MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

RISK AND AUDIT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

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WEDNESDAY, JUNE 17, 2026

8:34 A.M.

JAMES F. PETERS, CSR
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LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chair

Michael Detoy, Vice Chair

Malia Cohen, represented by Deborah Gallegos

Troy Johnson

Lisa Middleton

Kevin Palkki

Mullissa Willette

BOARD MEMBERS:

Theresa Taylor, President

Ramon Rubalcava

Gail Willis, PhD(Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Prashant Yerramalli, General Counsel

Beliz Chappuie, Chief Auditor

Kami Niebank, Deputy Chief Compliance Officer

ALSO PRESENT:

Margaret Brown, Retired Public Employees Association

Amanda Cronk, Plante Moran

John Holden

APPEARANCES CONTINUED

ALSO PRESENT:

J.J. Jelincic, Retired Public Employees Association

Graham Schmidt, Cheiron

Jean Young, Plante Moran

Michelle Waterworth, Plante Moran

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PROCEEDINGS

CHAIR MILLER: Okay. We'll call to order this meeting of the Risk and Audit Committee meeting. And we'll start with the roll call

BOARD CLERK LEMUS: David Miller.

CHAIR MILLER: Here.

BOARD CLERK LEMUS: Michael Detoy.

VICE CHAIR DETOY: Here.

BOARD CLERK LEMUS: Malia Cohen.

Troy Johnson.

COMMITTEE MEMBER JOHNSON: Here.

BOARD CLERK LEMUS: Lisa Middleton.

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK LEMUS: Kevin Palkki.

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK LEMUS: Mullissa Willette.

COMMITTEE MEMBER WILLETTE: Here.

CHAIR MILLER: Okay. Our first order of business is the Executive Report.

GENERAL COUNSEL YERRAMALLI: Good morning, Mr. Chair, Mr. Vice Chair, and Committee members. My name is Prashant Yerramalli. I am the General Counsel filling in for Mr. Fein who was unable to attend today's meeting. Today, you will be presented for -- today, you will have presented for your approval the fiscal year '26-'27

Enterprise Compliance, Risk and Governance Annual Plan, the fiscal year 2026-27 Office of Audit Services Annual Plan, the '26-'27 Independent Auditor's Annual Plan. You will also be receiving two information agenda items. First, the third-party valuation and certification of the 2024 CalPERS annual valuations for public agencies and the fiscal year 2025-26 annual Compliance report.

The next Risk and Audit Committee meeting is schedule for September 2026 in Sacramento, California and will include a first reading of the conflict of interest code amendment and an update on the conflict of interest program enhancements and expansion. This concludes the executive report. Happy to take any questions.

CHAIR MILLER: Okay. I'm not seeing any requests for questions. Thank you for the report. Appreciate it.

And so that moves us to action consent items. What's the pleasure of the Committee?

COMMITTEE MEMBER PALKKI: Move approval.

CHAIR MILLER: Moved by Mr. Palkki.

Seconded by?

VICE CHAIR DETOY: Second.

CHAIR MILLER: Mr. Detoy.

No discussion.

So I'll call for the question. All in favor?

(Ayes.)

CHAIR MILLER: Any opposed?

Any abstentions?

The ayes have it. The motion passes.

On to information consent items. Nobody has -- I see no requests to pull any of these, but I do have a request for public comment related to Item 4d, the Enterprise Compliance Activity Status Report.

Mr. Jelincic.

J.J. JELINCIC: Good morning again. J.J. Jelincic, RPEA. I've spoke about this issue in the past, but I'd like to comment on the status reports and I want to focus on slide 13 in each. For January and February, the report shows that when you found a violation, you closed the account -- the file without identifying what you did. For March and April, when you reported on substantiated complaints, you now disclose what the finding was and the action you took. And that, I think, is a great improvement. It will help with the Board actually monitoring, if it chooses to, what's going on.

I've complained about the past -- the bad reporting in the past and I wanted to take the time to acknowledge and thank the staff for the improvement.

Thank you.

CHAIR MILLER: Thank you.

There's no other public comments on this item.

That brings us to 5a, our action agenda items. Enterprise Compliance, Risk and Governance Annual Plan.

(Slide presentation).

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: Thank you. Good morning --

CHAIR MILLER: Oh, microphone.

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: How about now?

CHAIR MILLER: There you go.

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: Okay. Thank you, Mr. Chair and Committee member. I'm Kami Niebank, CalPERS team member, and Deputy Chief Compliance Officer. Today, I am presenting for you, for your review and approval, the Enterprise Compliance, Risk and Governance Office's Annual Plan. I will highlight for you the areas that we intend to focus on in the coming fiscal year, as we continue to mature the Compliance and Risk Program and work through enhancements outlined in the multi-year plans that we have discussed at previous meetings.

Our goal remains consistent with prior years to mature and strengthen CalPERS' ability to identify, manage and mitigate compliance and ethics risks across the organization with the focus on people, processes and technology.

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DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: With regards to our focus on people, we continue to develop the skills and abilities of our in-house team, so we can focus on building a stronger culture of risk awareness, compliance and partnerships across the organization. As to our processes, we will continue to mature and formalize key compliance and risk management activities.

And in technology, the team has made great strides over the last few years. We have completed the implementation of our compliance technology solution, enhanced reporting and other risk tools, while leveraging software capabilities that we already had in-house. I'm pleased to say that we now consider the technology track as closed and moved into business as usual.

We will continue additional improvements and enhancements throughout the course of the project -- you know, throughout the course of the program, but we will not have any formal projects going forward on technology.

On slide three --

[SLIDE CHANGE]

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK:

-- you'll see our updated roadmap outlining our strategic focus over this past fiscal year and heading into '26-'27. We continue to advance compliance and risk management across the organization through improved collaboration and training. With the completion of our technology build, most of our efforts and future years will be geared towards building the compliance and risk processes to strengthen program management, governance and oversight. Through this approach across people, process and technology, we will have built and continue to enhance and expand a strong foundation for continued success.

As we move to slide 4 --

[SLIDE CHANGE]

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: -- and as we've out -- highlighted in prior reports, these are multi-year initiatives that will evolve as we build our program. Initiative 1 is focused on assessing and reporting risk. The two primary efforts for next fiscal year will include continuing to strategically roll out and integrate the Risk and Control Self-Assessment process across additional program areas. This will help ensure that risks are consistently identified assessed and managed at the source.

And second, we are piloting a regulatory change management framework by partnering with program areas to identify opportunities to integrate existing regulatory change practices into the framework ensuring key compliance and risk management considerations are incorporated.

On the next slide, we have --

[SLIDE CHANGE]

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK:

-- Initiative 2, which is minimizing risk by enhancing our assurance, monitoring and issues remediation capabilities. Our key focus areas for the coming year will include strengthening the three lines of defense governance practices of our conflicts of interest management program, including the establishment of a conflicts of interest policy. In addition, we will be strengthening our partnerships with programs to enhance incidents and issues management by providing them with tools, resources and education, and advise to further equip team members.

Finally, as move to slide six --

[SLIDE CHANGE]

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: -- this covers Initiative 3, educate and cultivate and ethical and risk-intelligent practice and culture. We will continue to build and deliver training to support team members' compliance and risk awareness across the organization. A good example includes our efforts to work on the CalPERS code of conduct training to include some of CalPERS more specific and key rules. In addition, we will be engaging with the first line of defense at the program level, and we have a program called the Compliance and Risk Liaisons, which we also refer to them as CARLs. We will be providing them with more tools, training and clarify roles and responsibilities. And we have laid the groundwork for more structured policy management and governance framework. And we'll continue our efforts to effectively engage all program areas in this effort.

That brings me to the end of our overview of the Compliance and Risk Initia -- Compliance and Risk Management Initiatives for fiscal year '26-'27 and I'm happy to answer any questions.

CHAIR MILLER: Okay. Before we go to questions, I understand that Dr. Willis has joined us. So because we're not al present in the same room and Dr. Willis will be participating from remote locations that are not accessible to the public, Bagley-Keene requires the remote Board member to make certain disclosures about any other persons present with them during open session. Accordingly, I'll ask Dr. Wills to attest either that you are alone or that there -- if there are one or more persons present with you who are at least 18 years old, the nature of their relationship to each person.

Dr. Willis, do you so attest?

BOARD MEMBER WILLIS: Yes. Good morning, Board members and I attest to the fact that I am alone. Thank you.

