Finance and Administration Committee

Agenda Item 6b

November 17, 2026

Item Name: Annual Review of Funding Levels and Risk Report

Program: Actuarial Office

Item Type: Information

Executive Summary

This annual report provides a comprehensive summary of the current funding levels of the system and the near-term outlook for required contributions. In addition, the report provides important information regarding the risks faced by the system in the near and long-term. By understanding these risks, CalPERS and its agencies can effectively consider whether additional measures can be taken to further reduce risk and increase sustainability of the system.

As discussed in this report, after three years of investment returns that exceeded the expected return of 6.8%, as well as other less significant factors, the funded ratio of the system has improved to 85% and projected employer contribution requirements have been reduced significantly for most plans. In addition, other metrics used to illustrate “risk” for the system have improved as well.

Strategic Plan

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

Background

To assist the Finance and Administration Committee with its oversight of the financial soundness of the overall CalPERS system, the Annual Review of Funding Levels and Risks Report was developed. Included in this report are various system level actuarial results and risk measures that can be used to assess the effectiveness of funding policies, actuarial assumptions and methods.

CalPERS must ensure that the pension fund is sustainable over multiple generations. This is done by taking an integrated view of assets and liabilities and taking steps designed to mitigate risks over the long-term. The CalPERS asset allocation and actuarial assumptions are

continually monitored and reviewed every four years during the Asset Liability Management (ALM) cycle. The most recent cycle was completed in late 2025 through early 2026. Many of the actuarial assumptions, other than the expected investment return and discount rate, were changed during the ALM cycle. Overall, these changes slightly increased accrued liabilities and contribution requirements for employers and some members.

Analysis

Current Actuarial Results

The favourable investment returns during the three years ending June 30, 2026, resulted in significant increases to the funded ratios for CalPERS plans. The total PERF funded status increased from 71.4% as of June 30, 2023, to an estimated 85% as of June 30, 2026. Each plan has its own funded ratio based on the assets and accrued liabilities of that plan. Some plans are better funded than the PERF average and others are not. The impact of favourable investment returns on employer contribution rates (as a percentage of pay) is phased-in over a 5-year period. Therefore, while future required employer contributions are expected to decrease for most plans, the full impact of these investment gains will not be reflected until Fiscal Year 2032-33.

System Risks

CalPERS has, and will always, face certain risks that could result in decreases in the funded status or increases in required contributions. Two of these risks are a market downturn and higher than expected inflation.

A market downturn or correction is always a possibility. The downside risk is currently perhaps somewhat elevated due factors such as inflation and concerns about AI related stocks. Unfavourable investment return is the risk with the greatest potential for causing significant decreases in funded status or increases in required contributions. The report provides a variety of illustrations that provide projections of these results under various alternatives for future investment return.

CalPERS and its members are also potentially impacted by high inflation in several ways. Many retirees have received higher cost-of-living adjustments (COLAs) but likely still lost purchasing power. Higher COLAs result in higher contributions for employers. In addition, employee wages generally keep pace with inflation over the long-term. It is possible some members pay will increase faster than currently expected. The valuations for the three years ending June 30, 2025, showed that higher than expected pay increases for those years resulted in actuarial losses of $17 billion for the PERF. It remains to be seen if future inflation will exceed our 2.5% assumption. If so, additional losses may be created.

Due to the recent favorable investment experience, the near-term potential severity of the typical CalPERS risks discussed in this document is somewhat lessened. With the current higher funded status, and projected decreases in future employer contribution requirements, negative events such as a market downturn or higher inflation, would likely be more easily tolerated by CalPERS and its participating agencies. However, diligence toward reaching the goal of 100% funding and further mitigating risks where possible should be continued.

The inability to make required contributions puts a plan at risk for termination. The termination policies and processes currently in place mitigate risks to the system. However, if an employer is under severe financial stress, the termination policies cannot fully protect the benefits of members that have served that employer. Ultimately, the members' benefits are only secure if the employer continues to make the required contributions.

Budget and Fiscal Impacts

This section is not applicable to this agenda item.

Benefits and Risks

This agenda item and the attached report should enhance the understanding of the risks inherent in the funding of the system. Such an understanding is necessary for effective management and mitigation of those risks.

Attachments

Attachment 1 – 2026 Annual Review of Funding Levels and Risk Report

Attachment 2 – Annual Review of Funding Levels and Risks Presentation

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Randall Dziubek
Deputy Chief Actuary

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Scott Terando
Chief Actuary