Finance and Administration Committee

# Agenda Item 5a

**June 17, 2026**

**Item Name**: Asset Liability Management: Second Reading Judges, Judges II and Legislators Actuarial Assumptions

**Program**: Actuarial Office

**Item Type**: Action

## Recommendation

1) Adopt new actuarial assumptions for JRS, JRS II and LRS to be effective with the June 30, 2026 actuarial valuations. Contribution requirements due to changes in assumptions will be impacted in FY 2027-28.
2) Use the recommended assumptions in all affected member calculations effective as follows:
   a) For service credit purchase applications postmarked on or after June 18, 2026.
   b) For retirement payment options for retirement dates on or after June 18, 2026.

## Executive Summary

The Actuarial Office (ACTO) has completed its investigation (experience study) of the actuarial assumptions for the retirement systems other than CalPERS administered by CalPERS, the Judges' Retirement System (JRS), Judges' Retirement System II (JRS II) and Legislators' Retirement System (LRS). The assumptions reviewed include both the economic assumptions and the demographic assumptions. A first reading was presented to the committee in April.

The only assumption changes for JRS and LRS were to align with assumptions that were adopted for CalPERS in November 2025. A more extensive study was completed for JRS II. This agenda item contains the preliminary recommendation for new actuarial assumptions for all three retirement systems as well as a copy of the JRS II experience study.

One primary economic assumption, the discount rate, is determined in conjunction with the evaluation of the investment strategy as part of the Asset Liability Management (ALM) process. This information was presented to the Investment Committee on June 15. Since the JRS is funded on a pay-as-you-go basis, and the discount rate does not depend on the board's investment strategy, it was not included in that discount rate analysis.

Cost increases for JRS II and LRS are expected due to changes in the inflation assumption and for JRS II, the salary scale.

Aside from these two assumption sets, all other recommended assumptions are not expected to have a material impact on contribution requirements

See Attachment 2 for a copy of the JRS II experience study report.

## Strategic Plan

This item is presented as part of the regular ongoing workload of the Actuarial Office and supports the Pension Sustainability goal of the CalPERS 2022-2027 Strategic Plan

## Background

An experience study is a summarization of actual experience over a defined period and, along with future expectations, is used in setting actuarial assumptions. Experience studies which include reviews of both economic and demographic assumptions are standard industry practice every three to five years. The statutory requirement for CalPERS is to complete a study at least every four years. Note that actuarial standards of practice require the actuary to evaluate whether assumptions are reasonable for every valuation, so some change in assumptions could be recommended in the intervening years between experience studies.

The JRS has been closed to new members since 1994 and has few remaining active members. The LRS is also closed and now consists entirely of retired members and beneficiaries. The most important assumptions for these systems are, by far, mortality and price inflation. The recommendation is to align both of these assumptions with those adopted for CalPERS in November 2025.

The JRS II is an ongoing plan, and all demographic assumptions have been reviewed.

## Analysis

The analysis includes a review of economic and demographic assumptions.

### Review of Economic Assumptions

Actuaries use certain economic assumptions to set a contribution schedule of employee and state contributions designed to accumulate with interest to an amount sufficient to provide for all benefits expected to be paid to members and their beneficiaries. Even though the JRS is not funded on this basis, a reasonable actuarially determined contribution must still be calculated and disclosed. The economic assumptions used to determine liabilities and set contribution rates are the discount rate, price inflation, and wage inflation assumption.

The summary of the results of the review of economic assumptions is as follows:

- **Discount Rate Assumption:** The primary economic assumption is the discount rate assumption. This is the sum of assumed price inflation and the expected long-term real rate of return. The current discount rates are 6.0% for JRS II and 4.5% for LRS. As part of the ALM process, discount rate recommendations were presented to the Investment Committee on June 15. The JRS is not funded, and the discount rate does not depend on the board’s investment strategy.
- **Price Inflation Assumption:** Currently, the annual price inflation assumption is 2.30%. Inflation data from many sources was analyzed as part of the 2025 CalPERS Experience

Study and an increase in the assumption to 2.50% per year was recommended and adopted. The recommendations for JRS, JRS II and LRS to adopt this increase as well.

