



Finance and Administration Committee Agenda Item 5d

April 13, 2026

Item Name: State Valuation and Employer/Employee Contribution Rates

Program: Actuarial Office

Item Type: Action

Recommendation

Adopt the actuarially determined employer contribution rates and approve the member contribution rates for the period July 1, 2026 to June 30, 2027 as set forth in the table on page 3 of this agenda item.

Executive Summary

The recommended employer contribution rates for the State plans for fiscal year (FY) 2026-27 are generally lower than the rates adopted for FY 2025-26 and comparable to the rates projected in the June 30, 2024 valuation. This is largely due to the costs of the assumption changes being offset by higher than expected investment returns.

The funded status of the State plans improved primarily from investment gains.

Comparison of Current and Prior Year Results (in millions)

Funded Status	June 30, 2024	June 30, 2025
Accrued Liability	\$259,549	\$272,055
Fair Value of Assets	\$195,488	\$215,527
Unfunded Accrued Liability	\$64,061	\$56,528
Funded Ratio	75.3%	79.2%
Expected Employer Contributions based on Actuarially Determined Contribution Rates	\$9,284	\$9,874
Expected Employer Contributions based on Anticipated Budget Act	\$9,432 ¹	\$10,031 ¹

¹ Reflects additional contributions under G.C. section 20683.2.

Strategic Plan

This action item is being presented as part of the regular and ongoing workload of the Actuarial Office and supports the Pension Sustainability goal of the Strategic Plan.

Background

The five plans included in this valuation provide retirement benefits to members employed by the State of California. This includes employees of the California State University system but generally does not include employees of the University of California system. It also does not cover school employees or employees of local governments that have elected to contract with CalPERS.

This actuarial valuation sets forth the employer and employee contribution rates for the State plans for fiscal year July 1, 2026 through June 30, 2027.

Investment Return and Discount Rate

Based on final June 30, 2025 assets, the money-weighted investment return (net of administrative expenses) for FY 2024-25 was 12.0%, exceeding the 6.80% discount rate assumption.

Assumption Changes

On November 19, 2025, the board adopted new demographic and economic assumptions based on the recommendations in the November 2025 CalPERS Experience Study and Review of Actuarial Assumptions. The new actuarial assumptions are incorporated with the June 30, 2025 actuarial valuation and will affect required contributions for FY 2026-27. Please refer to Attachment 1 for the impact of the change in actuarial assumptions for each state plan.

Analysis

Actuarially Determined State Employer Contribution Rates for FY 2026-27

The Actuarial Office is recommending that the board adopt the following actuarially determined employer contribution rates for the State plans for FY 2026-27. The contribution rates we anticipate will be included in the Budget Act are shown on page 7. The full actuarial report is expected to be completed later this year and will be provided online when completed. The additional information provided in the full actuarial report includes details on assumptions, valuation methods and participant census.

The table below compares the FY 2026-27 actuarially determined contribution rates and estimated dollar contribution amounts with the corresponding amounts for FY 2025-26.

Fiscal Year	2025-26 Expected Employer Contribution (in millions) ²	2025-26 Employer Contribution Rate ²	2026-27 Expected Employer Contribution (in millions) ²	2026-27 Employer Contribution Rate ²
Valuation Date	June 30, 2024		June 30, 2025	
State Miscellaneous ¹	\$5,515	31.32%	\$5,939	31.60%
State Industrial	193	20.54%	199	20.40%
State Safety	619	21.67%	660	21.60%
State Peace Officers & Firefighters	2,214	49.36%	2,334	49.00%
California Highway Patrol	<u>743</u>	69.29%	<u>741</u>	63.81%
Total State	\$9,284		\$9,874	

¹ Includes both Tier 1 and Tier 2 benefit levels.