CHAIR MILLER: Good morning. Thank you.

Okay. I just -- I don't know if this so much a question or a comment. I know we -- congratulations to the team and all the hard work wrapping up the technology track. I'm just wondering going forward, whole -- this whole burgeoning AI world that we're in now, it seems that it -- as a tool, it provides us potentially a lot of benefit, but also it seems like something that could really increase the pace of change with both the internal challenges and particularly with external threat actors. Just as it could potentially enhance our capabilities, it could potentially enhance the bad actor's capabilities. Any thoughts on that and whether it's something we'll need to be revisiting sooner than later?

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: Yeah, that's a great question. And it's something that we've already been having some discussions with Prashant about, since he is kind of bringing in new perspectives and also something talking with our Information Security Office. So, yeah, certainly something that is at our forefront of our minds.

GENERAL COUNSEL YERRAMALLI: No. I'll just add something, not just across this vertical, but across the entire organization that we're thinking very deeply on. As you acknowledge, it's a very fast-moving area. And it touches both sort of our capacities to sort of do the work of the organization. But as new models and new frameworks come out also increases the surface area of threats to, you know, more data and other play -- and other sort of parts of the organization. So it's something we talk about on a near daily basis and are sort of bringing in outside experts and increasing our internal capacities in real time.

CHAIR MILLER: Great. Thank you.

I'm not seeing any other questions or requests to speak, so I thank you for the report and the work of everyone on the team. Thank you.

I have public comment on this item, before we go to an action item. So for 5a, I have Mr. Jelincic.

J.J. JELINCIC: Good morning again. J.J. Jelincic, RPEA.

The presentation describes the annual goals. It does not provide insight into what actions your staff is actually going to take to achieve those goals. A plan with no action steps is unlikely to achieve its goals. The lack of actual measurable actions means there is no accountability, no way to measure success, no way to provide meaningful oversight and monitoring.

I would encourage the Committee to reject this so-called plan, and direct staff to come back with a real action plan, and not just hopes and wishes. I know they can do it.

I will also point out that these comments also apply to 5b, the Office of Audit Services plan. I can come back an repeat them or you can just consider them twice, because I know you're paying a lot of attention, and I thank you for your consideration.

CHAIR MILLER: Thank you.

Okay. There it is. And this is an action item, so the pleasure of the Committee.

COMMITTEE MEMBER PALKKI: Move approval.

CHAIR MILLER: Moved by Mr. Palkki.

COMMITTEE MEMBER JOHNSON: Second.

CHAIR MILLER: Seconded by Mr. Johnson. Okay. So, any discussion of the matter?

Okay. I'll call for the question. We have to do a roll call.

BOARD CLERK LEMUS: Michael Detoy?

VICE CHAIR DETOY: Aye.

BOARD CLERK LEMUS: Deborah Gallegos for Malia Cohen?

Troy Johnson?

COMMITTEE MEMBER JOHNSON: Aye.

BOARD CLERK LEMUS: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK LEMUS: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK LEMUS: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

CHAIR MILLER: All right. The motion passes. That moves us to Item 5b, Office of Audit Services plan.

(Slide presentation).

CHIEF AUDITOR CHAPPUIE: Good morning, Mr. Chair, members of the Committee. Beliz Chappuie, Office of Audit Services.

Agenda Item 5b is an action item. Staff requests the Risk and Audit Committee to approve the Office of Audit Services proposed audit plan for the fiscal year '26-'27. As required by the internal auditing standards, the Office of Audit Services prepared the risk-based audit plan to determine the priorities of the internal audit activity for the next fiscal year. In conducting the risk assessment, the Office of Audit Services, as the third line of defense, coordinated its efforts with the second line of defense, the enterprise compliance, risk and governance. We interviewed CalPERS executive and senior management teams and sought input from the Board members through surveys.

In identifying the internal audit assignments and activities, staff evaluated multiple risk factors, such as the organization's strategic goals, concerns raised by CalPERS management and the Board, information from prior audits, coverage provided by other assurance functions.

For the employer compliance reviews, the Office of Audit Services Plans to complete four review cycles covering one compliance area per cycle. Using data analytics staff will identify agencies for review for each cycle. As required by the internal auditing standards, we'll remain responsive to the changes in the organization's operations and programs and we will review and update audit plan as necessary. Any modification to the audit plan will be communicated to the Committee through the quarterly status reports.

This concludes my presentation and I'm happy to answer any questions.

CHAIR MILLER: Okay. Any questions?

I'm not seeing any questions. I thank you for the report. And this is an action item. I will note that Mr. Jelincic's comments at 5a also apply to 5b and I assume 5c as well. So what's the pleasure of the Committee?

COMMITTEE MEMBER PALKKI: Move approval

CHAIR MILLER: Moved by Mr. Palkki.

COMMITTEE MEMBER JOHNSON: Second.

CHAIR MILLER: Seconded by Mr. Johnson.

Any discussion on the matter?

No discussion.

I'll call for the question.

BOARD CLERK LEMUS: Michael Detoy?

VICE CHAIR DETOY: Aye.

BOARD CLERK LEMUS: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK LEMUS: Troy Johnson?

COMMITTEE MEMBER JOHNSON: Aye.

BOARD CLERK LEMUS: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK LEMUS: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK LEMUS: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

CHAIR MILLER: All right. The ayes have it. The motion passes.

That brings us to Action Agenda Item 5c, the independent auditor's annual plan.

CHIEF AUDITOR CHAPPUIE: Good morning, Mr. Chair members of the Committee. Beliz Chappuie, Office of Audit Services again.

Agenda Item 5c is an action item. Staff requests the Risk and Audit Committee to approve the Board's independent auditor, Plante Moran's, audit plan to audit CalPERS's financial statements for the fiscal year ending June 30, 2026. The presentation will allow the Risk and Audit Committee to hear from the independent auditor regarding their approach, objectives, scope and deliverables for the financial statement audit.

Plante Moran staff are presenting with me today and I would like to turn it over to them.

(Slide presentation.)

JEAN YOUNG: Good morning, everyone. So we're here to provide an overview of the audit plan for '26. If you could move to the next slide, it's just the agenda.

[SLIDE CHANGE]

JEAN YOUNG: We intend to cover the pre-audit communication and end with some --

COURT REPORTER: Could you identify yourself, please.

JEAN YOUNG: Pardon me?

COURT REPORTER: Could you identify yourself, please.

JEAN YOUNG: Oh, I'm sorry. I'm Jean Young, the lead partner on the account for CalPERS. And again, we intend to provide an overview. And with me is Amanda Cronk, the Principal on the engagement and Michelle

Waterworth our technical leader.

If you want to move to slide five, please.

[SLIDE CHANGE]

JEAN YOUNG: So the audits that we're here to perform are the financial statement audit, the GASB 68 and 75 schedules, and then the attest on the census related to the agent multi-employer plan.

In addition to those financial statement audits that we'll be providing, we also will have other deliverables on the internal control over financial reporting and compliance, as required by the Governmental Auditing Standards, our required communication at the end to the Risk and the Audit Committee, and then a management letter, if needed.

The next slide --

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JEAN YOUNG: -- highlights our timing. We actually started in March of '26. We've been having meetings and discussions. We are on-site in May to start our walk-through process and understanding of the internal controls and intend to wrap that up this month. And then the rest is just our plan going forward.

Next slide.

[SLIDE CHANGE]

JEAN YOUNG: With any audit, the auditor

responsibilities are to gain an understanding of the internal controls, but not provide an opinion on those. It's really for us to design appropriate procedures, to express an opinion on the financial statements, and then again under the GAO standards, we're expected to design audit procedures to detect instances of noncompliance related to financial reporting.

Also, we will report communications regarding any deficiencies that come to our attention that are required to be disclosed such as material weaknesses or significant deficiencies.

The next slide --

[SLIDE CHANGE]

JEAN YOUNG: -- continuing with the auditor responsibilities. We will report on the amount in the financials that are management estimates, more significant estimates, which Amanda is going to cover in more detail, and then to conduct the audit in a responsibility not to relieve management of their responsibilities, but to do the testing under the audit procedures. And then lastly, we obviously need to maintain our independence under the professional standards related to this process.

With that, I'll turn it over to Amanda.

