



Finance and Administration Committee

Agenda Item 6a

April 13, 2026

Item Name: Long-Term Care Program Valuation Report

Program: Actuarial

Item Type: Information

Executive Summary

This agenda item provides the results of the California Public Employees' Retirement System Long-Term Care (LTC) Program's annual actuarial valuation for the fiscal year ending June 30, 2025. As of June 30, 2025, the program's funded status is 97%, improved from 94% last year, and the margin is negative 6.62%, improved from negative 10.58% last year. As of June 30, 2025, the program had 75,769 policies in-force, 6,423 of which were on claim.

The program experienced a 9.5% investment return during the fiscal year, which improved the program's margin by 8.88%.

The assumption updates in this valuation decreased the margin by a total of 2.77%. The largest negative impact was due to the claim utilization assumption, which was updated to reflect the current higher cost of care and to have separate rates for inflation and non-inflation policies.

Population changes in the program during the fiscal year reduced the margin further by 1.32% partly due to the higher cost of care level for the existing claims.

In fiscal year 2024-25, the program's premiums received were \$277.1 million, administrative expenses were \$31.2 million, and claims payments were \$366.8 million. The fund also gained \$209.4 million in investment returns in addition to the assumed return based on the discount rate. The balance of the LTC Fund is \$4.6 billion as of June 30, 2025.

Strategic Plan

This agenda item supports the strategic plan goal of program sustainability.

Background

The CalPERS LTC Program was established in 1995 and has 75,769 policyholders as of June 30, 2025. Information on the types of policies offered through the program and the number of policyholders under each type can be obtained from Appendix D of the valuation report.

Since its inception, the CalPERS LTC Program has experienced worse-than-expected morbidity, higher-than-expected claims, lower-than-expected voluntary termination, and lower-than-expected investment income. This experience is similar to that of other LTC insurance providers. Due to this experience, CalPERS has taken corrective action to stabilize the LTC Fund.

The 2023 valuation reported an underfunded status for the program due to higher projected liabilities and materialized investment returns being lower than expected. As a result, the board approved a 10% premium increase each year for two years starting in 2025 for non-partnership policies and a 6.7% premium increase each year for three years starting in 2025 for partnership policies. Options to convert to less expensive policies were offered to policyholders.

This actuarial valuation uses the First Principles Based modeling method. This modeling method is standard in the LTC insurance industry and provides better information to analyze assumptions with. Assumptions for the First Principles Model have been developed and refined over the years to reflect emerging experience and new findings.

Analysis

Funded Status and Margin of the Program

The results of this actuarial valuation are based on the in-force data, revised assumptions, and the fund balance as of June 30, 2025. The funded status, as of June 30, 2025, is 97% and the margin is negative 6.62%.

The following table shows how the funded status and margin were derived and compares the key results from the June 30, 2024 valuation to the key results from the June 30, 2025 valuation:

Component	6/30/2024 (\$ in Millions)	6/30/2025 (\$ in Millions)
1. Present Value of Future Benefits	\$6,726	\$6,713
2. Present Value of Future Expenses	\$349	\$359
3. Present Value of Future Premiums (PVFP)	\$2,493	\$2,288
4. Valuation Liabilities (= 1 + 2 - 3)	\$4,582	\$4,785
5. Valuation Assets	\$4,318	\$4,633
6. Valuation Margin (= 5 - 4)	(\$264)	(\$151)
7. Margin as a % of PVFP (= 6 / 3)	(10.58%)	(6.62%)
8. Funded Status (= 5 / 4)	94%	97%

Main Reasons for Changes in Margin

During the 2024-25 fiscal year, the investment return was positive 9.5%. This increased the margin by 8.88% in this valuation.

In this valuation, the claim utilization assumption was updated to reflect the currently higher cost of care and experience difference between inflation and non-inflation policies. The assumption's structure was updated so that an inflation policy's benefit pool increase can partially offset with the cost-of-care inflation, while there is no such offset for non-inflation policies. The utilization assumption update contributed to the overall decrease in margin of 2.83% from the morbidity assumption updates. The sum of all other assumption updates in total increased the margin by an additional 0.06%.

Population changes in the program during the fiscal year reduced the margin further by 1.32%.

