2026 Annual Review of Funding Levels and Risks Report

Finance and Administration Committee

November 17, 2026

CalPERS

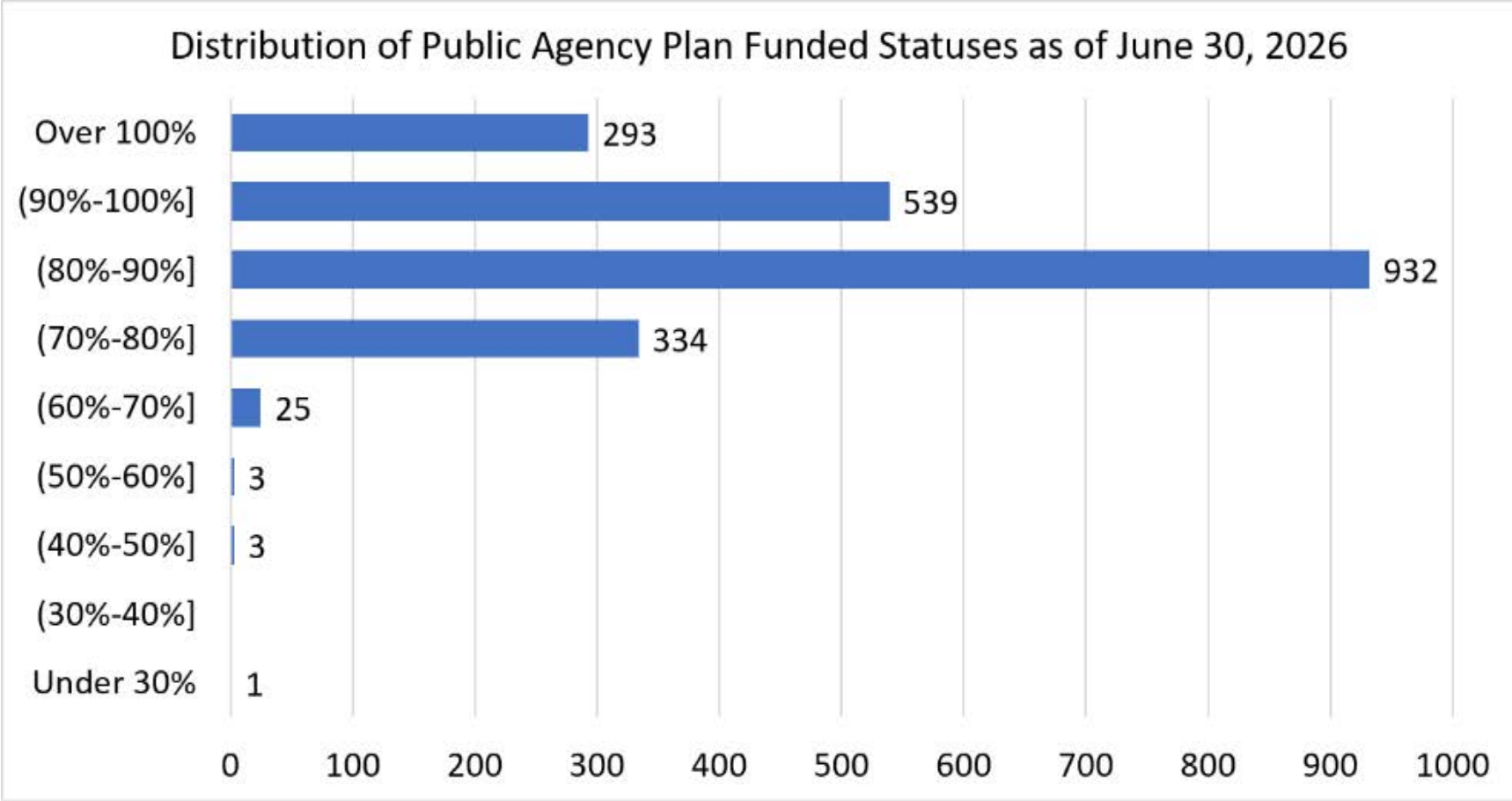
Key Items

- Current Funded Status of Retirement System
- Employer Contribution Requirements
- Operation of the Funding Policies – Past and Future
- Current and Projected Contribution Requirements
- Identification of Key Risks and Potential Impacts
- Opportunities for Risk Mitigation and Improved System Sustainability – Past and Future