[SLIDE CHANGE]

AMANDA CRONK: Thanks, Jean

This side here covers a couple key elements to our audit. And the first of which is the internal control structure. Jean briefly mentioned that our goal and part of our audit procedures are to gain an understanding of the processes and controls here at CalPERS to ensure that our audit procedures are designed accordingly. That process is much more, you know, complex than I just made it sound. And in this first year, we've really started with the narratives that your team has in place. We then have coupled that with a number -- a number of inquiries to ensure that we have a full picture of the processes and controls, at which point we then will walk through the key -- those key processes and controls.

As Jean mentioned, we do not and will not opine on the effectiveness of those internal controls. But again, it certainly helps us indicate whether they're operating as intended, but "B" really helps us design the rest of our audit procedures.

In keeping with designing the rest of those audit procedures, we do adhere to the concept of materiality. And this is not a new concept. I'm sure you've heard it in the past, but it really does help guide us to, A, what are significant transactions and maybe areas that we need to place a greater emphasis on, but also helps us identify maybe unusual transactions or new transactions to CalPERS that we also need to place a greater emphasis on.

On the next slide --

[SLIDE CHANGE]

AMANDA CRONK: -- we're going to take a look at some significant risk items. And I'd like to preface this by saying the risk assessment phase of the audit really is occurring throughout the entire audit process. So, we are here today and will walk through the risks and estimates that we've identified to date, but just know that as we continue to not only plan, but work through our final year-end field work, should anything arise that does require communication to you, we will do so at that time.

So the items on this slide are a mixture of not only significant risks that the auditing standards have indicated are present for every single audit, but also risks that are very specific to CalPERS. The first of which on this slide is management override of internal controls. And it is exactly what it sounds like. So part of our audit procedures will be designed to identify any controls that are more susceptible to management either working around that control or simply overriding it. So certainly a risk to the financial reporting process.

The second bullet here focuses on valuation of investments. This is strictly due to the sheer size of the investments that you hold, particularly related to those that are valued using unobservable inputs for your Level 3 investments, or those valued at net asset value. So we'll get in on the next slide to how we'll test those.

Improper revenue recognition. So this is another item that audit standards say are present in every audit. Particularly for CalPERS, we will focus on premiums in the Health Care Plan and Long-Term Care Fund and how those are recorded, along with investment gains and losses, again particularly on those harder-to-value investments.

Total pension and OPEB liabilities are considered a significant estimate that management makes through the use of actuarial experts. And part of our procedures will be to not only test the inputs that are used in calculating those liabilities, but also the assumptions that are made.

Lastly on this side, the valuation of the estimated future policy liability that is in the Long-Term Care Fund. And we will get into our testing of that in the next couple of slides.

So as you can imagine, we've identified these risks and we certainly, on the next two slides, want to walk through how we're going to test them.

So on the next slide --

[SLIDE CHANGE]

AMANDA CRONK: -- we'll being the management override of internal controls. We've designed our audit testing to focus on a couple different areas. Number one, journal entry testing. So we will get a download of manual entries that are posted in the system. And then we use data analytics to target certain risk areas. So we will do that and then we -- from there, we'll select a sample of journal entries to make sure that they're appropriately supported and valid entries in the system. We've also, when we were here for interim, worked through various fraud discussions, which again are required by auditing standards. But those inquiries also help us align and develop our audit procedures as it relates to certain risks of fraud.

Valuation of investments, as I mentioned, is certainly a big target area for our audit team. And we gave you a brief snapshot here of the testing in this particular area. So the first bullet, understanding of the controls. So we do that in order to perform control testing over those controls. So we will identify the key controls in place that reduce the risk that those valuations are incorrect and we will control test those certain controls.

We also perform data analytics and we're looking for key risk area as it relates to those Level 3 and net asset value investments. And we're looking for things such as new investments or significant fluctuations that may not be expected based on market trends. And we utilize that to select the investments for substantive testing, at which point we'll look at management's lag analysis.

Expert involvement. So for those Level 3 investments that don't have readily available audited financial statements, we will involve our investment experts to provide assistance in reviewing the assumptions and inputs into those estimates. And then again for those valued at net asset value, we'll be obtaining and reviewing the audited financial statements and related cap state -- capital statements.

As I previously mentioned, improper revenue recognition is a risk here as well, and we dovetail that testing in with our substantive testing of those alternatives investments.

The last section here is related to the improper revenue recognition of premiums. And this is really -- this testing will be focused on the premiums and recording of the federal government subsidies. And to do that, we will select a sample for testing. We will get, you know, the supporting documentation, ensure that that is all vouched to the cash receipts, and then we will also be testing and recomputing the unearned premiums in the

Health Care Fund.

The next slide --

[SLIDE CHANGE]

AMANDA CRONK: -- focuses on the total pension and OPEB liabilities. There are a number of contributing tests in this area that we do. We start with focusing on the key census data attributes or the demographic key points in the census data. We do a number of analytics there to look for anomalies. Maybe it's, you know, somebody had five years -- you know, added five years of service as opposed to one and things of that nature.

We also are performing testing at the employers. So we've selected a sample of employers for testing. And we will be ensuring that the data that they have provided is accurate and complete.

Again, I've mentioned the analytical tests. We also will select samples for substantive testing. And last, but certainly not least, we will be reviewing the actuarial valuations, testing and ensuring that those Key assumptions are reasonable, not only for CalPERS and the data used, but certainly compared to other market assumptions.

The last section on this slide is focused on that future policy liability in the Long-Term Care Fund. I would say similarly to the pension and OPEB liabilities, we'll be reviewing the data used to develop that estimate, ensuring that the assumptions used are reasonable. And we will do so through our on-staff actuarial specialist, along with the tools that management has utilized to develop that liability.

On the next slide --

[SLIDE CHANGE]

AMANDA CRONK: -- you might be thinking that was a lot of audit talk, but there's also a lot more to CalPERS than just those areas, and we agree with that. So just because we may not have a specific risk or estimate associated with an audit cycle doesn't mean that we won't be addressing it. So this slide just highlights a couple of other key and large audit sections for you.

Contributions certainly key. Contributions coming in from the employers and ensuring that those are reflected appropriately. Benefit payments going out, whether it be to participants or the employers, in the case of OPEB. We will be selecting samples and performing analytics and things of that nature. The health care estimated insurance claim payable, or the IBNR, that is an estimate and we will be reviewing it and testing it as such. So again, what were the inputs utilized and are those reasonable? And then looking administrative fee revenues and expenses.

With that, Michelle is going to give you a highlight of accounting standard changes.

MICHELLE WATERWORTH: Good morning, everyone. As Jean mentioned, my name is Michelle Waterworth and I'm going to wrap up our presentation by just sharing with you some of the things that we're going to be looking for this year in terms of the accounting standards changes and a preview of what's to come for you for next year in that same vein. So if you look at slide 15 --

[SLIDE CHANGE]

MICHELLE WATERWORTH: -- this just gives you a very high level. We only have two standards that will impact this year. And fortunately those standards were going to have a fairly minor impact on CalPERS. And one thing that's notable with both of these standards, they impact only disclosure. A lot of times when the Governmental Accounting Standards Board puts forth pronouncements, they impact both the accounting, so your financial statements, as well as disclosure. These two particular pronouncements for every organization only impacts the disclosure. And here again, for CalPERS, the impact on the disclosures, because of the nature of your entity for these two standards is fairly minor. So I'm going to go through them fairly quickly.

On the next slide, slide 16 --

[SLIDE CHANGE]

MICHELLE WATERWORTH: -- I want to talk about the first standard, and this is a standard that CalPERS is implementing this year. It deals with the financial reporting model. And really again because it's disclosure only, it's going to have two particular impacts specific to CalPERS. First of all, you have a section in your financial statement called the "Management Discussion and Analysis." This particular pronouncement that GASB put forth basically emphasizes the importance in the MD&A of really telling users what happened during the year. The goal is a user could just look at your MD&A and come away with an understanding, a really good understanding, of what happened within the organization this year.

So there are five basic sections that GASB prescribes to the M and -- MD&A, somewhat similar to what you've already been seeing in your financial statements. But again, GABS is emphasizing really to tell the reader what happened, why did changes occur during the organization, and in particular within the financial statements. The second impact will be on your proprietary funds. There is a slight change in format of those proprietary funds. Again, it will have a very minor impact on CalPERS. And again, this is a standard that you'll be implementing for June 30th, '26, so for this year.

