
10 required contribution for this plan. Normally, a CalPERS
11 plan has two main components of their required
12 contribution. The first is the normal cost. That's the
13 ongoing cost of the active members continuing to earn
14 service. And then typically, the plans are less than a
15 hundred percent funded, and so they have a required
16 payment towards any unfunded liability that they have on
17 the valuation date.

18 So that second piece of required contribution
19 does not exist for this plan, given that it's over a
20 hundred percent funded. So what you're seeing here for
21 the required contribution is just the normal cost for this
22 plan. The total normal cost is in the top line. It's
23 about 33 percent of pay. And, of course, with regard to
24 normal cost, member's contributions pay part of that for
25 all of the CalPERS plans.

1 Classic members have a statutory requirement of
2 eight percent and PEPRA members pay roughly half of the
3 normal cost. So, for '26-'27, the required contribution
4 rates is 22.18 percent. It's a slight decrease from last
5 year. And we're going to see that slow decreasing of that
6 rate in our projection coming up. And that's basically
7 due to classic members turning over and being replaced by
8 PEPRA members who will be paying a higher portion of the
9 normal cost.

10 Next slide.

11 [SLIDE CHANGE]

12 DEPUTY CHIEF ACTUARY DZIUBEK: This slide of
13 funded status looks a lot like what you just saw from Paul
14 and Nina. We had a bit of a dip during COVID, where
15 investments did not perform as well as we would like. And
16 then sort of a steady increase over the last four years
17 with better, more favorable investment returns. One thing
18 that this slide points out. You don't have to go back
19 very far to see this plan with a funded ratio of over 120
20 percent actually, but in the very next year drop below a
21 hundred percent.

22 So the 109 percent funded status is very good.
23 We can pat ourselves on the back for that, but it's not --
24 it's nothing to be concerned about that it's too high.
25 And it just provides a nice buffer in case we get some of

1 that unfavorable investment performance going forward.

2 Next slide.

3 [SLIDE CHANGE]

4 DEPUTY CHIEF ACTUARY DZIUBEK: I spoke a little
5 bit about member contributions. So, the judges in this
6 system, the PEPRA judges, like other CalPERS members, pay
7 roughly half of the normal cost. One difference between
8 the Judges' plan and other CalPERS plans is that the PEPRA
9 benefit structure is really not as different from the
10 Classic benefits, as it is for non-judges throughout the
11 system. The main difference for the Judges' is the use of
12 a three-year average payout retirement instead of a
13 one-year for the Classic members.

14 Now, what that means, is that if you were to look
15 at the normal cost between just the Classic judges versus
16 the PEPRA judges, they look very similar. There's not the
17 difference that you see in other plans.

18 So that's one reason, among others, that the
19 member contribution rates for Judges is quite high at
20 16.75 percent. That's much higher than the average member
21 rate. It's not the highest across the system. We have
22 some safety plans that are 17 percent of pay, but the fact
23 that the PEPRA benefits are fairly generous contributes to
24 why this member rate is as high as it is.

25 Next slide.

1 [SLIDE CHANGE]

2 DEPUTY CHIEF ACTUARY DZIUBEK: And here, I
3 alluded to the projection of contribution rates. Because
4 the plan is overfunded, we project it to continue to stay
5 overfunded, as long as we continue to earn six percent on
6 our investments. And so, for this projection period,
7 you're just seeing a projection of the normal cost only
8 and the employer portion of that normal cost. And again,
9 it's decreasing because we're getting more and more PEPRA
10 members in the mix who are paying the higher rate of
11 contributions.

12 And I think that's it for my slides. Happy to
13 take any questions.

14 CHAIR MIDDLETON: All right. Are there any
15 questions?

16 I'm not seeing any. This is truly a good news
17 story and one that simply reaffirms well-managed defined
18 benefit public pensions are entirely possible, doable, and
19 we're doing it.

