



Regular Meeting

Item number 15a – Open session

Subject: Actuarial Valuation of the Defined Benefit Program and Setting of Contribution Rates

Presenter(s): David Lamoureux, CalSTRS
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Item type: Action

Date and time: May 28, 2026– 20 minutes

Attachment(s):

Attachment 1 – June 30, 2025 Actuarial Valuation Report for the Defined Benefit Program

Attachment 2 – Proposed Resolution for the State Supplemental Contribution Rate

Attachment 3 – Proposed Resolution for the Employer Supplemental Contribution Rate

Attachment 4 – Proposed Resolution for the Normal Cost Rate for CalSTRS 2% at 62 Members

PowerPoint presentation(s):

Summary of Valuation Results for the Defined Benefit Program

Item purpose

The purpose of this item is to present the results of the June 30, 2025 actuarial valuation of the Defined Benefit Program and to recommend the adoption of three rates for fiscal year 2026-27: the state supplemental contribution rate, the employer supplemental contribution rate, and the normal cost rate for CalSTRS 2% at 62 members.

Recommendation

Staff recommends the board adopt option 1 to keep the state and employer supplemental contribution rates at existing levels by adopting the following rates effective July 1, 2026:

	Recommended rate for fiscal year 2026-27
State supplemental contribution rate	6.311%
Employer supplemental contribution rate	10.850%
Normal cost for 2% at 62 members	18.345%

If adopted, the total contribution rates for fiscal year 2026-27 for employers and the state will remain at existing levels and will be 19.1% for employers and 10.828% for the state.

Background

CalSTRS continually monitors the CalSTRS Funding Plan and the financial health of the fund. The board receives formal assessments of funding levels and risks twice a year. These formal assessments are presented in the spring through this annual actuarial valuation and in the fall through the [Review of Funding Levels and Risks report](#). In addition to these two formal reports, CalSTRS provides updates to the Audits and Risk Management Committee on the status of various funding-related risks as part of the semi-annual enterprise risk management report.

CalSTRS also provides the Legislature with a progress report on the funding plan every five years, as required by statute. CalSTRS provided its second progress [report](#) to the Legislature in June 2024. This report provided CalSTRS with the opportunity to educate the Legislature about the funding plan, the health of the fund and the risks encountered in funding the Defined Benefit Program.

The CalSTRS Funding Plan provides the board with limited authority to adjust the contribution rates for both the state and employers. The purpose of this actuarial valuation is to provide an assessment of funding levels by taking a snapshot of the fund’s assets and liabilities for the Defined Benefit Program as of June 30, 2025, and to determine whether adjustments are needed to contribution rates to keep the funding plan on track to reach full funding by 2046.

As shown in this item, funding levels have continued to improve since last year and the Defined Benefit Program remains ahead of schedule to reach full funding by 2046. Even if the results of the actuarial valuation indicate contribution rates could be reduced, the board is being asked again to keep contribution rates at existing levels in order to maintain rate stability, improve funding levels quicker and reduce the likelihood the board may have to raise contribution rates in the future.

Funded Ratio

The funded ratio of a pension plan is defined as the ratio of a plan’s assets to its actuarial obligation. The table below compares key information about the funded ratio of the Defined Benefit Program between the June 30, 2025 and June 30, 2024 actuarial valuations.

Summary of key results for the Defined Benefit Program

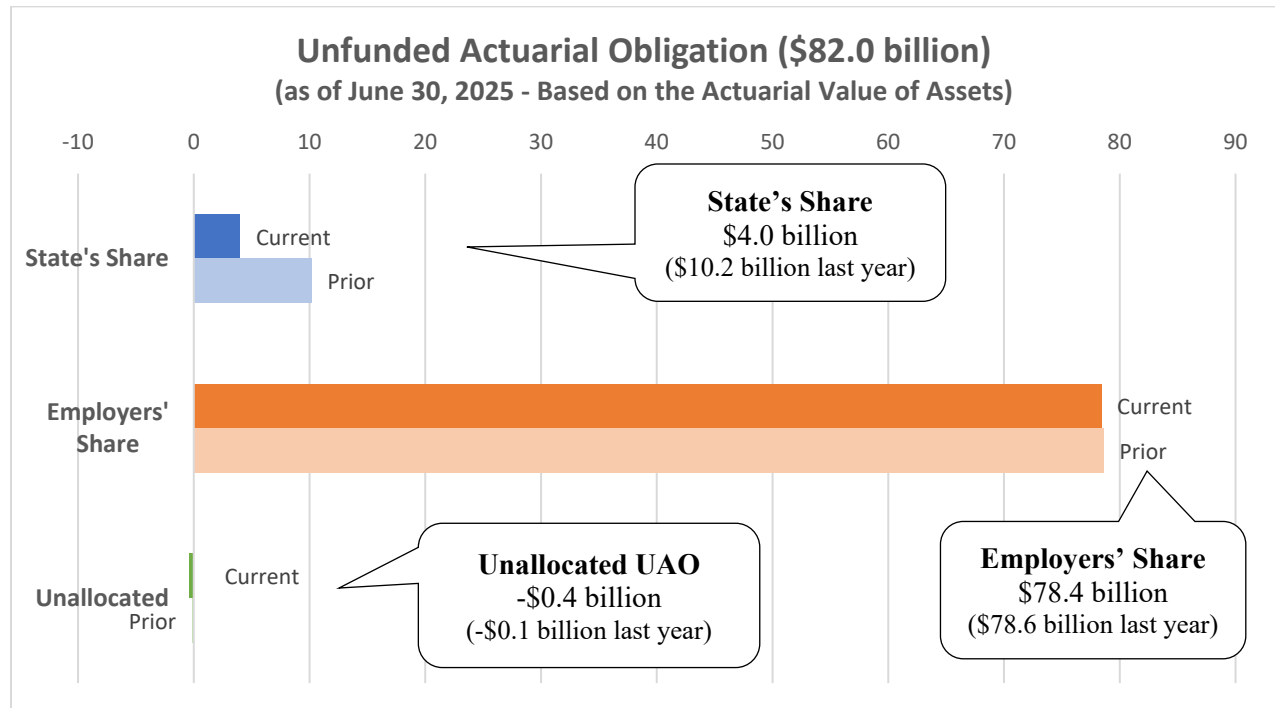
	June 30, 2025 valuation	June 30, 2024 valuation
Actuarial obligation	\$395.5 billion	\$380.5 billion
Actuarial value of assets	\$313.5 billion	\$291.8 billion
Unfunded actuarial obligation	\$82.0 billion	\$88.7 billion
Funded ratio	79.3%	76.7%