And then the second standard that CalPERS is implementing this year --

[SLIDE CHANGE]

MICHELLE WATERWORTH: -- has to do with again disclosure only, and it has to do with capital assets. And because capital assets out here are very, very, very minor in the scheme of your other financial statement numbers, this particular pronouncement, which requires some changes in the disclosures, is really not going to be impactful. So that's great news.

And then on the last slide --

[SLIDE CHANGE]

MICHELLE WATERWORTH: -- this particular pronouncement will impact CalPERS next year. And this deals with GASB's really revision to the definition of subsequent events. So GASB looked at really a population of financial reports and determined that a very high number of governments really aren't under current standards today. They're really not disclosing subsequent events the way they need. So GASB decided to revise the standard. So this standard does two things. It changes the definition of subsequent events and it will require a new footnote in your financial statements, and that footnote has to display the date through which subsequent events were evaluated. So again, in the scheme of things, it's disclosure only and it will have a very minor impact on you. But again, that's a change for next year.

And with that, we are happy to take any questions or comments that you have for us today.

CHAIR MILLER: Okay. I have several questions. I'll start with Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you. Thank you for the presentation. Welcome to CalPERS.

I just want to follow up first on the significant risks you flagged around valuation of investments without observable inputs. And I think, if I understand it correctly, that's our private -- mostly our private equity, private debt and real estate holdings. And when there's no public market price to check against, given how much of our long-term returns depend on those valuations being right, when you're testing the valuations, what are -- what are you using, what are you testing? Is it -- and does it cross-reference or do you calculate in like workforce metrics, or is it just a financial evaluation from the company?

AMANDA CRONK: Great question. So I'll start. So there's really two avenues that we will work down. So first, we'll go with the easier avenue. So for those that are valued using what's referred to as net asset value, our process starts with management's process, which is to utilize the March 31st valuation and roll it forward to June 30th. So we start there. We will obtain the audited financial statement that that private equity or private debt investment issues. We will ensure that the capital statements that CalPERS is getting are accurate using that audited financial statement. And then certainly, we will test the roll-forward process.

Now, what we will also do is if that June 30th, 2026 capital statement becomes available before we issue the finance -- before we issue the audit opinion, we will also evaluate that out of evidence to ensure again to your point were any gains and losses significant that needed to be recorded as of June 30th? And we also test management's process of reviewing those June 30th capital statements as well to ensure that we have an understanding of how many were received and how many have yet to be received for those private equity and private debt investments.

Now the other avenue where perhaps audited financial statements are not readily available, which we most commonly see with the real estate investments or the real assets, we will -- we will work with our internal real estate investment professionals or -- and to ensure -- so we do a couple of things in this area. We will obtain what that investments holdings are and what the inputs utilized into their evaluation are. And we will ensure that our experts think that those inputs are reasonable, such as, you know, occupancy rates and things of that nature. We will also obtain and review appraisals if those are available, again with our experts reviewing those appraisals to ensure that the inputs and assumptions used are reasonable.

I don't know if Jean or Michelle have anything to add.

MICHELLE WATERWORTH: Yeah. On those Level 3 investments where there are unobservable inputs, as Amanda mentioned, we are looking at the significant inputs and assumptions that go along with those valuations. And we do pull in our valuation specialist into the process. They have lots of data on comparable company multiples. That also is something that they look at and compare your assumptions against.

COMMITTEE MEMBER WILLETTE: Thank you.

At the -- just to make a comment. Having worked at the Assessor's officer for 10 years, I feel sometimes those real estate appraisals are more art than a science. So it does make me -- you know, independent appraisals would be really valuable in that sense. And then just more broadly though, as we're looking through these risk areas, I'm thinking about how they translate into what it means for our employers, right? What it means for our employers and ultimately our members, and the rates that they contribute.

So of the five significant risk areas identified, which one do you think carries the greatest risk of a finding that would affect employer contribution rates and a risk that's changed materially from last year's plan, if any?

AMANDA CRONK: I'll start. I think investment valuation. So if your investment valuations are -- I'll just -- I'll say perhaps misstated, I think that can translate into future changes to employer contributions, right, whether to the positive or the negative. But I -- my vote, I guess if we're voting here, would be investment valuation.

JEAN YOUNG: I would agree that is the highest risk. And again, all of these are significant risks that we have to consider. But investments, obviously if they're not on the public market, they're harder to value, which again we want to understand the controls to understand what management does to come up with that valuation and then do our own independent evaluation of that valuation and work with our experts. So again, if there's an industry issue or something is going on, just considering that.

COMMITTEE MEMBER WILLETTE: Thank you. Those are my questions.

CHAIR MILLER: Okay. Next, I have Director Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you and welcome. Going back to a conversation that we had a little bit earlier. To what extent do you utilize AI? How does that help you facilitate such a massive audit process. And yeah, if you could just explain what -- how you envision using that with our process?

JEAN YOUNG: So for AI, we have some tools that we use for the data analytics, but that's not really using AI. We're really comparisoning the -- like, we'll take all the census and compare it to the previous year, and what we're looking for are outliers, as Amanda referred. If someone should have one more year of service, their birth date should not change. This should pop out the outliers and then we look at them.

We do use AI potentially for some research and memos and such, but we do keep protected client data as not going through the AI. That's just a risk that we're not taking as a firm at this point. So again, we can use it for informational, but we have a lot of data analytics that we use that are more precise software that we can use and test that census data.

ACTING COMMITTEE MEMBER GALLEGOS: Just to clarify, I wasn't asking in the context of risk, although there are risks, but more facilitation and how you can speed up our help you broaden your ability to audit using AI.

AMANDA CRONK: A couple other areas that I will say we've had great success using AI is contract review. So I think we can all appreciate how lengthy some contracts get, so utilizing AI to pull out the key elements of those contracts. Also, summarization of minutes. And, you know, there's a lot of minutes and sometimes there's a lot of committees and things of that nature. So pulling out significant audit items, AI has helped us do that as well.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

CHAIR MILLER: Okay. Next, I have Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. And thank you and welcome. And we appreciate the role that you play.

So my questions are much more an overview of the audit process itself. And first, I want to get across, has anyone placed any restrictions on your access to any data that you seek?

JEAN YOUNG: No. We haven't had any restrictions.

COMMITTEE MEMBER MIDDLETON: Okay. And you would report to us if that were to occur?

JEAN YOUNG: Correct.

COMMITTEE MEMBER MIDDLETON: Thank you. How many auditors are going to be involved in this audit? How many are going to be working full time on it, part time, and for how long?

AMANDA CRONK: Great question. So we've built our audit team. It's 50 too 55 individuals. I don't have the exact number of full time to part time, but that includes our actuarial team members. That includes our partners, our principals, all the way down to our staff. So if I had to guess, I would say 25 would be full time, 25 to 30 would be full time and then certainly our investment experts and our actuarial staff would be part time.

COMMITTEE MEMBER MIDDLETON: Okay.

AMANDA CRONK: The audit process too, by the way, just to clarify. Our year-end field work is estimated to begin August 10th and will run through issuance.

COMMITTEE MEMBER MIDDLETON: And your issuance is expected approximately when?

AMANDA CRONK: November -- let me grab the timeline.

MICHELLE WATERWORTH: Middle of November.

AMANDA CRONK: Yeah, middle of November.

COMMITTEE MEMBER MIDDLETON: Okay. Very good. All right.

JEAN YOUNG: Yeah, maybe to add to that. So we were out here doing control testing and walk-throughs in May.

COMMITTEE MEMBER MIDDLETON: Um-hmm.

JEAN YOUNG: So we had about 10 people one week and 10 people the next week. Our IT people were out here understanding that system too. So as Amanda said, we have 50 people set aside to work on this. We kind of have it divided by what cycles and sections they'll work on, but they're all Plante Moran staff. There's no part-time people or anyone that we hire. These are all existing staff with the experience with PERS and governmental.

COMMITTEE MEMBER MIDDLETON: Do you have an estimate of the total number of ours of audit time that will be involved in this?

JEAN YOUNG: Go ahead. We had estimated around 10,000 hours, a bit more. Just again, the first year gaining that understanding and going through the information. So we would expect the first year to be higher. But based on our proposal, it was about 10,000 hours.

COMMITTEE MEMBER MIDDLETON: Okay. So a comment. This strikes me as very appropriate, very necessary, and I'm satisfied that the staffing levels are appropriate for what you're taking on. Thank you.