20 DEPUTY CHIEF ACTUARY DZIUBEK: I agree.

21 CHAIR MIDDLETON: With that, is there a motion to
22 approve.

23 COMMITTEE MEMBER PALKKI: I'll move.

24 VICE CHAIR MILLER: I'll move

25 CHAIR MIDDLETON: And second?

1 VICE CHAIR MILLER: Second.

2 COMMITTEE MEMBER PALKKI: Second.

3 CHAIR MIDDLETON: Okay. All those in favor,
4 please say aye.

5 (Ayes.)

6 CHAIR MIDDLETON: Any opposed?

7 Any abstentions?

8 So we have completed our action items. We have
9 some information agenda items. Are there any questions on
10 Items 6a, b or c that would -- from my colleagues?

11 Seeing none. Did I miss something, David?

12 Okay. We have I think only the summary of
13 Committee Direction and any additional public comment left
14 on the agenda, so...

15 CHIEF FINANCIAL OFFICER NIX: Madam Chair, would
16 you like to start the presentations for the information
17 agenda items or do you want to take a break before?

18 CHAIR MIDDLETON: Why don't we take a break for
19 15 minutes and we will come back you can begin those.

20 (Off record: 10:42 a.m.)

21 (Thereupon a recess was taken.)

22 (On record: 10:57 a.m.)

23 CHAIR MIDDLETON: Thank you. Let's move on to
24 our information agenda items. And the first one is 6a,
25 long-term care valuation report. And Fritzie.

1 (Slide presentation).

2 DEPUTY CHIEF ACTUARY DORAIS: Good morning, Madam
3 Chair and members of the committee. Fritzie Dorais,
4 member of CalPERS Actuarial team.

5 Item 6a is your fourth and final installment of
6 actuarial valuations for today. It is the long-term care
7 valuation results as of June 30th, 2025.

8 [SLIDE CHANGE]

9 DEPUTY CHIEF ACTUARY DORAIS: Okay. Some
10 background. This is an annual agenda item to report the
11 funded status and general health of the long-term care
12 program. All information in this report is of June 30th,
13 2025. Although, I will note that all of approved rate
14 increases that are going on right now and through 2027 are
15 also reflected in these results. This presentation is
16 meant to highlight the key aspects of the report. And for
17 your convenience, a full report -- the full report is
18 available as an attachment to this agenda item.

19 [SLIDE CHANGE]

20 DEPUTY CHIEF ACTUARY DORAIS: Thank you. Okay.
21 The margin as of June 30th, 2025 was negative 6.62
22 percent. That is up from negative 10.58 percent a year
23 ago. As a reminder, the margin is the percentage of
24 premiums for the Program -- I'm sorry, it's the percentage
25 of premiums that the program needs to be adjusted to get

1 the margin back to zero percent. The funded ratio for the
2 program is 97 percent, up from 94 percent. And the funded
3 ratio is simply the ratio of the program assets to the
4 program liabilities.

5 The next slide will depict a reconciliation of
6 how we arrived at the current year figures from the prior
7 year.

8 [SLIDE CHANGE]

9 DEPUTY CHIEF ACTUARY DORAIS: So the way to read
10 this chart is row by row, left to right. You can see last
11 year's numbers on the top row. The margin was negative
12 10.58 percent and the funded ratio was 94 percent. So
13 let's take a look at the second section of the table.
14 This section displays how the margin and funded ratio
15 reacted to the actual experience of the program during the
16 '24-'25 fiscal year. We had a good year for investment
17 experience. The portfolio earned a return of 9.5 percent
18 compared to the 4.75 percent expectation. As a result,
19 both the margin and the funded ratio of the program
20 increased to negative 1.71 percent and 99 percent
21 respectively.