- **Wage Inflation Assumption:** Only JRS and JRS II have active members. Currently, the real wage inflation assumption is 0.5%. Consistent with the CalPERS Experience Study, the recommendation is to maintain the real wage inflation assumption of 0.5%. This is added to the price inflation assumption and results in a total wage inflation assumption of 3.00%.

**Review of Demographic Assumptions**

In addition to the economic assumptions, several demographic assumptions are used to set the employee and state contributions. These demographic assumptions include mortality rates, retirement rates, disability rates, and rates of salary increases. After performing the review of demographic assumptions, we recommend changes to these assumptions. We believe the new assumptions will result in an improvement for predicting long-term future experience and costs over the current assumptions.

The summary of the results of the review of demographic assumptions is as follows:

- Mortality: A significant change to the methodology used for projecting future mortality was implemented in the 2021 study. The key changes were adding generational mortality improvements and adopting benefit weighted mortality rates. Life expectancies in the developed world are improving, and this is consistent with the data in the experience study. ACTO believes that proper funding of the systems requires the continued inclusion of mortality improvements in the mortality assumption. This is consistent with best practices and changing actuarial standards. In this study no changes are being recommended to the male base rates and only minor changes to the female base rates. However, we recommend replacing the MP-2020 mortality projection table with the MP-2021 mortality projection table. We will also continue to use 80% of the mortality projection table, as it best represented the future expectations for the mortality improvement of CalPERS in our last study. This recommendation is consistent with the one adopted by the board for CalPERS in November 2025.
- Retirement Rates: For JRS II, at ages 65, 68 and 69 there were more retirements than expected while at ages 74 and over they were lower. In general, the proposed rates are a better fit to the actual experience of the plans compared to the current assumptions.
- Withdrawal Rates: Actual withdrawals were consistently higher than assumed. The proposed rates were fit to the experience based on age and service.
- Other assumptions: Other assumptions were generally aligned with experience, and no other changes are proposed.

See Attachment 2 for a copy of the JRS II experience study report.

### Impact on Employee and State Contributions

Assumptions are used to determine expected benefit payments and investment returns. Assumption changes only affect short-term costs for JRS II and LRS. Long-term costs will be determined by actual benefit payments, administrative expenses and investment returns. The JRS is funded on a pay-as-you-go basis and contributions depend only on benefit payments and expenses. Assumptions do not affect JRS contributions, even in the short-term, but assumptions do affect projected benefit payments.

The following tables summarize the cost impacts for JRS II and LRS.

**JRS II Assumption Change Cost Summary**

| | Current | Proposed | Change |
|---|---|---|---|
| Employer NC Rate | 22.18% | 22.96% | 0.78% |
| PEPRA Member Rate | 16.75% | 16.75% | - |
| Accrued Liability | $2,739M | $2,802M | $63M |
| Funded Ratio | 108.9% | 106.8% | (2.5%) |

**LRS Assumption Change Cost Summary**

| | Current | Proposed | Change |
|---|---|---|---|
| Accrued Liability | $96M | $98M | $2M |
| Funded Ratio | 96.4% | 94.2% | (2.2%) |

### Budget and Fiscal Impacts

Not applicable

### Benefits and Risks

Actuarial assumptions determine the expected costs of the plans. The actual long-term costs of the plans will be revealed as the plans' experience is realized. Assumptions that align with future expectations are necessary if costs are to remain stable. Assumptions that are overly optimistic produce artificially low current costs but lead to significantly higher future costs. The opposite is true for assumptions that are overly pessimistic. By adopting the proposed assumptions, CalPERS ensures that the resulting contribution requirements for JRS II and LRS reflect, to the extent possible, the true cost of the plans under the actuarial methodology and policies adopted by the Board.

**Attachments**

Attachment 1 – Asset Liability Management, Judges, Judges II and LRS Presentation

Attachment 2 – 2025 JRS II Experience Study Report

Kurt Schneider
Supervising Pension Actuary
Actuarial Office

Randall Dziubek
Deputy Chief Actuary, Valuation Services
Actuarial Office

Scott Terando
Chief Actuary