JEAN YOUNG: Thank you.

CHAIR MILLER: Okay. I'm not seeing any other requests to speak. And I will just comment that, you know, I've been pretty much following fairly closely this transition. And I think both your team and our internal team have done a phenomenal job of getting things up to speed. Everyone has kind of hit the ground running. I think the priorities you've outlined are right on target with our priorities. And so I just look forward to continued progress. And we'll just stay in touch. And the Committee will be very open to any issues that come up as they come along. All right. Thank you.

JEAN YOUNG: Thank you.

CHAIR MILLER: So this is an action item. I don't have any requests to speak on this one. So, what's the pleasure of the Committee?

VICE CHAIR DETOY: Move approval.

ACTING COMMITTEE MEMBER GALLEGOS: Second.

CHAIR MILLER: Moved by -- okay. Moved and seconded. So I will -- I'm not seeing any requests to speak, so we'll call for the question.

BOARD CLERK LEMUS: Michael Detoy?

VICE CHAIR DETOY: Aye.

BOARD CLERK LEMUS: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK LEMUS: Troy Johnson?

COMMITTEE MEMBER JOHNSON: Aye.

BOARD CLERK LEMUS: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK LEMUS: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK LEMUS: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

CHAIR MILLER: Okay. The ayes have it. The motion is approved. I thank you all.

JEAN YOUNG: Thank you.

CHAIR MILLER: Okay. That will move us to information Agenda Item 6a, the Third-Party Valuation and Certification of the 2024 CalPERS Annual Valuations for Public Agencies. A little time to get up there and get seated.

(Slide presentation).

DEPUTY CHIEF ACTUARY DZIUBEK: Good morning, Mr. Chair, Committee members. Randy Dziubek, CalPERS Actuarial team. My primary role today is to introduce our guest speaker today, Graham Schmidt from Cheiron. Graham is going to talk about his firm's third-party parallel actuarial valuations for our June 30, 2024 public agency valuations produced by the internal Actuarial Office. And a parallel valuation is simply the third-party taking our member data, our actuarial assumptions, our plan provisions and attempting to actually duplicate numbers within our actuarial reports.

So this is a different function from what you just heard from Plante Moran. Plante Moran will also be looking at our actuarial work product more in terms of the data that's used, processes and procedures used by CalPERS and the actuarial team. They will not, I don't believe, be attempting to match actual numbers in our reports. That's what Graham's firm was hired to do.

So with that, I'm going to turn it over to Graham.

GRAHAM SCHMIDT: Thanks very much, Randy. Nice to see you all. It's been over a decade since I was last at CalPERS. I had no gray hair back then, so things have certainly changed.

First of all, I want so I wanted to thank Randy and the rest of the actuarial office. They were -- they were extremely responsive in all our requests and really did a great job answering all of our questions. I just want to start off too by saying, as actuaries, I don't mean to sound flip, but we strive for boredom, because, as part of this process, you probably wouldn't want to have an exciting parallel valuation report, right? And just the good news is that our -- I believe our report is sufficiently boring. We made -- we did completely independent calculations of the results for 20 of your systems and found that we were within the desired tolerance levels on all of those measures.

So just background, how we approach this. We take the -- we selected 20 plans, the 10 largest public agency plans, and then a selection of 10 random plans. Random, although we did make sure we selected a group of plans that covered different categories, such as general and safety, cities, counties and other types of districts and different benefit formulas. Once we had selected the 20 plans, we contacted the actuarial office. They provided us with the valuation reports and the data, the membership data that was used in all of those valuations, and we also collected the assumptions that were used, which are part of a spreadsheet that's published on the CalPERS website.

We generated our own valuation models using ProVal actuarial valuation software, calculated all the key results, and then compared our results to the actuarial office's results that were contained in the valuation reports.

We look at three primary measurements. We're looking at the total present value of benefits, which are the value in today's dollars of all of the expected benefits expected to be paid to the current members of the plan, both the retired members, members in a deferred status, and the active membership. We then take that press value of benefits and we split it into two pieces, benefits that have already been earned, which is known as the accrued liability, and the amounts yet to be earned for future service, which we call the normal cost. We look at the annual normal cost, which is the cost that is assigned to this year's benefits.

And once we have that number, we deduct the membership contributions, the membership rates. We are left with the portion of this year's benefits that the employer is covering. And then we add to that the unfunded liability amortization payment, right? So what do you have in terms of your assets compared to your liabilities and what's the payment that you're making to pay that off over the funding policy adopted by the Board.

With that, we get to the total contribution rate. So we have those measurements. We have the total value of benefits, the accrued liability that's already been earned, and then the normal cost and the employer contribution rates. Our goal is to be within three percent on all of the liability measurements, the total present value of benefits and the accrued liability. And then within a five percent relative difference to the actuarial valuations on the cost calculations, the total normal cost and the employer contribution rates.

The good news is we were within those tolerance levels for all 20 plans. Overall, we were within the accrued liabilities by about one percent -- or less than one percent in aggregate. And for all systems, we were closer than three percent. On the employer contributions, we -- our goal is to be within five percent. We were within that tolerance level for all systems and we were within two or three percent I think on 18 out of 20. So good match.

We also reviewed the reports themselves to make sure that they complied with the actuarial standards of practice. We found that they did. They included all of the relevant disclosures that are required under those standards. We also looked at the assumptions and methods that were used and we found those to be reasonable and also in compliance with the actuarial standards of practice.

Our reports have a few very minor technical details, none of which would result in any recommendations to change anything that the actuarial office is doing in terms of the calculations. We recommended that they maybe add a sentence or two in the reports to enhance some of the disclosures, but the key disclosures are all contained within those reports.

So overall, it was a great process. It showed that the results that are being determined as part of your valuation are accurate and reflect the information that's underlying them. And I'm happy to answer any questions.

CHAIR MILLER: Okay. Thank you. I'm not seeing any questions or -- oh, I am. Mr. Rubalcava.

BOARD MEMBER RUBALCAVA: I'll let Board members -- the Committee members speak first, if that's okay.

CHAIR MILLER: Okay. We'll start with Mr. Detoy.

VICE CHAIR DETOY: Thank you for the report. I'm glad it is boring, as you said. A couple questions. So the three percent and the five percent tolerance levels, are those something that is a national standard or is that something that we decide as a Board or where do those numbers come from?

GRAHAM SCHMIDT: So it is -- those numbers are part of the scope of the project, as determined by your Board and your system. However, they are consistent with the tolerance levels that we typically see when we are doing actuarial audits for other systems.

VICE CHAIR DETOY: Okay. That is something, as we have aspirational goals, we could try to tighten up in the future or do you not recommend?

GRAHAM SCHMIDT: You can try to get closer. However, there are always going to be some differences in underlying -- in the valuation systems that we use in terms of how we do things like rounding, you know, somebody who is a new hire. So you're always going to have some small differences. I'd say the key number is that total present value of benefits, right? What's the total value that you expect to pay out in benefits? And we are well within one percent on that number. One percent is close enough from the actuarial perspective, especially when you think about how much your assets can vary from year to year.

VICE CHAIR DETOY: Absolutely. And then for a plan as complex and large as us, you know, we have the ten largest plans that you do and then the other ten randomly assigned or -- you know, plans that you choose or -- what is the process for getting to those ten. Do those get excluded in the future. And then is that sample size small or do you think, you know, getting a larger sample size would be better.

GRAHAM SCHMIDT: So for the ten largest, it's based on membership.

VICE CHAIR DETOY: Yeah, that one is easy.

GRAHAM SCHMIDT: So -- and essentially those were the same that were done as part of the last actuarial review. For the 10 random plans, we made sure that we did not select any of the 10 that were reviewed as part of the prior parallel review process. I think that ten is a good sample, especially when we are making sure that we're capturing pretty much every benefit formula that is being paid, as well as these different classes of employees.

So I think that ten is a reasonable sample, especially because every time you do this process, we're getting a new sample of ten plans.

VICE CHAIR DETOY: Perfect.

GRAHAM SCHMIDT: We are also looking at individual member test lives as part of this process. So we collect not just for the plans as a whole, but we get the full detailed valuation results for each and every individual participant within that system. So we actually can Compare individual liabilities. And as part of doing so, we selected a few samples. We can see exactly how those are calculated, down to the -- down to the dollar. And as part of that process we -- you know, we verified that we thought the calculations were performed correctly.

