



Finance and Administration Committee

Agenda Item 5e

April 13, 2026

Item Name: Schools Valuation and Employer/Employee Contribution Rates

Program: Actuarial Office

Item Type: Action

Recommendation

Approve an employer contribution rate of 26.40% for the Schools Pool. Rate is applicable for the period from July 1, 2026 to June 30, 2027.

Executive Summary

Compared with the prior fiscal year, the employer contribution rate has decreased and the funded ratio has increased.

The following table summarizes key results of the June 30, 2025 valuation.

Key Valuation Results (\$ in millions)

Funded Status	June 30, 2024	June 30, 2025
Accrued Liability	\$133,978	\$141,195
Fair Value of Assets	\$93,187	\$105,452
Unfunded Accrued Liability	\$40,791	\$35,743
Funded Ratio	69.6%	74.7%

Contribution Rates	Fiscal Year 2025-26	Fiscal Year 2026-27
Employer Contribution Rate	26.81%	26.40%
PEPRA Member Contribution Rate	8.00%	8.00%

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 Schools Pool provides retirement benefits to classified employees of K-12 school districts, community college districts, and most county offices of education in California. It generally does not cover certificated school employees as they are covered by the California State Teachers' Retirement System (CalSTRS).

This actuarial valuation determines the funded status as of June 30, 2025 and sets forth the Schools employer and PEPRAs employee contribution rates for fiscal year July 1, 2026 through June 30, 2027.

Investment Return

Based on final assets as of June 30, 2025, the investment return for 2024-25 was 12.0% after reduction for administrative expenses, generating an actuarial investment gain of \$4.9 billion. This gain will be amortized over 20 years with a five-year ramp, decreasing the employer contribution rate in 2026-27 by 0.49% of pay. Due to the five-year ramp, this impact will escalate each year until it reaches an estimated reduction of 2.16% of pay in 2030-31.

Assumption Changes

This actuarial valuation reflects revised actuarial assumptions recommended in the November 2025 *CalPERS Experience Study and Review of Actuarial Assumptions* and adopted by the board on November 19, 2025. This study assessed various assumptions including retirement rates, termination rates, mortality rates, rates of salary increase, and inflation. Among the changes were an increase in the annual price inflation assumption from 2.3% to 2.5% and an increase in the annual wage inflation assumption from 2.8% to 3.0%.

In aggregate, the new assumptions increased unfunded accrued liability by \$0.2 billion. This amount will be amortized over 20 years, increasing the employer contribution rate by 0.13% of pay in 2026-27. This was partially offset by a decrease in the unfunded liability rate of 0.06% of pay due to payroll being projected at the new 3.0% wage inflation assumption, as noted above. Combined with a 0.46% increase in the employer normal cost rate, the net effect of the assumption changes is an increase of 0.53% in the employer rate.

Other Plan Experience

Non-investment experience during 2024-25, which includes both demographic experience and economic experience other than from investments, increased unfunded accrued liability by \$0.6 billion. This actuarial loss will be amortized over 20 years, increasing the employer contribution rate by 0.19% in 2026-27. Combined with a 0.17% decrease in the employer normal cost rate, the net effect of non-investment experience is an increase of 0.02% in the employer rate.

Total reported payroll in 2024-25 increased by 6.6% over the prior year, compared with 2.8% expected. This served to reduce the employer contribution rate by 0.61% of pay in 2026-27 as the dollar amount of the unfunded liability contribution is divided by a larger payroll.

Analysis

Schools Employer Contribution Rate for 2026-27

The Actuarial Office has completed the determination of the employer contribution rate for the Schools Pool for 2026-27. The full actuarial report will be completed later this year and will be provided to the board and posted online at that time. The additional information provided in the report will include details on assumptions, methods, and participant data.

The following table compares the 2026-27 employer contribution rate and corresponding dollar amount estimated to be generated by the rate to amounts for 2025-26.