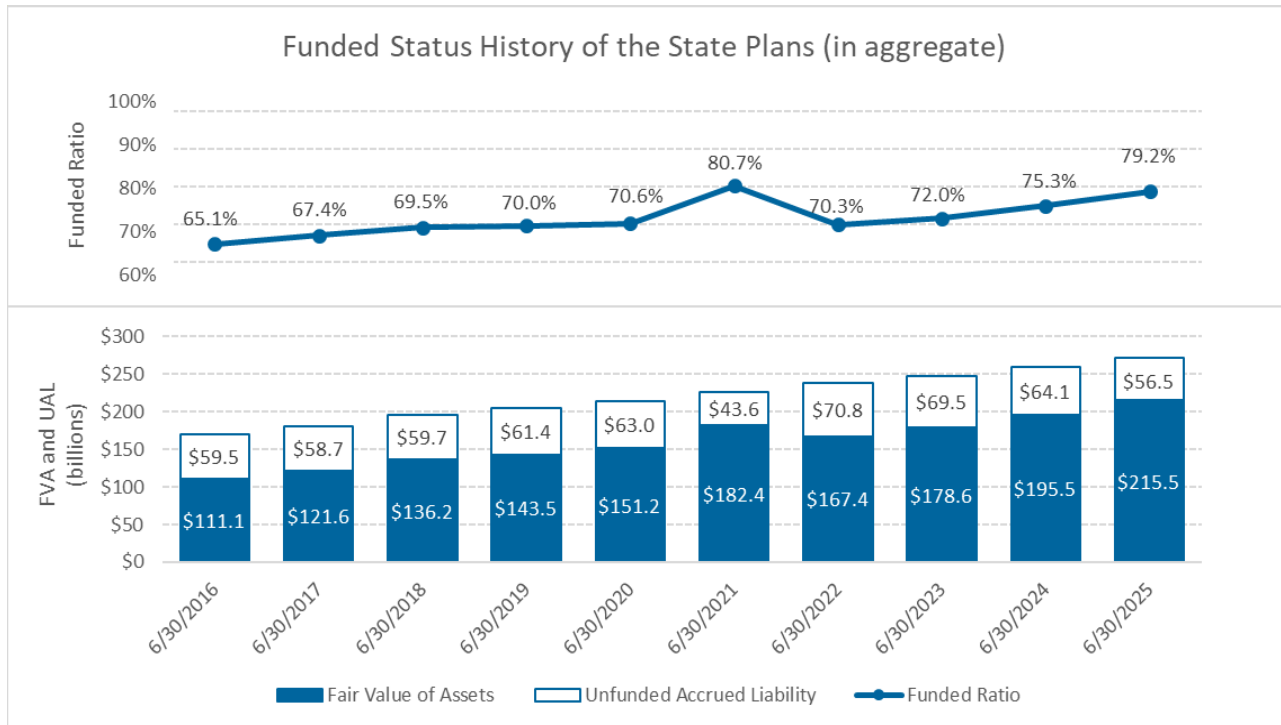
² Excludes additional contributions above the actuarially determined contribution rates. See page 7 of the agenda item for more information.

Please note that the payroll used to calculate the expected dollar contribution is the payroll used in the valuation, increased for two years of payroll growth at the prevailing payroll growth assumption of 3.00%. To the extent that actual payroll in the contribution year differs from expected payroll, actual contribution amounts will be different than those provided above.

Please refer to Attachment 1 for the development of the employer rate for each state plan.

Funded Ratio

The funded ratio of a pension plan is defined as the ratio of fair value of assets to actuarial accrued liability. Plans with a lower funded ratio are, all else equal, more costly and at higher risk of not being able to meet future benefit obligations. From June 30, 2024 to June 30, 2025 the funded ratio of the State plans, in aggregate, increased by 3.9% to 79.2% (75.3% as of June 30, 2024). The increase in funded ratio was primarily driven by the higher than expected investment returns in FY 2024-25. The chart below shows the funded ratio of the State plans in the aggregate for the past ten years.



Please refer to Attachment 2 for the funded ratio history of each plan as of June 30, 2025.

Reasons for Changes in Employer Contributions for the State Plans

Overall, the actuarially determined contributions for the State plans increased by \$589.7 million from \$9,284.2 million in FY 2025-26 to \$9,873.9 million in FY 2026-27. This change is primarily driven by the factors listed below.