VICE CHAIR DETOY: Perfect. Thank you very much.

CHAIR MILLER: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: Let me just add a couple quick comments to that. So the one or two plans that were anywhere near the three percent threshold on liabilities, we made sure we understood exactly where those differences were coming from, the same with the five percent on the contribution side. And as Graham said, they generally came down to legitimate differences between the valuation systems. It wasn't a mystery why we didn't match. We all knew why we didn't match. As Graham said, our procedures would be deemed appropriate by their firm and other firms.

Also, just to remind the Committee that this is phase one of a three-phase contract with Cheiron. This was for public agencies. Cheiron will be coming back next year to talk about the State and schools reports. And then the third phase will be judges and legislators.

CHAIR MILLER: Okay. Director Johnson.

COMMITTEE MEMBER JOHNSON: Thank you for the report. Just a question and a comment. The question may be just procedural. The plans and the agencies, even the -- with the ten -- not the ten random, but the other ones, were they picked at random or were they just the top ten, or were they given to you?

GRAHAM SCHMIDT: They are the largest ten by membership size.

COMMITTEE MEMBER JOHNSON: Okay. Great. And then just the enhancements. I just want to say they just really elevate the transparency of the things that you've been -- you've identified. And I just think that the more clear that we can make things, the better. So I appreciate those as well.

GRAHAM SCHMIDT: Thank you.

COMMITTEE MEMBER JOHNSON: Thank you.

DEPUTY CHIEF ACTUARY DZIUBEK: And let me just add, we also appreciate this process and we do our best to use it to continuously improve our work product. The recommendations that Cheiron had on the contents of the report, how certain things were presented, we will definitely make some modifications to address those, not for the 25 valuations. Those are within a month of being completed, but for the June 30, '26 valuations, we will have those modifications in.

CHAIR MILLER: Okay. Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you. Thank you for the presentation and the report. And I think, Randall, you just answered one of my questions. So for the reporting and documentation observations in the summary, specifically the second bullet where you -- the information wasn't available on which members belong to which group, and you recommended adding clarifying language to those exhibits, is that the thing that you just said are going to fix for next time?

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. That's definitely one of the areas. You know, if Graham and his folks thought it was confusing, then we're going to assume that it is, even though our people have looked at it and sort of get numb to seeing it year after year. We will do our best to make it more understandable.

COMMITTEE MEMBER WILLETTE: Thank you. And to follow up on Mr. Detoy's question. I understand the tolerance level, 35 percent, is standard. And one percent is small percent, absolutely. But I think the dollar values are still very significant at one percent or less than one percent in some of the cases. I know in Santa Clara County, there's, you know, $14 billion worth of benefits there, right? So one percent is significant, especially in some of these public agencies, the large ones that operate public hospitals and are having massive budget restrictions and cuts going into this. That one percent difference could make a huge impact to a member's life or a member's ability to have a job or not have a job. And so I'm wondering when there are these discrepancies, how would we address those?

GRAHAM SCHMIDT: So in terms of what causes those types of discrepancies -- again, I'll go back to the actuarial software and how it operates, right? So, for example, generally, we tend to see larger discrepancies when we have populations that have large groups of newer hires or larger groups of members that are closer to retirement, right? So let's say we have people that are closer to retirement? The CalPERS system includes some expectation of additional cost or normal cost for members that are already at their maximum retirement age, right, where we assume a hundred percent of people are going to retire.

Our system, on the other hand, assumes that those people are retiring immediately and we don't include any additional normal cost. We assume that all of the benefits have basically been earned by that member. That's just the differences in those two systems and how those two systems operate. And both are reasonable, actuarial methodologies for calculating liabilities.

Because of that, you are going to get small discrepancies. And those discrepancies can be larger when you're looking at individuals that are at either the early part of their career or very late in their career.

So it's -- there's no judgment as to whether one of those numbers is correct and the other is not. They are just underlying differences in how our systems calculate things. So it doesn't mean that CalPERS is projecting anything different in terms of the total benefits that are going to be received by these individuals. It's just about how the actuarial software sort of treats these edge cases, rounding, what happens if you're at the beginning or the end of your career.

Does that answer you question?

COMMITTEE MEMBER WILLETTE: It does, yeah. I appreciate that. If it -- if we were to go to hypothetical land and say if it was more than three or five percent, what would we do then?

GRAHAM SCHMIDT: We would figure out why we're seeing a difference. And the great thing about -- I will say, having done numerous audits, the CalPERS Actuarial Office is the most helpful in terms of giving us the most amount of data that we need to review the results. They are giving us line by line, year by year, age by age benefit by benefit exactly how they are calculating all of their results. So we can see exactly the calculations. When we do audits for other systems, a lot of times we're just getting big summary information and it's harder to get that underlying data. For the CalPERS Actuarial Office, they give us everything. So if there's ever a time where we get to one of these parallel valuations and there's a -- and there's a calculation where we're not matching, we should be able to establish why that is.

COMMITTEE MEMBER WILLETTE: Thank you. My experience, the Actuarial Office is they're very helpful as well and always explain things to me in ways that I can understand, maybe not remember, but understand at the moment.

(Laughter).

COMMITTEE MEMBER WILLETTE: So I've been really pleased. Thank you for this report. Thank you to the actuarial office for the work that you do and ensuring that this report comes to us as good as it does.

CHAIR MILLER: Oh, there we go. Thank you. Back to Director Rubalcava.

BOARD MEMBER RUBALCAVA: Thank you, Mr. Chair. Thank you for the report and welcome to CalPERS since you replaced Buck.

You mentioned in your opening remarks and then later in the -- some of the response that you have a -- you use ProVal, which is the -- for your evaluation software and CalPERS has their internal system. In one of the -- reading the letter and then looking at the charts, what are the differences, although it is minor -- minor calculation differences, is that CalPERS tends to -- I don't want to say overstate is the wrong strong word, but has a higher actuarial liability. One thing about actuarial valuations, we use it -- you use it to calculate contribution rates and also actuarial liabilities, which tends to make the press. I think its' -- anyway that's -- I won't go into philosophy there. But the point is, as long as we're making the actuarial-determined contribution, we're good.

But I thought it was interesting that it would be that, that the actuarial liability is higher under the CalPERS system, which, you know, it -- in a way it's satisfying, because that way means were probably getting more money than we really need, but I'm not going to go into that either, but it's very minor, right? Except there was one out of the 20 Los Angeles Unified School District Safety, that's the only exception where exactly reverse, where there is -- where your system comes out with a higher actuarial liability than the CalPERS. So I was wondering if either one could comment on that, both issues, why would that happen and why would there be one exception?

GRAHAM SCHMIDT: Again those differences can come down to sort of the edge cases. So like I -- as I said earlier, one reason why our liabilities might be slightly higher would be if you had a lot of people, especially people at the end of their career, where they're assumed to retire right away. And in that case, our system assigns the entirely ability to the accrued liability. You're basically saying you're walking out the door tomorrow, so the benefit is already, at this point, fully earned. CalPERS has a slightly different approach. They assume about a half year of additional service is going to come through.

So that's one reason. So if you've got a group like the one you identified that has more people at those edge cases, that's why we can have a -- for that group in particular, we'd see a slightly different result.

BOARD MEMBER RUBALCAVA: Following up on what you call the edge cases, your letter does point out that this -- how vested termination and refund rates are -- I can't read my notes here -- are treated is a big difference. And so I was going to ask about that, but you mentioned it already. And the other thing, there's something about in the actuarial assumptions spreadsheet, that's there's a footnote that you recommend either be updated or removed. Could you discuss what that is?

GRAHAM SCHMIDT: Sure. So we have different types of assumptions, right? You have, what we call, decrements, where somebody is leaving service for different causes. You have rates of members retiring, and then you have rates of members leaving with a deferred vested benefit, right, or receiving a refund of their contributions. As people go through and get closer and close to retirement and become retirement eligible, there's much lower likelihood that they will leave their contribution -- they will take their contributions out, right? They're going to be financially harmed if they do so, by not claiming their benefits. In the -- in the spreadsheet that accompanied the assumptions there was a footnote that said that the rates of termination don't overlap with the retirement rates, which means that once somebody is eligible to retire, it implied that there wasn't a likelihood that somebody would take their contributions and leave, or have a deferred vested benefit.