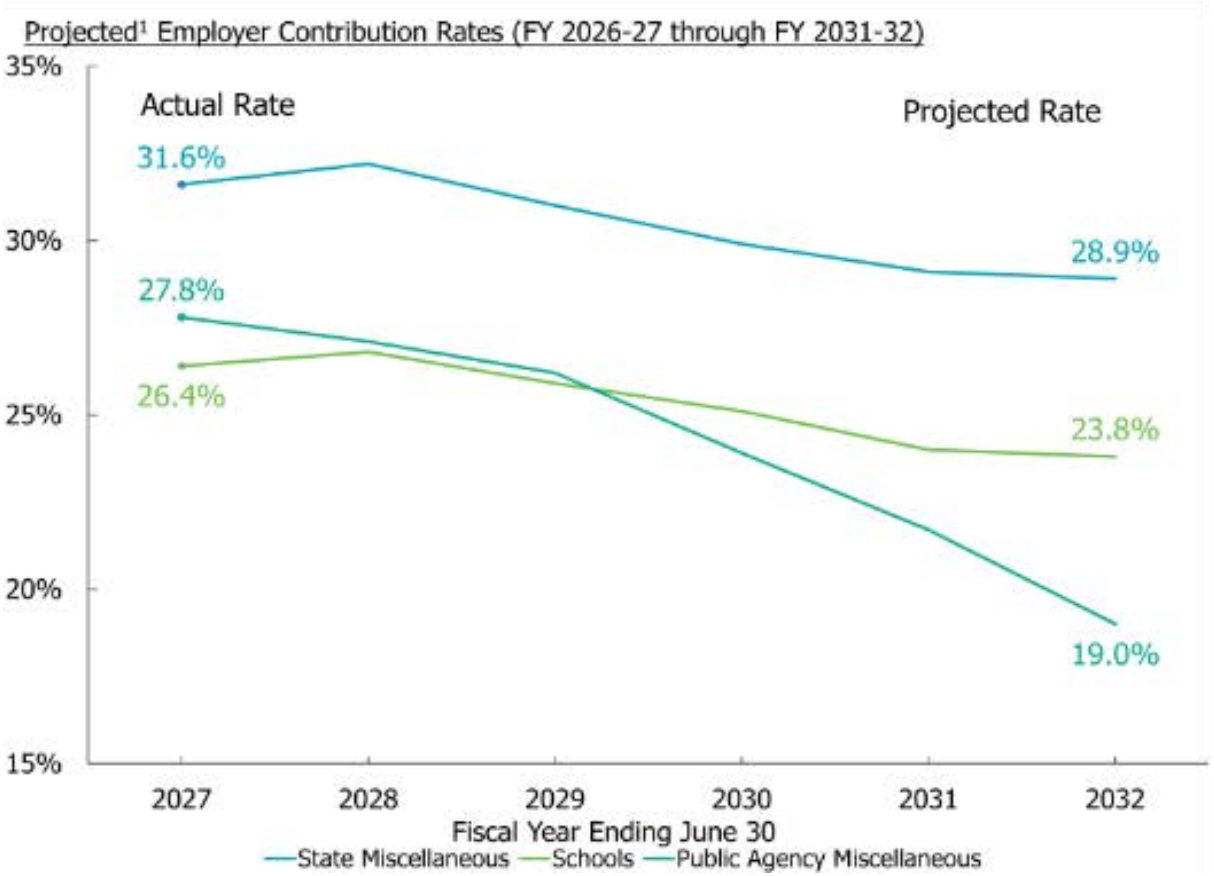
Current Funding Levels

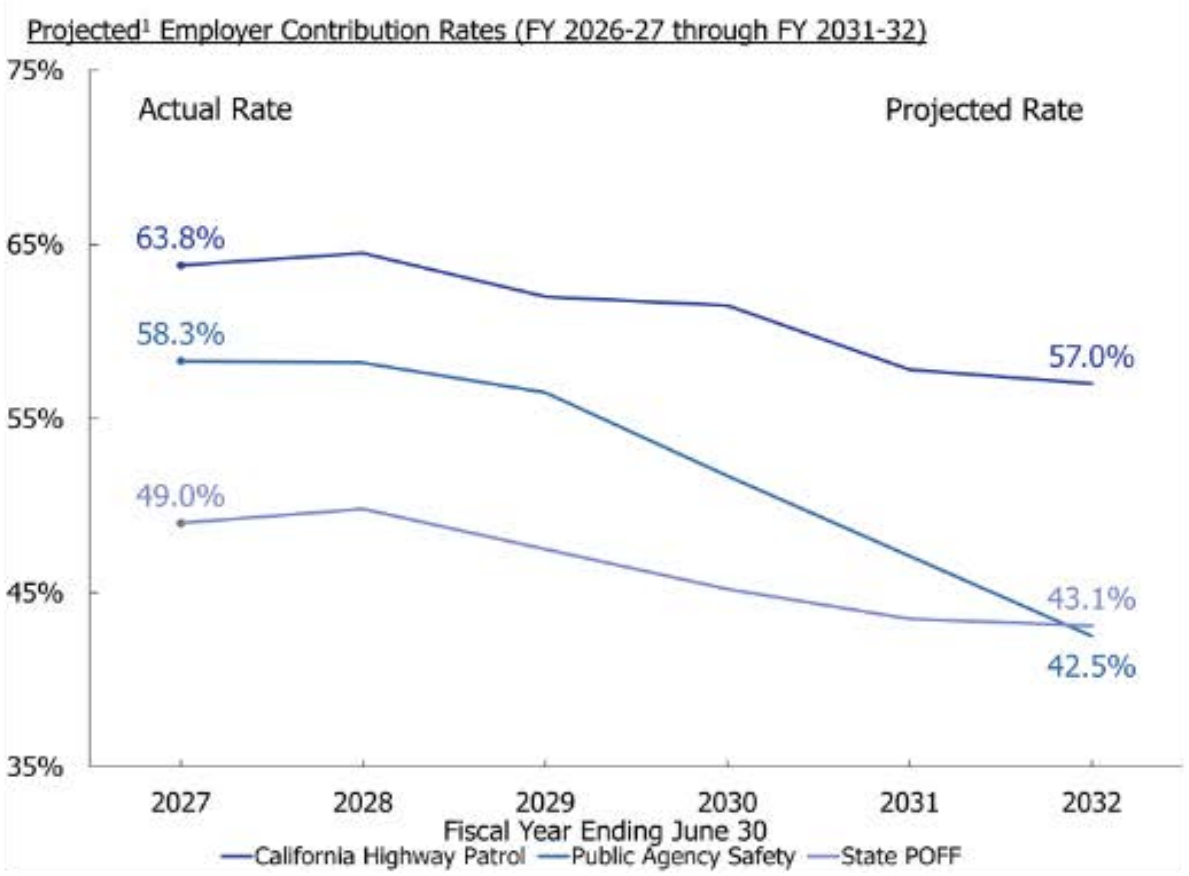
85% Estimated Funded Status as of 6/30/2026