22 All other experience, however, was slightly less
23 favorable than what we expected. We call all other
24 experience non-investment experience. The non-investment
25 experience served to lower both measures to negative 3.85

1 comparing, but -- because it seems counterintuitive,
2 because, you know, we talk about how the fund -- how the
3 investment return was positive, the fund balance is
4 high -- the funded status I'm sorry is high. And yet,
5 because of all these other assumptions, we have to take
6 corrective action, right?

7 And I know there's something called first
8 principles based modeling method is being used or
9 something. So I guess is it -- I know it's different than
10 a health plan. It's being done very, very different. So
11 that -- maybe that's why, but can you give me another
12 attempt to try to explain margin to me, please.

13 DEPUTY CHIEF ACTUARY DORAIS: Yeah. I'm sorry.
14 I think I might have actually butchered it a little bit,
15 but a negative 6.62 percent margin would indicate that if
16 we raised premiums by 6.2 per -- 62 percent across the
17 Board, then the program would be at a zero percent margin.
18 That's what it -- that's what it is. It's just an
19 indication of which way the premiums should go.

20 COMMITTEE MEMBER RUBALCAVA: But it's a
21 comparison between the reserves, right, or what's
22 posted -- the --

23 DEPUTY CHIEF ACTUARY DORAIS: So basically, you
24 want the program, right, to have at least enough assets to
25 cover the anticipated claims that are coming out. And so

1 currently, we do not have that level.

2 COMMITTEE MEMBER RUBALCAVA: So how is that
3 different than the funded status?

4 DEPUTY CHIEF ACTUARY DORAIS: So the funded
5 status is just a ratio. We have the plan -- the program
6 assets and we're dividing that by the program liabilities,
7 so what the expected claim costs are as of June 30th,
8 2025. And so the difference between the two, that's the
9 funded ratio. The margin is just a measure of where the
10 premiums need to go to get ourselves back to a hundred
11 percent funded.

12 COMMITTEE MEMBER RUBALCAVA: So the part that I
13 did get is that both the funded status and the margin are
14 both going -- both improving.

15 DEPUTY CHIEF ACTUARY DORAIS: Correct. That's
16 correct.

17 COMMITTEE MEMBER RUBALCAVA: So that's -- I guess
18 that's the pay thing going from 10.58 to 6.262 and from 94
19 to 97. Okay.

20 DEPUTY CHIEF ACTUARY DORAIS: Right.

21 COMMITTEE MEMBER RUBALCAVA: I think that's the
22 main takeaway.

23 DEPUTY CHIEF ACTUARY DORAIS: Okay.

24 COMMITTEE MEMBER RUBALCAVA: Thank you. Sorry
25 about that.

1 CHAIR MIDDLETON: Thank you.

2 COMMITTEE MEMBER RUBALCAVA: Thank you.

3 CHAIR MIDDLETON: Are there any other questions
4 or comments from the Board?

5 Seeing none, this was an information item. And
6 we will move on to 6b, semiannual health plan financial
7 report.

8 (Slide presentation).

9 SUPERVISING HEALTH ACTUARY ZHONG: Good morning,
10 Madam Chair and members of the Committee. Emily Zhong,
11 CalPERS team member. This is Agenda Item 6b, semiannual
12 health plan financial report. This report is provided to
13 the Committee twice a year as part of the monitoring and
14 reporting process for the Health Care Fund, which include
15 health plan account balances, actuarial reserve amount and
16 surpluses or deficits for the health plan subaccounts.

17 Today, I'm reporting the financial performance
18 for the PPO and the flex-funded HMO plans as of the end of
19 2025.

20 [SLIDE CHANGE]

21 SUPERVISING HEALTH ACTUARY ZHONG: Before going
22 through the fund status, I want to share some recent
23 improvement we've seen on the PPO program. This graph
24 shows the history of PPO fund balance to actuarial ratio
25 for the past five years. As a reminder, our Health Care