Reason for Change	Change in Required Contribution (in millions)
Required employer contribution in FY 2025-26	\$9,284.2
Change due to progression of existing amortization bases	214.1
Effect due to change in overall payroll	213.6
Decrease in Normal Cost due to new demographics	(105.7)
Decrease due to change in member contributions rates	0
Decrease due to Budget Act additional contributions	(11.8)
Changes due to experience:	
• Investment experience (reflects five-year ramp)	(233.5)
• Demographic experience	86.7
Increase due to assumption change	<u>426.3</u>
Total change in required contributions	\$589.7
Required employer contribution in FY 2026-27	\$9,873.9

During FY 2024-25, payroll across the State plans increased by 6.2%, compared to the payroll growth assumption of 3.00%, resulting in an expected increase of \$213.6 million in the required contribution for FY 2026-27. The change in payroll for the year ranges from an increase of 3.3% in State Industrial to an increase of 8.0% in California Highway Patrol.

The California Public Employees' Pension Reform Act of 2013 (PEPRA) requires lower benefits for new members as defined by PEPRA who are hired on or after January 1, 2013. The normal cost for all five of the state plans has decreased due to the enrollment of new hires into lower benefit levels. PEPRA membership ranges from a high of 64% of active members (58% of payroll) for State Safety to a low of 48% of active members (43% of payroll) for California Highway Patrol.

The money-weighted return (net of expenses) on plan assets for the year ending June 30, 2025 was approximately 12.0%.

The employer contribution rates set forth by this valuation reflect statutory changes to member contribution rates effective July 1, 2026, to the extent they are known at this time. Please refer to "Member Contribution Rates" below for more information.

Supplemental Pension Payments Pursuant to Proposition 2

In 2014, California voters passed Proposition 2, which amended the State Constitution to require certain funds be appropriated to repay specific State debts, including unfunded liabilities for state-level pension plans. The July 29, 2025 Supplemental Pension Payments (SPP) shown below were made to these rate plans under Proposition 2.

Plan	Supplemental Pension Payments Made on July 29, 2025 Pursuant to Proposition 2 (thousands)
State Miscellaneous	\$273,983
State Industrial	16,164
State Safety	32,150
State Peace Officers & Firefighters	261,703
Total	\$584,000

Additionally, the State made the Supplemental Pension Payments shown below on October 27, 2025.

Plan	Supplemental Pension Payments Made on October 27, 2025 Pursuant to Proposition 2 (thousands)
State Miscellaneous	\$174,523
State Industrial	10,296
State Safety	20,479
State Peace Officers & Firefighters	166,702
Total	\$372,000

Required State Contributions in Excess of the Actuarially Determined Contributions

Every year since FY 2013-14, the State employer contribution rates in the annual Budget Act have exceeded the actuarially determined contribution rates adopted by the board. Although the additional amounts arose at different times and through different processes, there is a common goal, which is to reduce the State's unfunded liability and create long-term savings.

Additional Contributions under Government Code Section 20683.2

Effective July 1, 2013 and July 1, 2014, the contribution rates of many State members were increased. The collective bargaining agreements and Section 20683.2 require that savings realized by the State due to these member rate increases be allocated to any unfunded liability. In order to facilitate this, the Actuarial Office calculates an additional rate to be added to the actuarially determined rate, which is then incorporated into the Budget Act. As in prior years, the additional employer contribution rates for FY 2026-27 remain unchanged as shown in the table below.

Rate Plan	Additional Employer Contribution Rates Pursuant to Section 20683.2
State Miscellaneous	0.10%
State Industrial	0.88%
State Safety	1.18%
State Peace Officers & Firefighters	1.65%
California Highway Patrol	1.32%

Budgeted State Employer Contribution Rates for FY 2026-27

The table below shows the actuarially determined contribution rates along with adjustments needed to determine the budgeted contribution rates, which should be appropriated in the annual Budget Act.