**** Up from 78.2% one year ago***



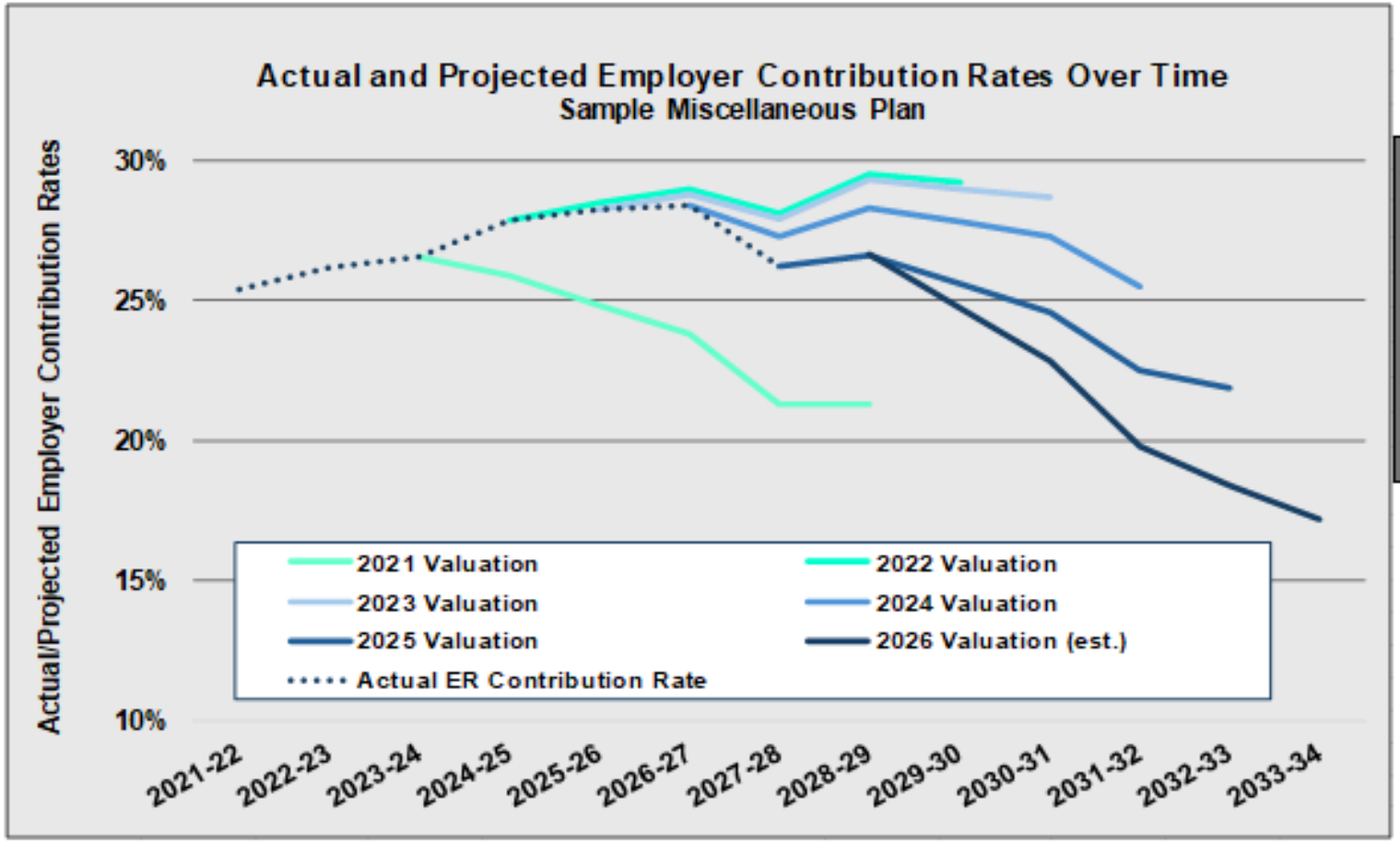
Employer Contribution Requirements





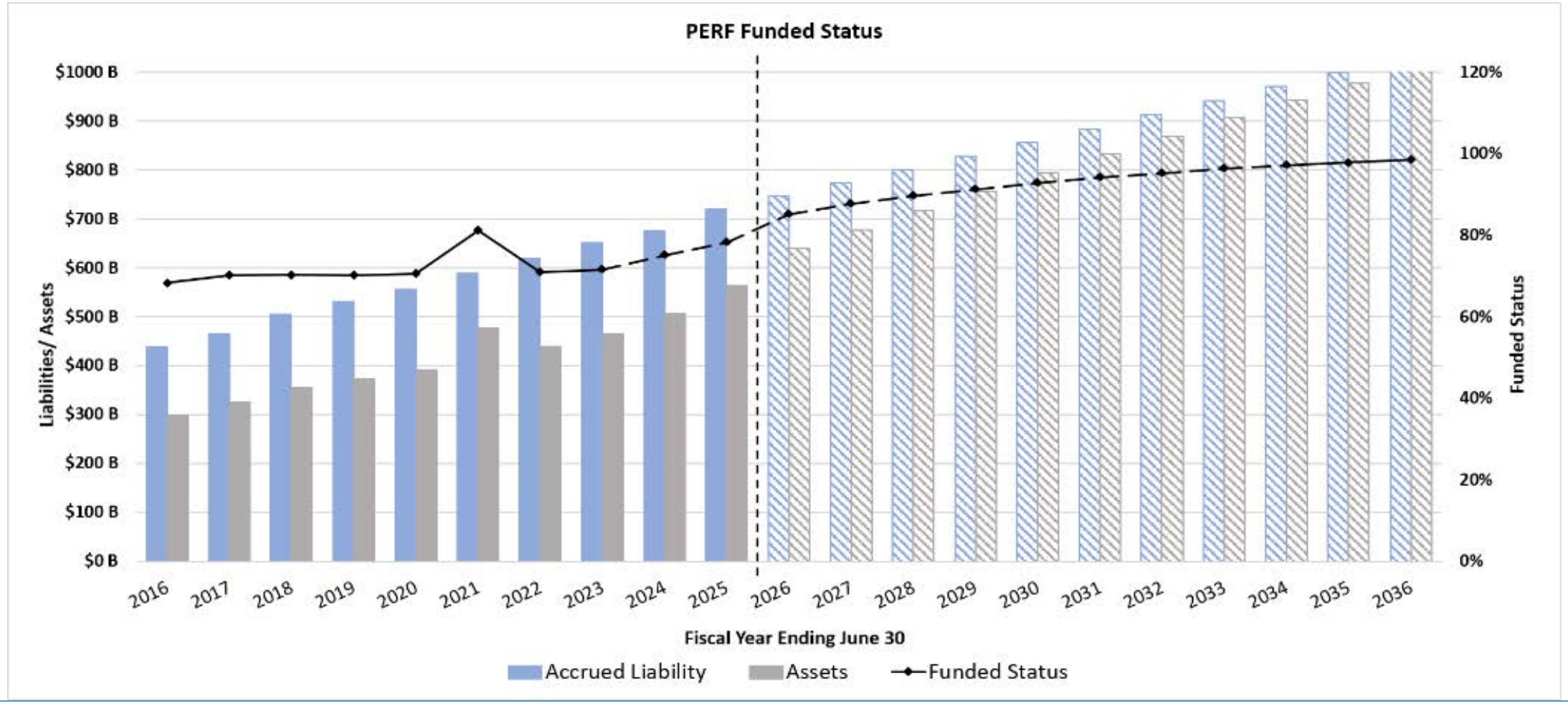
[1]FY 2026-27 state plan and schools pool rates are actual. FY 2026-27 and 2027-28 public agency rates are actual.