The table below provides the breakdown for all impacts on the margin between 2024 and 2025:

	Change in Margin	Resulting Margin	Funded Status
Margin as of 6/30/24 valuation		(10.58%)	94%
Roll-forward to 6/30/2025	(1.34%)	(11.92%)	94%
FY24-25 Non-Investment Gain/Loss	0.51%	(11.41%)	94%
FY24-25 Investment Gain/Loss	8.88%	(2.53%)	99%
FY24-25 Population Change	(1.32%)	(3.85%)	98%
Expense Assumption Update	(0.22%)	(4.08%)	98%
Lapse Assumption Update	(0.00%)	(4.08%)	98%
Mortality Assumption Update	0.29%	(3.79%)	98%
Morbidity Assumption Updates	(2.83%)	(6.62%)	97%
Margin as of 6/30/25 valuation		(6.62%)	97%

History of Funded Status and Margin

The table below shows the funded status and the margin/(deficit) for the LTC Program for the last five years. The program's margin was positive in the 2021 valuation reflecting a stabilization plan adopted to change the asset allocation and increase premium rates. The higher-than-expected investment return and the Program's experience related to COVID-19 also contributed to the positive margin in the 2021 valuation. However, rising interest rates reduced the market value of fixed income assets and reduced the valuation margin to negative in the 2022 and 2023 valuations. Further refinements in the morbidity assumptions also contributed to the margin decreases since 2021. Higher-than-expected investment return and the premium rate increases being phased in since 2025 improved the margin in the 2024 and 2025 valuations.

Five Year History of Funded Status and Margin

Valuation Date	Funded Status	Margin
June 30, 2021	108%	10.51%
June 30, 2022	95%	(7.40%)
June 30, 2023	90%	(19.01%)
June 30, 2024	94%	(10.58%)
June 30, 2025	97%	(6.62%)

Subsequent Events

Since 2022, the Program's mortality and morbidity experience are reverting closer to pre-pandemic levels. There is still uncertainty regarding how these experiences will evolve over the long term. Future experience will continue to be monitored.

Interest rates could fluctuate in the next few years. Investment return may be impacted by volatility. In addition, long-term care services may continue to be impacted by higher cost-of-care inflation.

Budget and Fiscal Impacts

The June 30, 2025 actuarial valuation was prepared by the CalPERS actuarial team with a parallel analysis from Oliver Wyman's actuarial consulting team. Funding was already identified within existing budgetary resources.

Benefits and Risks

The actuarial calculations performed as part of the actuarial valuation are based on several assumptions related to very long-term demographic and economic behavior. Unless the assumptions (morbidity, lapses, deaths, expenses, and investment return) are exactly realized each year, there will be differences between actual and projected cash flows on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and will either increase or decrease the funded status and margin of the LTC Program. If the actual experience differs from the assumptions over a prolonged period,

it may indicate a need for assumption updates and result in a need for premium changes to ensure the financial integrity of the LTC Program.

Some LTC assumptions such as claim incidence rate, claim termination rate, and claim utilization rate can have more variability throughout a long period of time. These assumptions can be impacted over time by plan demographics, health care technologies, policyholder preferences, and shock events such as pandemics. Timely updating of valuation assumptions to reflect this information is beneficial for adequately monitoring the funded status of the program and minimizing the risk that actual experience is not in line with assumptions.

Demographic assumptions such as mortality rate can have a significant impact on the LTC Program if not realized over a long period of time. These assumptions in general are not subject to wide variances from year-to-year and the changes to these assumptions typically only gradually occur over time. Refer to the "Risk Analysis" section of the valuation report for more information on how sensitive the margin of the LTC Program is to the changes in key actuarial assumptions.

Investment return also poses a significant risk to the program if not realized over time. LTC insurance is characterized by level premiums and increasing claim costs over the coverage period. The collected premiums are invested and the aggregate premiums plus investment income are used to pay out future claims. Investment income is a significant component of the income as the population ages. If investment returns are lower than expected over a prolonged period, more premiums will be needed to make up for the reduced growth in assets.

Attachments

Attachment 1 – Long-Term Care Valuation Presentation

Attachment 2 – Long-Term Care Valuation Report as of June 30, 2025

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