1 Fund Reserve Policy provides a framework for maintaining
2 the appropriate level of reserve for PPO plans.

3 When the fund balance is less than 90 percent of
4 actuarial reserve, a premium surcharge may be considered
5 to help replenish the fund. If the fund balance is at or
6 below 90 percent of the actuarial reserve, no action is
7 needed. The dashed line on the graph indicates 90 percent
8 benchmark of actuarial reserve needed for 2025. As shown
9 in the graph, there has been a reserve funding shortfall
10 for our PPO plans in 2021. That year fund balance fell
11 below 90 percent of actuarial reserve and continue to
12 decrease through 2023. This was mainly due to a
13 combination of premium buydown for plan year 2020 to 2022,
14 and unexpected high health care costs for a couple of year
15 post-COVID.

16 After a few years of premium surcharge, we've
17 seen great improvement in the PPO fund. As reported in
18 November, the ratio has increased to 66 percent as of June
19 last year. And I'm happy to report that the fund
20 continues to increase to 81 percent by year-end 2025.

21 We expect the PPO fund status will continue to
22 improve and likely reach the required benchmark of 90
23 percent reserve level in 2026. We are currently
24 evaluating potential options to begin reducing the PPO
25 premium surcharge starting with 2027 premiums for the

1 Board's consideration in PHBC.

2 Next slide, please.

3 [SLIDE CHANGE]

4 SUPERVISING HEALTH ACTUARY ZHONG: Here, we have
5 the recent Health Care Fund performance for the HMO Basic
6 and PPO Medicare and Basic plans.

7 Starting with the HMO Basic plan, the estimated
8 fund balance as of the end of 2025 was 269 million. The
9 next column shows the HMO Basic estimated liability of 122
10 million, with the last column showing the surplus of 148
11 million. This is a 16 million improvement from the end of
12 2024.

13 Now, on the PPO side, starting with the Basic
14 plan, the estimated fund balance as of December 2025 was
15 437 million. We estimate the liability and required
16 actuarial reserve level of 602 million, for a fund status
17 of 165 million below the fully reserved level or 105
18 million below the 90 percent of reserves.

19 For the PPO Medicare plans, the estimated fund
20 balance as of the end of 2025 was 217 million. After
21 require actuarial reserve of 206 million, the fund status
22 for PPO Medicare plan now is 11 million above the fully
23 reserved level. The overall PPO status improved by about
24 313 million at the end of 2024. This improvement was
25 primarily driven by the premium surcharge and the -- and

1 the higher than expected pharmacy subsidies we received
2 from the federal government for the Medicare plans.

3 As mentioned earlier, we have the fund status --
4 funded fund balance to actuarial ratio of 81 percent at
5 the end of 2025 for PPO.

6 Next slide, please.

7 [SLIDE CHANGE]

8 SUPERVISING HEALTH ACTUARY ZHONG: Now, looking
9 forward, with the premium surcharge approved by the Board
10 for PPO premium in 2026 as well, we do expect the PPO fund
11 status will continue to improve. And additionally, we
12 have implement other way to improve our PPO program. As
13 we know, on the medical side, the current PPO contract, we
14 do include significant performance guarantee to ensure
15 Blue Shield of California and Included Health are
16 financial responsible for keeping the cost at or below the
17 agreed upon threshold.

18 On the pharmacy side, starting January this year,
19 we have a new contract with CVS, which also has strong
20 performance guarantee for CVS to control costs. Thanks to
21 this improvement, and as I mentioned earlier, in the rate
22 develop process currently underway, we are evaluating
23 potential options to begin reducing the PPO premium
24 surcharge starting with 2027 premiums for the Board's
25 consideration in PHBC.

1 SUPERVISING ACTUARY SCHNEIDER: So today, we'll
2 give a brief overview. We'll talk a little bit about the
3 discount rate, review inflation, mortality, and we'll talk
4 about some other assumptions. And the other ones really
5 only affect JRS II for reasons that I will explain. We'll
6 talk about the cost impact, which is really only for JRS
7 II and LRS. And I'll explain. And if -- whether there
8 will be any impact or we expect there to be any impact on
9 member rates for PEPRA members. And that would only be
10 for JRS II, because of these three Affiliate Funds, only
11 JRS II has active PEPRA members.