Illustrative Changes in Employer Contribution Projections



Investment Returns	
2021-22	-7.5%
2022-23	6.1%
2023-24	9.5%
2024-25	12.1%
2025-26	14.8%

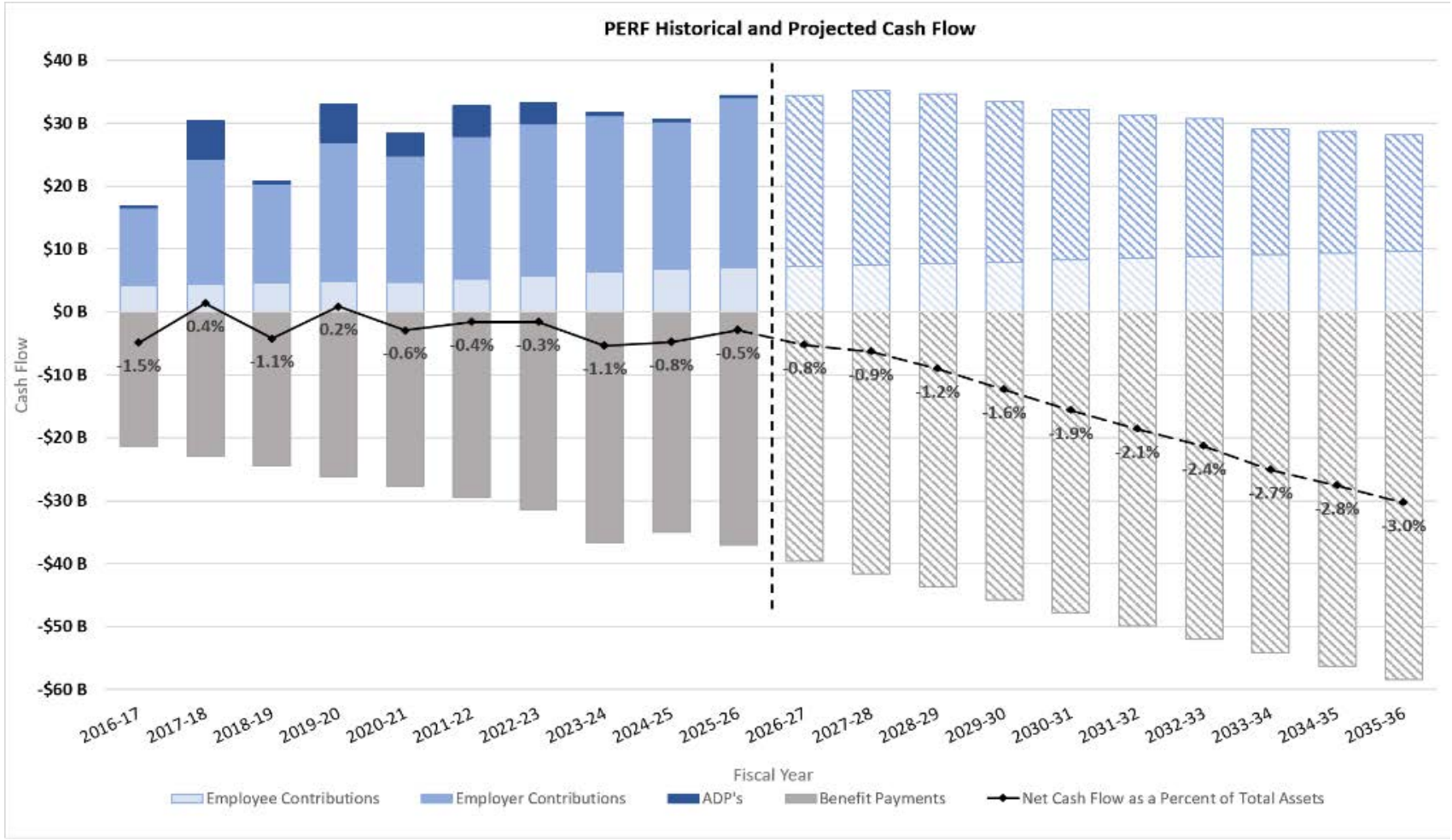
Operation of Funding Policies – Funded Status



Operation of Funding Policies – Cash Flow

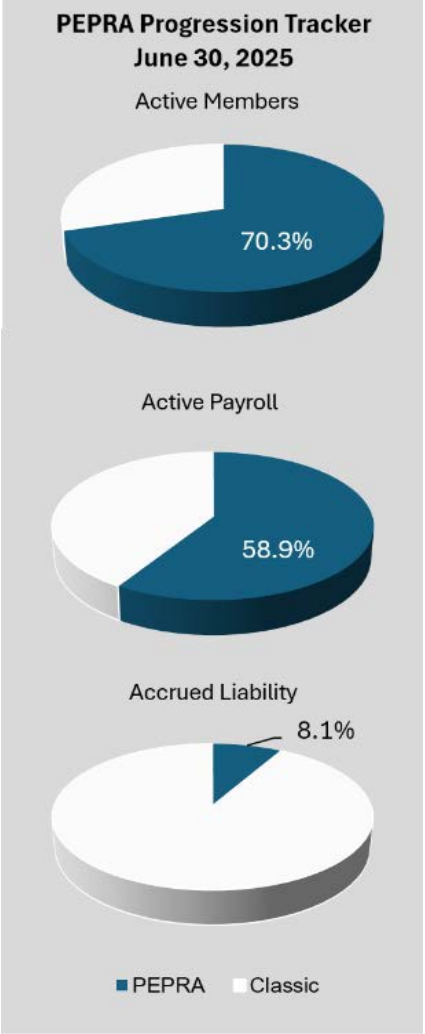
Benefit payments are expected to continue increasing while contributions are expected to level off and then decrease over the next 10 years.