Plan	Actuarially Determined Employer Contribution for 2026-27	Additional Employer Contribution Rates Pursuant to Section 20683.2	Total Employer Contribution Rates for 2026-27
State Miscellaneous	31.60%	0.10%	31.70%
State Industrial	20.40%	0.88%	21.28%
State Safety	21.60%	1.18%	22.78%
State Peace Officers & Firefighters	49.00%	1.65%	50.65%
California Highway Patrol	63.81%	1.32%	65.13%

Member Contribution Rates

PEPRA members employed by the Legislature, California State University (CSU), and the judicial branch are required to contribute at least 50% of the total normal cost of the defined benefit, in accordance with Government Code Section 7522.30. All such members in the State rate plans are in the State Miscellaneous, State Safety or State Peace Officers and Firefighters rate plans. Under this statute, when the total normal cost for the rate plan changes by more than 1% of payroll the member contribution rate must be adjusted and set equal to 50% of the total normal cost rounded to the nearest one quarter of one percent.

For FY 2026-27, the total normal cost rates for PEPRA members in State Miscellaneous, State Safety and State Peace Officers and Firefighters plans changed by less than 1% of payroll from the base total normal cost rates. As a result, the member contribution rates for these PEPRA members will not change in FY 2026-27.

Please refer to Attachment 3 for a summary of total normal cost by plan by benefit formula and Attachment 5 for details of the member contribution rates for certain PEPRA members. Attachment 4 contains the member contributions rates for all State members by Bargaining Unit.

Members represented by State Bargaining Units 2, 5, 12, 16 and 18 are required to contribute 50% of the total annual normal cost of their pension benefit. While the overall concept is analogous to normal cost sharing above, the specific rules governing the change in member rates differ by Bargaining Unit. Please refer to Attachment 6 for details of the member contribution rates for these Bargaining Units.

Projected Contribution Rates

The following table illustrates projected actuarially determined employer contribution rates for the next five fiscal years. Projected rates assume all actuarial assumptions will be realized, including the investment return of 6.80% for Fiscal Year 2025-26 and beyond, and no changes to assumptions, methods, or benefits will occur during the projection period. Projected rates further reflect member rate changes known to date and the estimated decrease in normal cost due to new hires entering lower cost benefit formulas.

Rates do not include the additional contributions pursuant to G.C. Section 20683.2.

Plan	Actuarially Determined Employer Contribution Rates (% of payroll)					
	Actual	Projected				
	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
State Miscellaneous	31.60%	32.2%	31.0%	29.9%	29.1%	28.9%
State Industrial	20.40%	20.9%	19.8%	18.7%	17.9%	17.8%
State Safety	21.60%	22.0%	20.9%	19.8%	19.0%	18.8%
Peace Officers & Firefighters	49.00%	49.8%	47.5%	45.2%	43.5%	43.1%
California Highway Patrol	63.81%	64.5%	62.0%	61.5%	57.8%	57.0%

The actual investment return for FY 2025-26 was not known at the time this agenda item was prepared. Projections above assume the investment return each fiscal year beginning FY 2025-26 would be 6.80%. ***If the actual investment returns for FY 2025-26 differ from 6.80%, actual contribution requirements for the projected years will differ from the rates shown above.***

An updated projection that will incorporate the impact of the preliminary investment return for FY 2025-26 will be prepared following the announcement of the return. This projection will be available in August.

Budget and Fiscal Impacts

Not applicable.

Benefits and Risks

Information about the risks associated with the funding of these plans will be included in the valuation report that is expected to be released later this year. This information includes investment return scenarios, discount rate sensitivity, and volatility ratios.

Attachments

Attachment 1 – Employer Contribution Rates

Attachment 2 – Accrued and Unfunded Liabilities and Funded Ratio

Attachment 3 – Normal Cost Chart

Attachment 4 – State Member Contribution Rates by Bargaining Unit

Attachment 5 – PEPRA Member Contribution Rates

Attachment 6 – Member Contribution Rates for State Bargaining Units 2, 5, 12, 16 and 18

Attachment 7 – PowerPoint Presentation

Nina Ramsey
Senior Actuary

Daniel Miller
Senior Actuary

Matthew Biggart
Actuary

Scott Terando
Chief Actuary