12 And we'll talk about next steps. Next slide.

13 [SLIDE CHANGE]

14 SUPERVISING ACTUARY SCHNEIDER: Okay. So
15 important thing to remember about assumptions. You know,
16 whenever we talk about changing assumptions, we talk about
17 the impact on cost. But if you look at long-term,
18 actuarial assumptions don't affect the long-term costs.
19 The long-term costs are going to be determined by what
20 benefits are actually paid, what investment earnings are
21 actually earned. What they affect though is our estimate
22 of what those benefit payments and investment returns will
23 be, so they affect the short-term cost, what the
24 contribution requirements are going to be.

25 So what do they affect? They do affect the

1 funded status, but that is really only for -- of these
2 three only for JRS II and LRS. And that is because the
3 first JRS plan is not a funded plan. There's no assets in
4 it or effectively no assets. It's a, what you call, a pay
5 as you go plan, where benefits are paid out and the State
6 simply reimburses the fund and keeps it -- keeps a
7 positive balance in the account. So whatever we assume
8 the funded status is going to be fund, the funded ratio is
9 going to be about zero percent regardless.

10 Required employer contributions for the same
11 reason, it doesn't affect JRS. Their contributions -- the
12 State contributions for JRS are just going to be
13 determined by what benefit payments really get paid, not
14 what we assume they're going to be. And the member
15 contributions I just mentioned, it's just JRS II. And
16 financial reporting information that goes on in State's
17 financial statements.

18 Assumptions do affect factors that get used for
19 something like service purchases. Now, LRS does not have
20 any active members. LRS is entirely just retirees, so
21 that doesn't affect them, but it would affect JRS members
22 and JRS II members. And as I mentioned, the reason we
23 want to have accurate assumptions is because if we don't,
24 the long-term costs are going to be what they are. And if
25 our assumptions are too optimistic, there's going to be

1 increases later. If our assumptions are too pessimistic,
2 there's going to be decreases later. And we're trying to
3 get level steady contributions.

4 Next slide.

5 [SLIDE CHANGE]

6 SUPERVISING ACTUARY SCHNEIDER: The assumptions
7 we're going to talk about, so what -- well, the
8 assumptions we're not going to talk about today much is
9 the discount rate and that's studied separately. That
10 goes through the Investment Committee because, the
11 discount rate is decided along with the investment
12 strategy decisions. But we are going to talk about or --
13 very briefly, the inflation assumption, which you might
14 think of as part of the discount rate but it also affects
15 retiree COLA assumptions and salary increase assumptions.
16 And on the non-economic side, there's pay increases.
17 There we're talking about merit increases. Longevity,
18 which is a nice way to say, mortality assumption.
19 Retirement, termination, disability and anything else.

20 And again, for LRS -- like some of these don't
21 matter at all for LRS. They don't have -- they don't have
22 active members. They're all retirees. Disability,
23 termination, retirement, pay increases, nothing. We just
24 care about COLAs and mortality.

25 Next slide.

1 [SLIDE CHANGE]

2 SUPERVISING ACTUARY SCHNEIDER: So, key findings.
3 Similar to PERS is that we had this big kind of event
4 during the pandemic, where we had higher mortality, a lot
5 of retirements, and we kind of had to exclude some of that
6 data. As we were looking at it, what we found is that
7 most assumptions didn't require significant changes, but
8 JRS II and LRS will see increased costs. And that's
9 mainly due to increasing the price inflation assumption,
10 which like I said for LRS we're, is we're just talking
11 about retirees. And JRS II, we have salary increases and
12 retiree COLAs.