Negative cash flow is expected to grow over the next 10 years. However, this is neither unexpected nor a serious concern with regard to liquidity needs.

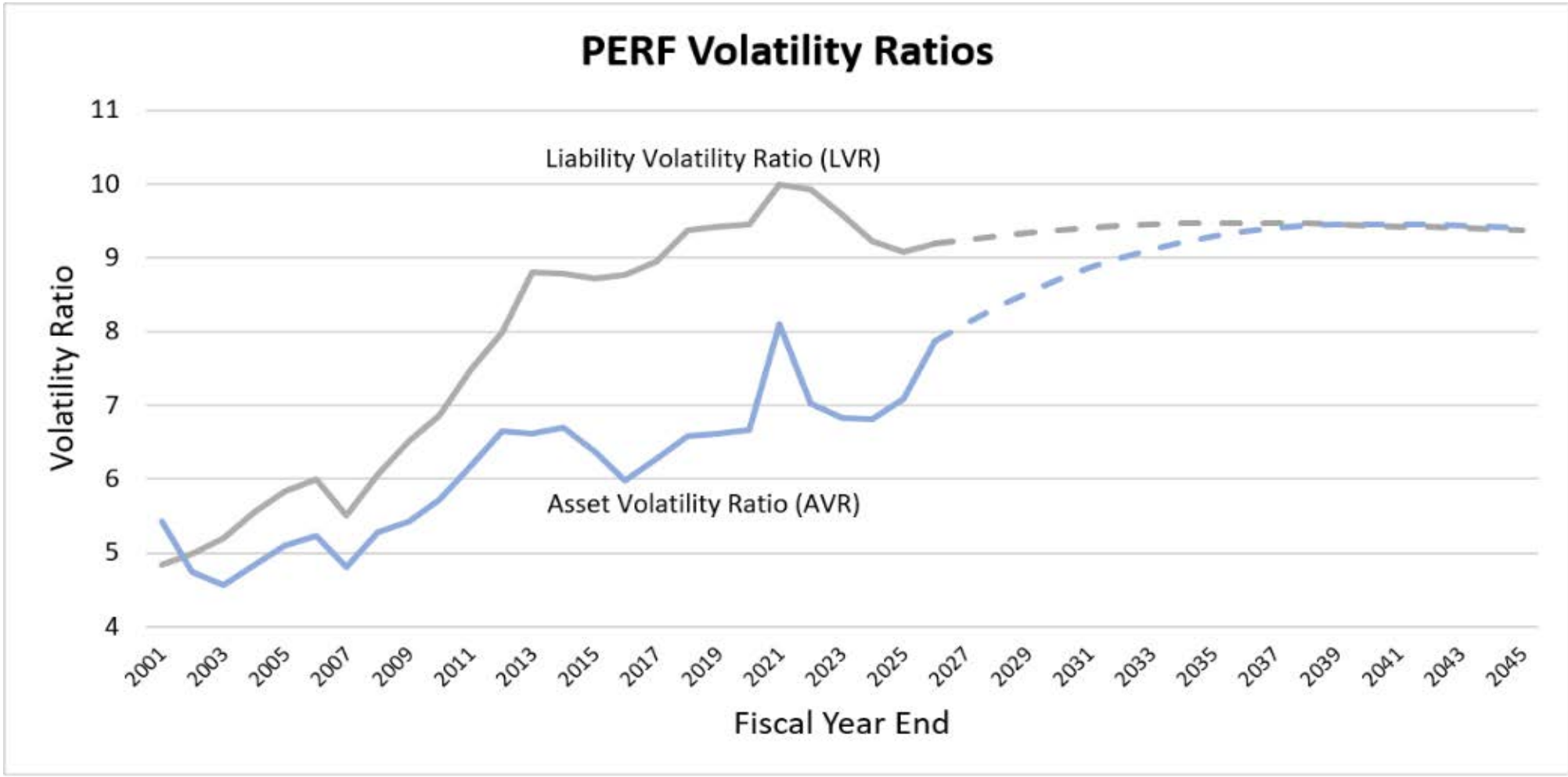


PEPRA

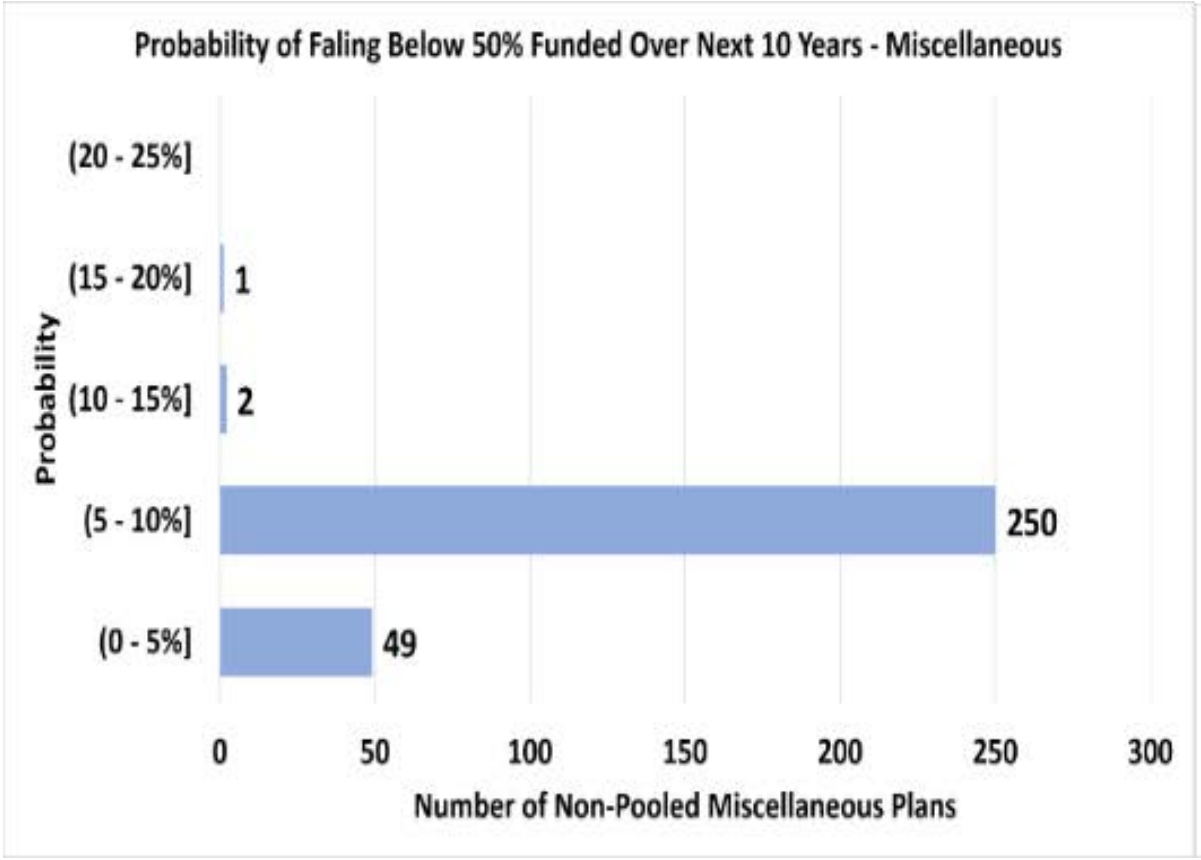
- Transition from Classic members to PEPRA members is continuing to put downward pressure on employer contributions
- Downward pressure is also occurring on volatility ratios

