September 11, 2024

Lisa Middleton
Chair, Finance & Administration Committee
CalPERS Board of Administration
400 Q Street
Sacramento, CA 95812

RE: Finance and Administration Committee: Agenda Item 5a

Dear Chair Middleton,

The League of California Cities (Cal Cities) respectfully requests that the CalPERS Board of Administration accept the **CalPERS staff recommendation of making no changes to the discount rate and expected rate of return since the formal Asset Liability Management (ALM) process will occur in 2025.** The ALM process is an integrated review of CalPERS assets and liabilities done every four years to inform the CalPERS board of its overall risks, taking into consideration the long-term sustainability of the system.

Based upon the Funding Risk Mitigation Policy (Policy) revised in April 2024, when a Funding Risk Mitigation Event occurs, an item will be brought to the board for discussion on whether the discount rate and expected investment return should be adjusted in accordance with the thresholds noted within the Policy. Cal Cities would first like to thank the board for making this adjustment to the Policy. The change in policy to trigger a discussion versus an automatic reduction allows for additional opportunity for cities and other stakeholders to engage the board.

While we are certainly pleased that as of June 30, 2024, the Investment return was 9.3%, we believe that the discount rate should not be reduced as a result. This return exceeds the discount rate by 2.5% and meets the threshold for triggering a Funding Risk Mitigation Event. Based on the policy the board will discuss whether or not to reduce the discount rate and the expected investment return by 0.05%.

According to the analysis on this item, "Lowering the discount rate and expected investment rate of return would increase employer liabilities and contributions which in turn may cause PEPRA employee contributions to increase." Cal Cities is opposed to lowering the discount rate and increasing employer liabilities. The analysis goes on to report, "Reducing the discount rate and expected investment rate of return can lower funding risk over time. This approach makes it more likely to achieve consistent investment returns by investing in less risky asset classes, thereby minimizing potential fluctuation, and reducing overall risk to the system." While there may be potential benefits to lowering the discount rate, the immediate negative impact to cities must be acknowledged and accounted for when examining the discount rate. The employer's ability to pay is critical to the retirement system. Employer affordability must remain a top priority of the board.

While Cal Cities is opposed to lowering the discount rate, if any adjustments to the discount rate should be deemed necessary, adjustments made within the context of the ALM process are more appropriate. Decisions that have the potential to negatively impact cities financially should be done within the context of a holistic review of CalPERS' investment portfolios and retirement plan liabilities.

For these reasons, Cal Cities **supports the CalPERS staff recommendation of making no changes to the discount rate and expected rate of return since the formal Asset Liability Management (ALM) process will occur in 2025**. If you have any questions, do not hesitate to contact me at 916-658-8214.

Sincerely,

Johnnie Pina

Johnnie Pina
Legislative Affairs, Lobbyist

Cc: Members, CalPERS Board of Administration
Marcie Frost, CalPERS Chief Executive Officer