13 JRS II, like I said -- yeah, JRS, they see -- JRS
14 see an increase in projected benefits, because of the
15 retiree COLAs, but it doesn't affect -- it doesn't affect
16 direct cost requirements.

17 Next slide.

18 [SLIDE CHANGE]

19 SUPERVISING ACTUARY SCHNEIDER: Next slide.

20 [SLIDE CHANGE]

21 SUPERVISING ACTUARY SCHNEIDER: So the discount
22 rate, I'm just going to mention here, that in March you
23 did see recommendations or where we're leaning for JRS II
24 and LRS. And the recommendation that we expect to bring
25 in June is -- well, I guess we'll see, but nothing in

1 March showed that you should be expecting a big change in
2 the discount rate for those two plans. You didn't see
3 anything on JRS.

4 Next slide.

5 [SLIDE CHANGE]

6 SUPERVISING ACTUARY SCHNEIDER: And the reason is
7 that there's no investment decisions being made there.
8 There's not a pot of money. And the discount rate doesn't
9 affect the funded status. It doesn't affect member
10 contribution requirements, employer required
11 contributions, nothing. And the discount rate even for
12 active JRS members doesn't affect their service purchases,
13 because they use the JRS II discount rate for that.

14 Next slide.

15 [SLIDE CHANGE]

16 SUPERVISING ACTUARY SCHNEIDER: Next slide.

17 [SLIDE CHANGE]

18 SUPERVISING ACTUARY SCHNEIDER: Our inflation
19 review very briefly. We saw a big spike in inflation a
20 few years ago, but we never saw a big -- that big of a
21 spike in projected inflation, what was expected long term.
22 So there's a lot more about this in the -- in the PERS
23 experience study. And what we're doing here with these is
24 that we are recommending that the same assumption be
25 adopted for these three affiliate funds, and that is an

1 increase from 2.3 percent to 2.5 percent.

2 Next slide.

3 [SLIDE CHANGE]

4 SUPERVISING ACTUARY SCHNEIDER: Next slide.

5 [SLIDE CHANGE]

6 SUPERVISING ACTUARY SCHNEIDER: And the mortality
7 assumptions, similarly that's one big study that's done on
8 all the mortality information we have. And we're just --
9 we're just recommending that these three affiliate funds
10 adopt the same mortality assumptions that was adopted for
11 PERS in November.

12 Next slide.

13 [SLIDE CHANGE]

14 SUPERVISING ACTUARY SCHNEIDER: And they were
15 very small. They had a very small impact on female
16 mortality. We're talking about expected lifetime of a
17 month longer and no impact on male expected longevity.

18 Next slide.

19 [SLIDE CHANGE]

20 SUPERVISING ACTUARY SCHNEIDER: Next slide.

21 [SLIDE CHANGE]

22 SUPERVISING ACTUARY SCHNEIDER: And next slide.

23 [SLIDE CHANGE]

24 SUPERVISING ACTUARY SCHNEIDER: So as Randy
25 mentioned, when we was doing JRS II, JRS, the first one

1 was closed to new members in 1994. There's a few actives
2 left, 56 active members. No PEPRAs members. And LRS is
3 entirely retirees. So the only assumptions that we really
4 care about for them is inflation, and that's mainly for
5 the COLA, and mortality. So, anymore assumptions -- next
6 slide

7 [SLIDE CHANGE]

8 SUPERVISING ACTUARY SCHNEIDER: -- is just for
9 JRS II. And there we do -- that's an open plan. Any new
10 judges appointed, even if it's a retiring judge from JRS,
11 is going to be in a JRS II plan. So we looked at service
12 retirement and disability retirement. The only ones that
13 we're recommending changes for are the service retirement
14 and the withdrawal retirement. Basically, leaving the
15 bench without retiring.

16 Next slide.

17 [SLIDE CHANGE]

18 SUPERVISING ACTUARY SCHNEIDER: And there's just
19 a brief graph to show that, you know, we analyze all the
20 assumptions. What was the actual experience, what was our
21 actual assumption, and we try and move the assumption a
22 little closer to what the experience was.