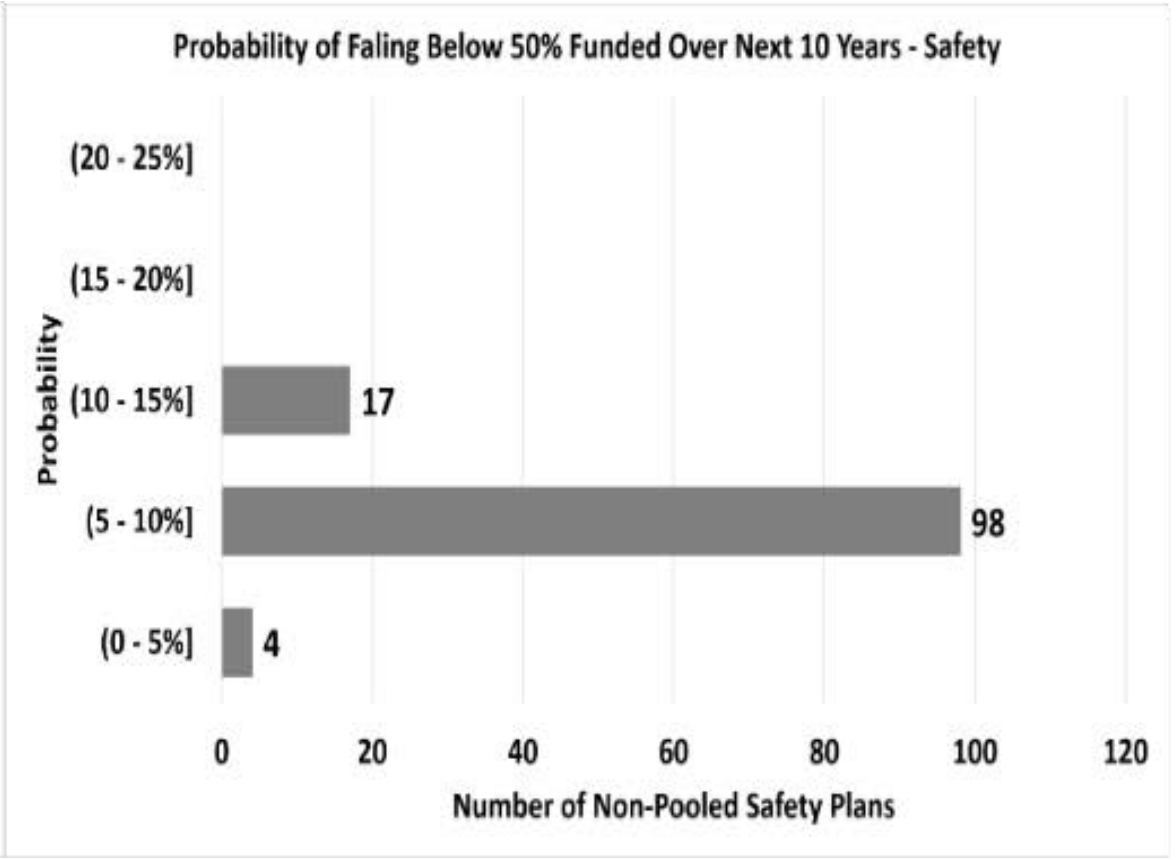


Volatility Ratios



Investment Risks – Low Funding Level