Schools Pool Employer Contribution (\$ in millions)

Employer Costs by Rate and Dollars	Fiscal Year 2025-26	Fiscal Year 2026-27
Employer Contribution Rate (% of Pay)		
Employer Normal Cost	9.37%	9.66%
Unfunded Liability Rate	<u>17.44%</u>	<u>16.74%</u>
Employer Contribution Rate	26.81%	26.40%
Projected Payroll ¹	\$ 21,450	\$ 22,946
Expected Employer Contribution Dollars		
Employer Normal Cost	\$ 2,010	\$ 2,217
Unfunded Liability Contribution	<u>3,741</u>	<u>3,840</u>
Expected Employer Contributions	\$ 5,751	\$ 6,057

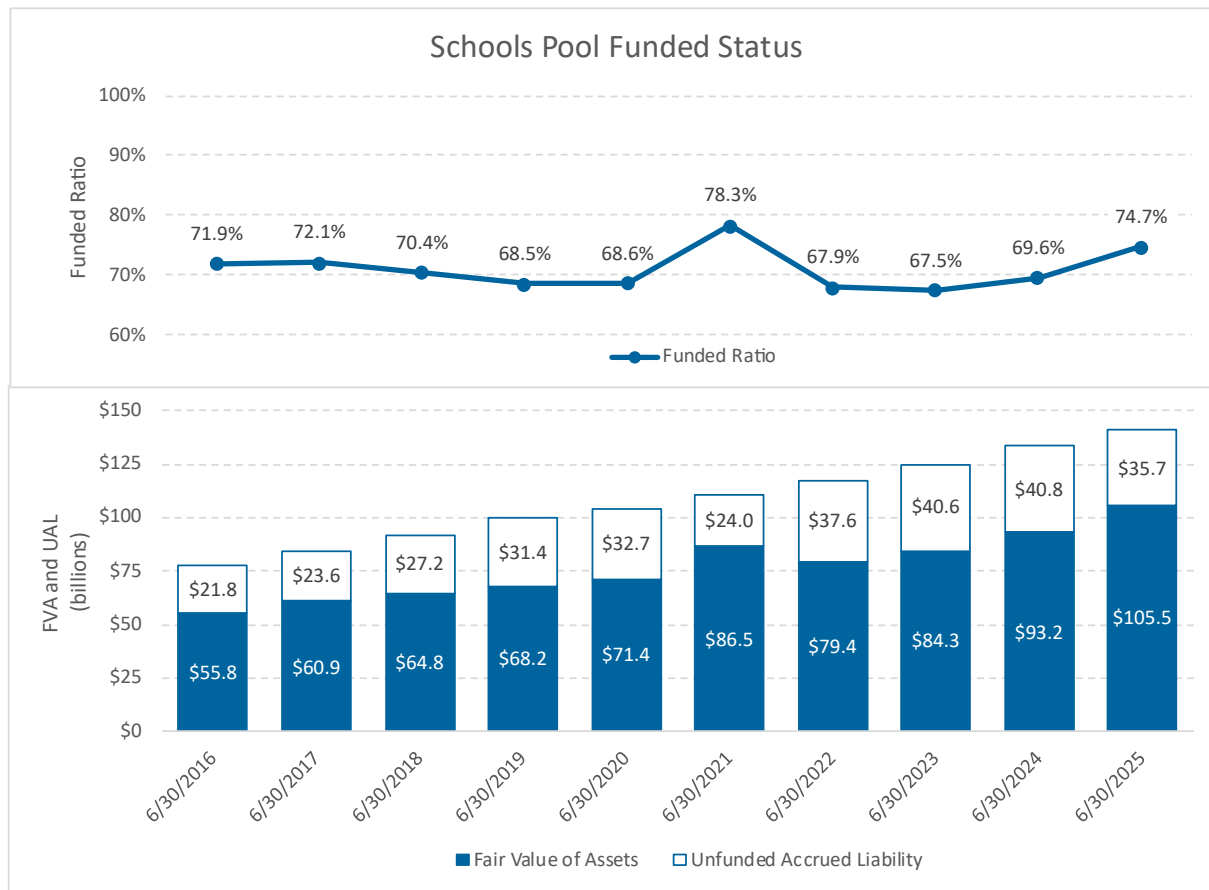
¹ Projected payroll used to calculate the expected dollar contributions is payroll reported for the year ending on the valuation date, increased for two years of growth at the prevailing payroll growth assumption (3.00% per year for the June 30, 2025 valuation). To the extent that payroll in the contribution year is different than projected, actual contribution amounts will differ from the expected contributions shown in the table above.