23 Next slide.

24 [SLIDE CHANGE]

25 SUPERVISING ACTUARY SCHNEIDER: And the same for

1 the withdrawal rates.

2 Next slide.

3 [SLIDE CHANGE]

4 SUPERVISING ACTUARY SCHNEIDER: Next slide.

5 [SLIDE CHANGE]

6 SUPERVISING ACTUARY SCHNEIDER: Okay. So the
7 cost assumptions, like I said for JRS, assumptions don't
8 affect the cost. The State is just going to pay whatever
9 benefit payments get paid out. JRS II we saw a small
10 increase in the employer normal cost rate, 0.78 percent of
11 payroll, which we don't expect to affect the PEPRA member
12 rate. So that's good news for the PEPRA judges.

13 The accrued liability did go up -- would go up.
14 So this is base on the 25 valuation. These assumptions
15 won't be adopted till '26, but based on the '25 valuation,
16 it would be an increase in \$63 million. Now, Randy had
17 such good news a little while ago, saying that JRS II was
18 108.9 percent funded. And unfortunately, it's my job to
19 say, well, if we change these assumptions like we think we
20 will, it's only 106.8, but the point that it's over a
21 hundred percent still stands.

22 So this increase in accrued liability, although
23 it's \$63 million, there's no increase in the immediate
24 cost, because they don't make a UAL payment even with the
25 change assumptions. LRS, we don't have to worry about

1 normal cost, because there's no active members. It's just
2 an increase in the accrued liability of \$2 million, which
3 decreases the funded ratio about two percent of payroll.

4 Next slide.

5 [SLIDE CHANGE]

6 SUPERVISING ACTUARY SCHNEIDER: Next steps. Next
7 slide.

8 [SLIDE CHANGE]

9 SUPERVISING ACTUARY SCHNEIDER: So, we'll come
10 back to you in June with a final recommendation and final
11 reading. And at the same time, we are coordinating to
12 make sure that in myCalPERS, we can do things like
13 calculate service purchases or calculate optional forms
14 for retirement based on the new assumptions, so that if a
15 retiree -- or if -- so that as soon as you change the
16 assumptions -- adopt new assumptions, that members would
17 not see any disruption in service. And I think that's it.

18 Next slide. Is there another slide.

19 [SLIDE CHANGE]

20 SUPERVISING ACTUARY SCHNEIDER: Oh, great. That
21 concludes my planned comments. And with that, I would
22 take any questions.

23 CHAIR MIDDLETON: All right. Thank you.

24 Are there any questions?

25 I'm not seeing any questions.

1 Kurt, this was a very good report and it -- it's
2 heading in a very positive direction. And on behalf of
3 the Board, my thanks to you and to everyone in the
4 actuarial team that put this together.

5 SUPERVISING ACTUARY SCHNEIDER: Thank you.

6 CHAIR MIDDLETON: With that, we have gotten to
7 that point of summary of Committee direction.

8 CHIEF FINANCIAL OFFICER NIX: I took no direction
9 for this Committee today.

10 CHAIR MIDDLETON: No, I don't recall any.

11 Do we have any public comments?

12 None. Okay. Then we have gotten to the end of
13 this meeting.

14 Mr. Palkki, what time would you like to begin the
15 Performance, Compensation and Talent Management meeting?

16 COMMITTEE MEMBER PALKKI: Start at 11:30.

17 CHAIR MIDDLETON: Shall we perhaps take an hour
18 break, and -- so we will adjourn and return at 12:30 for
19 the beginning of the Performance, Compensation and Talent
20 Management meeting. Thank you.

21 (Thereupon the California Public Employees'
22 Retirement System, Board of Administration,
23 Finance & Administration Committee meeting
24 adjourned at 11:23 a.m.)
25

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 20th day of April, 2026.

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