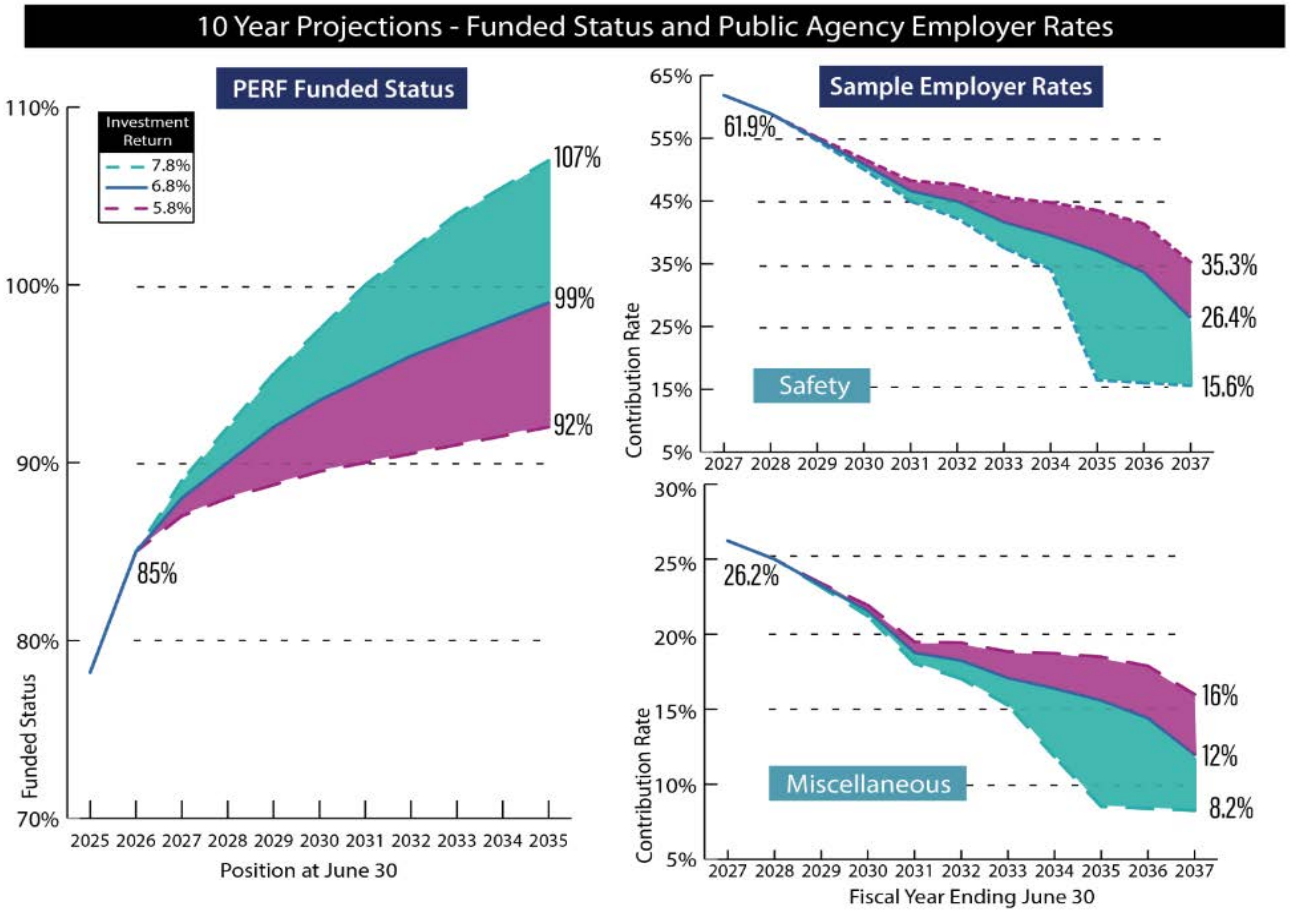




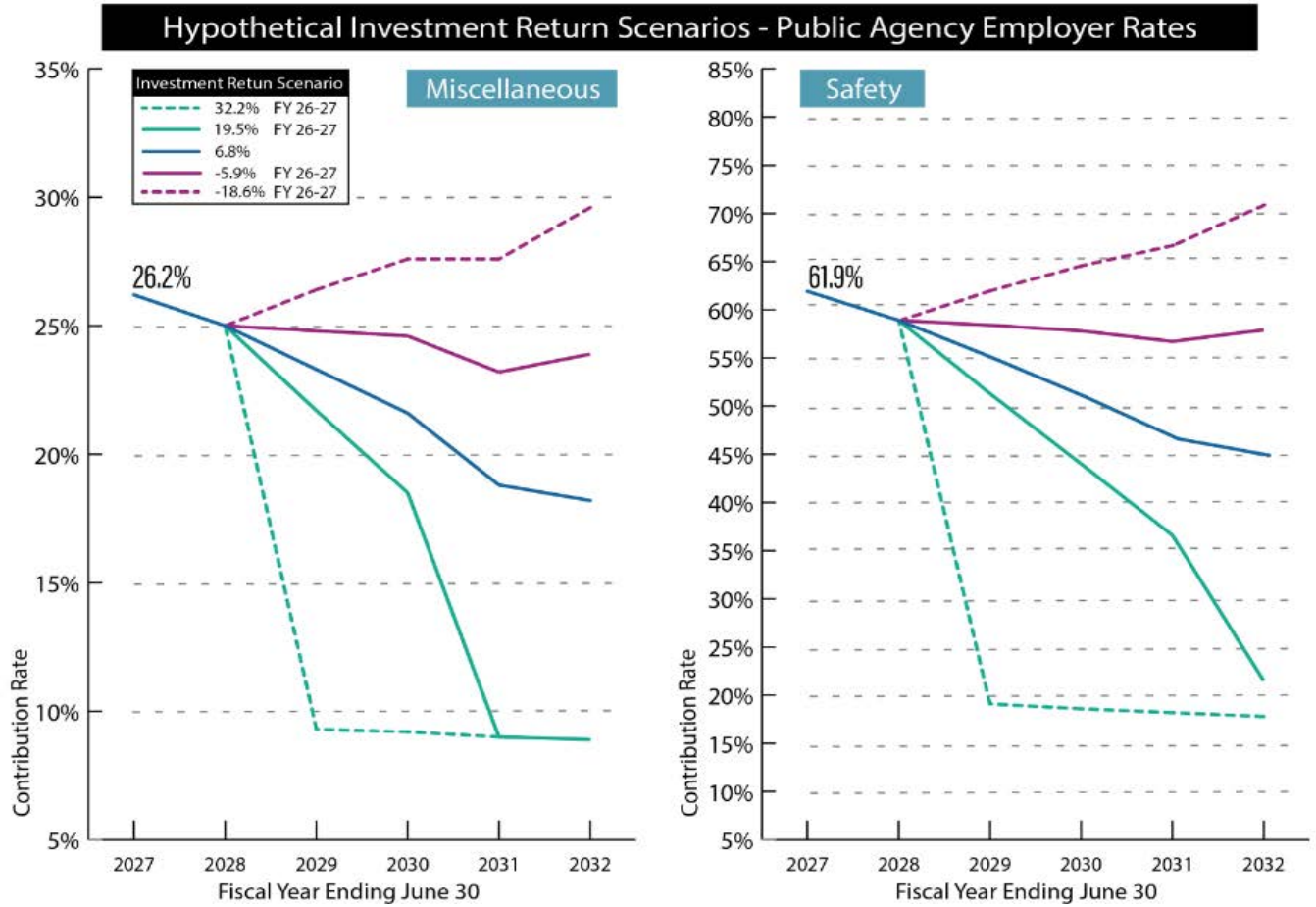
Investment Risks – Achieving 6.8% Long-Term Return