Funded Status

The chart below illustrates two different measures of funded status: funded ratio and Unfunded Accrued Liability (UAL). The funded ratio equals assets divided by accrued liability. It is a relative measure of funded status and allows for comparisons between plans of different sizes. Plans with a lower funded ratio are, all other things equal, more costly and at higher risk of not being able to meet their future benefit obligations. The UAL, a dollar amount, equals accrued liability minus assets and is an absolute measure of funded status.

From June 30, 2024 to June 30, 2025, the funded ratio of the Schools Pool increased by 5.1% and the UAL decreased by \$5.0 billion. The primary driver of improvement was investment return greater than expected.

The graph below shows funded ratio and UAL for the past ten years.



Change in Required Employer Contribution

Overall, the required employer contribution rate for the Schools Pool decreased by 0.41% of payroll from the prior year. The dollar amount of employer contributions expected to be generated in 2026-27 is approximately \$305 million higher than in 2025-26. An explanation of the key sources of pool experience is provided on page 2.

The following table summarizes the effects that various factors had on the required employer contribution between last year and this year.

Reconciliation of Required Employer Contribution

	Rate (% of Payroll)	Estimated Dollars (millions)
Employer Normal Cost		
2025-26 employer normal cost contribution	9.37%	\$2,010
Change in payroll	0.00%	140
Demographic experience	(0.17%)	(39)
Assumption changes	<u>0.46%</u>	<u>106</u>
2026-27 employer normal cost contribution	9.66%	\$2,217
Unfunded Liability Contribution		
2025-26 unfunded liability contribution	17.44%	\$3,741
Progression of amortization bases	0.14%	136
Actual payroll differing from assumed	(0.61%)	0
Investment (gain)/loss	(0.49%)	(112)
Non-investment (gain)/loss	0.19%	44
Assumption changes	<u>0.07%</u>	<u>31</u>
2026-27 unfunded liability contribution	16.74%	\$3,840
Total Required Employer Contribution		
2025-26 total required employer contribution	26.81%	\$5,751
Progression of amortization bases and change in payroll	(0.47%)	276
Experience (gains)/losses	(0.47%)	(107)
Assumption changes	<u>0.53%</u>	<u>136</u>
2026-27 total required employer contribution	26.40%	\$6,057

Note: numbers may not add due to rounding.

PEPRA Member Contribution Rate

Under PEPRA, new members hired on or after January 1, 2013 are required to contribute 50% of the total normal cost of their pension benefit as determined by the actuarial valuation. PEPRA school members currently contribute 8.00% of salary. The contribution rate for school members not subject to PEPRA (i.e., classic members) is set by statute and is currently 7.00% of salary.

A change in the PEPRA member contribution rate is required when the total normal cost changes by more than 1% of payroll. When a change is triggered, the member contribution rate is adjusted to equal half the total normal cost, rounded to the nearest quarter of one percent.

In this valuation, the total normal cost did not change by more than 1% relative to the basis currently in effect. Therefore, the PEPRA member contribution rate will remain 8.00% for 2026-27.

On June 30, 2025, PEPRA members represented 70% of the total active population of the Schools Pool by headcount and 62% by payroll.

Expected Future Changes

The following table shows projected employer contribution rates for 2027-28 through 2031-32. Projected rates assume all actuarial assumptions will be realized and no changes to assumptions, methods, or benefits will occur during the projection period. The projected rates further reflect that normal cost is expected to continue to decline gradually over time as new employees enter the PEPRA benefit tier. Projected rates are estimates only; actual rates will be determined by future actuarial valuations.

Projected Schools Employer Contribution Rate (% of payroll)

Fiscal Year	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Employer Contribution	26.40%	26.8%	25.9%	25.1%	24.0%	23.8%

The actual investment return for 2025-26 was not known at the time this item was prepared. The projections assume the investment return for that year will be 6.80%. ***If the actual investment return differs from 6.80%, the actual contribution requirements for the projected years will differ from those shown above.***

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, volatility ratios, and other risk analyses.

Attachments

Attachment 1 – Schools Valuation Presentation

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