It turns out that we actually -- that CalPERS actually does continue to apply those assumptions, but it very little impact, because those assumptions are so small. The likelihood of somebody taking their contributions once they are eligible for retirement is, you know, almost nothing. So once -- the difference in actually applying that rate has really very little impact on the results, and CalPERS, the Actuarial Office, confirmed that those rates are being applied and that they would make the appropriate adjustments in any disclosures. Although, at this point, those old spreadsheets are mute because you've already adopted new assumptions, which are going to be used in the next set of actuarial valuations.

Randy, is that --

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. We completely agreed with that comment and the language has already been changed, unlike the description of the plan benefits, which we haven't, you know, made modifications for, but we will in the '26 valuations, but that was a correct observation and we've already made the change.

BOARD MEMBER RUBALCAVA: Than you. And then just a follow-up, my final question. The tolerance levels -- everybody is within the tolerance levels. It's different. The accrued liability one is plus or minus three percent, but contributions raised, it's plus or minus five percent. Why are they different? Why is there not the same range?

GRAHAM SCHMIDT: That's a great question. I appreciate all the questions so far. I have to say these are some of the most great -- you guys have actually read this report, so that's very exciting to me.

(Laughter).

GRAHAM SCHMIDT: One of the reasons why you have a wider tolerance on employer rates compared to liabilities is due to what we call leveraging, right? Because if you are off on your liabilities by one or two percent, it is almost impossible to be closer than that on your contribution rates, because you have one number, which is fixed which is your assets, right, and one number which is varying, which is the liabilities when -- in terms of our measurements, right? We're using the same asset values.

So imagine that you had a plan with $100 billion dollar liability and we came up with a $1 difference in estimate of the liability, but your assets were also $100 billion. The different -- the unfunded liability, our difference would be an infinite percent, right? One system is coming up with one and one system is coming up with zero. So the percentile difference is immeasurable, even though the -- you know, the actual difference is quite small. So that half -- that carries through when you're talking about contribution rates, right? You could have a very well-funded plan and you could show you a very small difference in liabilities, but our percentile difference in the unfunded liability payment could be quite large. So that's why you're generally going to see larger change -- larger differences in the contribution rates, because they are leveraged by things like the assets and the member contributions that don't change. Does that answer your question?

BOARD MEMBER RUBALCAVA: Thank you. Thank you.

I guess my last question is the document -- the

Board letter - this is for Randy - says -- states that the Actuarial Office will review, and I'm assuming they'll report back to us -- this Committee on the findings? I know you report it verbally here. You've looked at it and there will be some changes, some things you can explain away or explain.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. There's not really a subsequent formal reporting back to the Board. The final phase of this contract will be a final assessment of Cheiron's investigation of all of our reports. We are -- you know, we are stating today that we agree with everything stated in Cheiron's reports. We don'nt expect to make technical calculation changes. Although, we will take one last look at those. Even if we do make a change here or there, it's going to make a very small difference in our results. We will make modifications in our reports. I guess we will go over those in the final. That will probably be two or three years from now. We'll go through all the changes that were made as a result of the recommendations.

BOARD MEMBER RUBALCAVA: And let me correct myself. I miss -- sometimes transplanting notes, it doesn't say you'll review. It says it will be evaluated. So I guess you've done that.

DEPUTY CHIEF ACTUARY DZIUBEK: Yes.

BOARD MEMBER RUBALCAVA: The other thing, I think this is a very good thing where there's a check and balances, because I know many years ago in LA County, they had one actuarial firm and then they changed, and there was a big discrepancy and big, big, big, big -- big, big problems there. So I'm glad CalPERS has this policy in place. And I think it's very good also that certain things -- I mean, you're doing the calculations. There's certain things that you accept, which is one is the actuarial assumptions. And I -- I'm not sure if that was part of the scope of work, but I think that is a very important thing that you do allow -- accept CalPERS assumptions, because those -- that's who the plan sponsor is.

All right. Thank you.

DEPUTY CHIEF ACTUARY DZIUBEK: Thank you.

BOARD MEMBER RUBALCAVA: That was just a comment, I guess, but thank you, Mr. Miller.

CHAIR MILLER: Okay. And I do have one more. Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. Just a couple of comments. First, I want to thank you for the clarity of this report. It was one that your findings were very clear, and understandable, and greatly appreciated. Earlier when the previous auditors were up, I asked the question as to whether or not there were any restrictions that have been placed on them. And, of course, that's simply the minimum standard that any auditor would have to encounter and would expect that there would be absolutely no restrictions.

What you said earlier today is something that I think is worth note, that our auditing staff had anticipated what it is that you are going to be needing and providing that in the kind of detail that you would require and want. And so I want to compliment our staff, our team and say that's what we expect of you and it is appreciated.

GRAHAM SCHMIDT: We certainly appreciate it too.

CHAIR MILLER: Okay. I'm seeing no more questions. Thank you very much for the presentations and discussion. It's been extremely valuable and thanks to both our team and Cheiron's team. This turned out to be a very good partnership. I think it's really working well for us thus far and we look forward to continued good news.

GRAHAM SCHMIDT: Thank you very much.

DEPUTY CHIEF ACTUARY DZIUBEK: Thank you.

CHAIR MILLER: Thank you. Okay. I have public comment on 6a before we go to action.

Ms. Brown. Margaret Brown

MARGARET BROWN: Thank you. This question is probably for Randy. I'm looking at Appendix A, the comparison of active member data Table A-1 and A-2. So if you look at Table A-2, the ten selected public agency plans, the CalPERS active count and the Cheiron counts are the same. As you go all the way across those columns, it's pretty much the same until you get to average pay. Average pay for the city of Carlsbad, they're on -- they're Johnny-on-the-spot, right, right on the number. But if you look at Table A-1, the very last column, Cheiron's active average pay is over every single time, which would make our -- potentially make our liability higher. So I'm wondering why we are off on the difference between the CalPERS active average pay and the Cheiron active average pay? In every instance in that category, they're over and I'm just wondering what that discrepancy was. I know I don't get to ask the staff that, but maybe you could for us. Thank you.

CHAIR MILLER: Thank you for your comments. And I don't -- we don't want to be responding to comments from public commenters in real time here, but hopefully we can get that answer back to Ms. Brown at some point.

Okay. So this is an action item, so what's the pleasure of the Committee? Oh, it isn't -- oh, it's an information item. Okay.

So on to the annual compliance report.

(Slide presentation).

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: All right. Good morning again. Kami Niebank, Deputy Chief Compliance Officer.

Every year, CalPERS compiles an annual compliance report to highlight enterprise-wide compliance, ethics and risk management activities and accomplishments. The purpose of the report is to demonstrate our effective risk management and oversight by both CalPERS team members and the Enterprise Compliance, Risk and Governance office, so that we can provide the Board with collective view of risk management activities and allow for effective Board oversight.

CalPERS uses an industry standard framework known as the three lines of defense to demonstrate organizational risk management, accountability and governance practices that emphasize collaboration and accountability through clearly defined roles and responsibilities. I'd like to highlight some of the key accomplishments across CalPERS from this fiscal year starting with the conflicts of interest oversight.

So the Enterprise Compliance, Risk and Governance team, which I'll just refer to as "the team", because it's a little bit of a mouthful, matured the investment compliance advisory services program with our approach to onboarding, advice and guidance sessions for new hires, and also promotions within CalPERS who are covered person individuals, and those individuals in the Investment Office. We also enhanced our compliance awareness resources and our reporting to management. These efforts reinforce our understanding of compliance obligations and promote transparency and ethics and compliance activities.

Within monitoring and insurance enhancements we made across CalPERS. These included a hundred percent completion of CalPERS leaders who are required to submit a monthly gift disclosure. The team continues to support the CalPERS team members with ongoing guidance and oversight and identify and address any potential questions that they may have. The Actuarial Office strengthened data integrity by collaborating with various program areas during the annual valuation process to identify and correct discrepancies and errors and support more accurate material risk identification and assessment.

Within advice and education, the Human Resources Division partnered with our team to assist with implementing automated tracking for compliance -- for mandatory compliance and ethics training.

The Health Policy and Benefits Program confirmed that all MedInsight users met security and HIPAA requirements that supported ongoing compliance through regular staff training and open office hours. Within the risk assessment and mitigation area, as part of a multi-year initiative, the Information Technology Services Branch strengthened our risk management foundation by completing 32 risk and control self-assessments and piloting a new process to reinforce ongoing ownership and accountability for control maintenance.