Failing to achieve an average return of 6.8% may lead to slower improvement in funded status and higher employer contributions.

While higher or lower annual investment returns immediately impact the system's funded status, impacts on employer contributions are phased-in over 5 years.

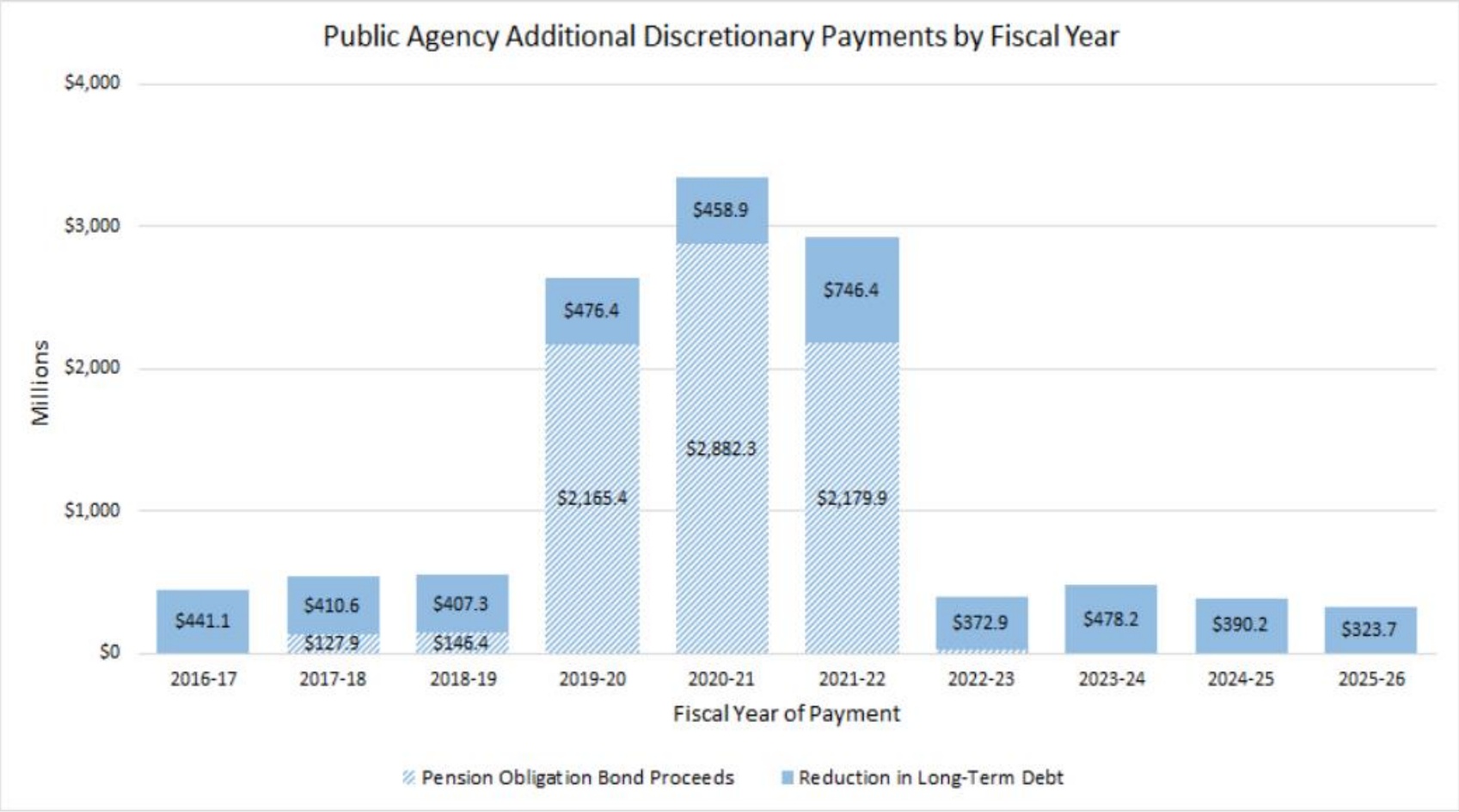


Investment Risks – High Employer Contributions



Large “shock” returns can occur in any year. Such returns can have an immediate impact on funded status. While impacts on employer contributions can also be significant, such impacts are phased-in over 5 years.

Mitigating Risk – Additional Discretionary Payments



Public agency ADPs have decreased slightly over the last few years. They may be viewed as less critical by employers due to recent favorable investment performance.

While CalPERS ADPs from Pension Obligation bonds have the same impact on funded status and employer contribution rates, such bonds are additional debt for the employers that issue them.

Mitigating Risk – Summary

- Improvements to Amortization Policy
- Increasing the inflation assumption to 2.5%
- Additional Discretionary Payments
- Additional funding through IRC section 115 trusts including the California Employers' Pension Prefunding Trust
- Employer Education
  - Employer Leadership Dialogues
  - Pension Outlook / Managing Employer Contributions (MEC) tools
  - Educational Forum / CSMFO Presentations
  - Other Website Tools

Areas for Future Focus

- Risk / Return balance of investment policy
- Review of current funding policies over the next 1-2 years, including the amortization policy