The Information Security Office in partnership with IT Branch also established a generative AI risk framework to proactively identify and manage risk, and support a secure and responsible adoption across the organization. Our Customer Service Branch improved various facets of their disability retirement survivor benefits processes, including improving self-service options on disability retirement pages and implementing workflow solutions to improve efficiencies. These efforts bolster internal controls to help mitigate risk and benefit processing.

Under data privacy and protection, the Information Security Office strengthened CalPERS data privacy commitment by updating key privacy policies and notices, providing clear guidance on personal information protection, and implementing proactive measures to prevent unauthorized access and misuse. HR launched the Secure

Data Locker platform for confidential HR data sharing, reducing unauthorized access risk and improving data governance and compliance.

The Health Policy and Benefits Program implemented the secure transfer file protocol for safeguarding member PHI and PII data and developed authorization forms and dashboards for the attestations for the health data nexus to prevent unauthorized access to sensitive information.

Within fraud risk management, the Information Security Office, in partnership with Enterprise Solutions Development Division and the Retirement Benefits Services Division strengthened fraud prevention capabilities by implementing enhanced detection and response mechanisms and improving tools to proactively identify and mitigate external threats. The information security office also partnered with the Identity Theft Resource Center to deliver educational presentations and launch the "Preventing Identity Theft at CalPERS" webpage to provide guidance on securing personal data and recognizing scams.

CalPERS Customer Service Branch advanced fraud prevention by increasing member registrations for myCalPERS accounts, promoting account security, and improving communication through targeted outreach and presentations at key events. And within Health Policy and

Benefits and the Long-Term Care and third-party administrator, they utilized fraud detection tools to analyze claims data, referring suspected cases to the Special Investigations Unit, to enhance services rendered and the detection of potential fraud.

Under policy governance and reporting, the Investment Office adjusted various investment policies to align with Investment Committee directives resulting in clear and more user-friendly presentations, and the Investment Office also reviewed internal governance structures to support appropriate monitoring and reporting mechanisms.

Moving to compliance and regulatory change management, the Human Resources Division ensured timely compliance with Assembly Bill 692, which was effective January 1st of this year, and all relevant policies were updated and communicated timely across the organization. The Actuarial Office advanced regulatory and accessibility initiatives by progressing report accessibility compliance and proposing amendments to strengthen the fairness and sustainability of CalPERS risk pool operations.

And then finally, within the third-party risk management area, the Health Policy and Benefits Program selected a third-party vendor to administer the annual CalPERS Health Plan Member Survey and implemented updated reporting requirements to ensure health plans meet contractual health equity obligations.

So as you can see, the organization continues to improve and strengthen our compliance and risk management practices and it's always encouraging to see the collaboration among CalPERS branches.

And with this, I'm happy to answer any questions.

CHAIR MILLER: Okay. Wow. That was quite --

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: That was a lot. I know.

(Laughter).

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: But it was important, I think, because there's so many group that were doing so many things. So to really get that cross-section of CalPERS and understand that it's really everyone working together.

CHAIR MILLER: Yeah, it represents a phenomenal amount of work by a lot people, a lot of teams, a lot of coordination, and really reflects well on what our priorities are.

I don't have any other requests from the Committee for questions, so I thank you for the report. And again, thanks goes out to the team and all our partners for getting this -- all this work accomplished.

DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: Thank you.

CHAIR MILLER: Thank you.

Okay. I think this brings us to Summary of Committee Direction.

GENERAL COUNSEL YERRAMALLI: I don't believe that there's any summary.

CHAIR MILLER: Okay. I would say that getting back to Ms. Brown in answer to that question.

GENERAL COUNSEL YERRAMALLI: Of course we will.

CHAIR MILLER: And please share that with the Committee.

GENERAL COUNSEL YERRAMALLI: Of course.

CHAIR MILLER: Okay. And that brings us now to public comment. I have several public commenters for 6d. And I'll start with Margaret Brown and then I believe it's phone callers after that.

MARGARET BROWN: I'll just start. Thank you. Margaret Brown, RPEA. I did not get my comment card in for Item 4C, so I want to go back to something Ms. Middleton knows I'm very interested in, which is the audited findings, the employer compliance reviews, age findings over one-year old. When I sat where you are now today, we used to get little bar graphs. And what we instituted was any finding over one-year old that we would get this -- you would get this list. And so I've printed it out.

There are actually 86 aged findings over one-year old, which has -- have not been resolved. And I'm here to talk about 68 of them, which are employment after retirement. So this is retired annuitants problems. Eighty percent of the findings have to do with retired annuitants working for their employers.

And I've got to tell, you know, you had something come up at the last Board meeting and it got settled. The item got pulled. But I have to tell you that retirees that get caught up -- I don't want to say caught. I don't think they're doing anything wrong, but get caught up in the processes and the procedures or if the employers have not correctly done something. It is devastating for the retirees or beneficiaries that get trapped in these -- in these audits, and it's just devastating to them. And it takes a long time to solve.

So I know that staff is working hard on these issues, but we really need to get more support and help with processes and procedures, so we don't end up with 80 percent of the findings being over a year old, that they're all regarding retired annuitants working.

And then something else that impacts schools. For those of you that don't know, I retired from school district management. And on May 18th, the CalPERS staff issued a new circular and it's a new way to determine vacation time used to stay in paid status during fixed school breaks is no longer creditable towards retirement. That's a mouthful. But it's a new interpretation from CalPERS and it's a significant change impacting how school employers may report compensation earned during vacation time. If you haven't read the circular, take a look at it. It's a nightmare for the staff to implement and for the employee who thinks they've earned that time and now it's all going to be taken away because of a new interpretation.

So I'm telling you, you're going to get more findings like this, because of that new circular. Ask staff about it. It's very important and it's going to harm employees.

Thank you.

CHAIR MILLER: Thank you for your comments. Okay. I think that wraps things up there. So we'll recess now into closed session for items one through three from the closed session --

BOARD CLERK LEMUS: David, we do have one caller on the phone.

CHAIR MILLER: Oh, we do. Okay. Sorry. We have one caller. Let's hear from our caller on 6d.

CALPERS STAFF: Yes, Chair Miller. We have John

Holden here to speak on to Item 6d. John Holden, you are now live and can proceed with your comments.

JOHN HOLDEN: Yes. Hell. My name is John Holden. I'm a San Francisco native. I sat on a pension Board Recology. And I also am now a participant in the GGTARP, which is the Golden Gate Transit Amalgamated Transit[SIC] Plan.

We do have Graham Schmidt from Cheiron that audits our -- that plan. I do have some discrepancies with his audit process. He uses the Winklevoss twins software. If you don't know who they are, they are the Facebook crypto twins. So some of the discrepancies you can see, they're trying to move that plan into CalPERS, because it is really a huge mess. They took a pension holiday. They have a SPP guaranteed eight percent for somebody, that 80 percent of the liability is out the door. It's a huge mess of a plan.

And they're trying to get it in there, but I understood that the CalPERS Audit was much higher contribution for -- than the -- than their audit at Cheiron. So this is a red flag to me that we have to -- you really have to -- it seems like the CalPERS is internally more robust in their audit process versus some of this other stuff. And so I would really look at these special districts that are running for cover. This one was not funded by an ARC, this plan. It was funded payroll contributions. And nobody was really coming to work, so the contributions were missing from union officers, from all kinds of officers.

So I believe the liability is way higher, if you dig down and really start to look at the pension spiking and the stuff. We had the Western Pension Plan attorneys look at -- look at it, and all three attorneys came back with -- that this plan is very problematic. It can't be sued because of the California Rule. So I would caution you to take on this plan as a fiduciary responsibility. If you do try to take on this plan, I think you will be in breach of your fiduciary responsibility to the overall CalPERS plan.

Thank you.

CHAIR MILLER: Thank you for your comments. I believe that's all then for -- okay. So at this point, we'll recess now into closed session for items one through three from closed session agenda. We'll immediately reconvene in open session after the closed session. So thank. We'll clear the room

(Off record: 10:05 a.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened

open session.)

(On record: 10:21 a.m.)

CHAIR MILLER: Okay. We've finished our closed session. We're back in open session. And with no objections, I will adjourn this meeting.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Risk & Audit Committee open session meeting adjourned at 10:21 a.m.)

CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of June, 2026.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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