The funded ratio improved by almost 3% since the 2024 valuation. This improvement was primarily due to two main factors. First, CalSTRS achieved investment returns above the 7% long-term assumptions for the last two years, which helped increase the funded ratio. The funded ratio also increased due to the contributions made by employers and the state in fiscal year 2024-25 to eliminate their share of the unfunded actuarial obligation by 2046. It is worth noting that the funded ratio of 79.3% as of June 30, 2025 is greater than originally anticipated when the funding plan was adopted. At the time, it was projected the funded ratio, as of June 30, 2025, would be 70.2%, 9% less than the actual funded ratio.

The unfunded actuarial obligation also decreased over the last year. As of June 30, 2025, the unfunded actuarial obligation was calculated to be \$82.0 billion, a decrease of about \$6.7 billion from \$88.7 billion as of June 30, 2024. This decrease was primarily due to the investment experience of the last two years. It is worth noting that about \$665 million of the decrease in the unfunded actuarial obligation was the result of the previous decision made by the board to not reduce the contribution rates for both the employers and the state.

The unfunded actuarial obligation is allocated between the state, the employers and the unallocated portion as per rules set forth in the CalSTRS Funding Plan. The unallocated portion of the unfunded actuarial obligation is the portion for which CalSTRS has no authority to adjust contribution rates up or down.

The following chart illustrates the breakdown of the unfunded actuarial obligation between the state, the employers and the unallocated portion. As of June 30, 2025, the employers are still responsible for most of the unfunded actuarial obligation.



As shown in the above chart, the decrease in the unfunded actuarial obligation over the last year impacted mostly the state’s share. The state’s share of the unfunded actuarial obligation decreased from \$10.2 billion to \$4.0 billion.

If CalSTRS meets its actuarial assumptions this fiscal year, including earning its long-term assumed investment return of 7%, the state is expected to eliminate its \$4.0 billion share of the unfunded actuarial obligation by next year. Similarly, the employers would be expected to eliminate their share of the unfunded actuarial obligation by 2043, allowing the CalSTRS Defined Benefit Program to reach full funding three years ahead of schedule.

However, CalSTRS ability to reach full funding by 2046 could be impacted if CalSTRS were to go through a period of investment returns below its assumed 7%. Several of the risks that could prevent the Defined Benefit Program from reaching full funding by 2046 were explained in detail in the [Review of Funding Levels and Risks report](#) issued last November. The valuation report also includes a discussion of risk. Please see “Section 10. Risk Disclosures” on page 51 of the attached report for further details.

State Contribution Rate

The state is required to contribute a base contribution rate of 2.017% of payroll to CalSTRS as well as a supplemental contribution rate to eliminate its share of the CalSTRS unfunded actuarial obligation by 2046. The CalSTRS Funding Plan provides the board with the ability to increase the state supplemental contribution rate by up to 0.5% of payroll each year. The board’s actuarial valuation policy also contains a limit of 0.5% of payroll each year on decreases to the state supplemental contribution rate provided the state has not eliminated its share of the unfunded

actuarial obligation. Pursuant to the rules of the funding plan, once the state has eliminated its share of CalSTRS’ unfunded actuarial obligation, the state supplemental contribution rate will immediately be reduced to zero.

The state continues to be ahead of schedule to eliminate its share of the unfunded actuarial obligation by 2046. As a result, the actuarial valuation has determined that the state’s contribution rate could be decreased by 0.5% of payroll.

Although the valuation indicates the board can decrease the state’s contribution rate by 0.5% of payroll and that the state is currently projected to eliminate its \$4.0 billion share of the unfunded actuarial obligation by next year, the board has the authority to make no change in the rate. This would be reasonable given the sensitivity of the state’s contribution rate to investment volatility and the fact that investment markets remain volatile this fiscal year. The board voted to keep the state supplemental contribution rate at existing levels for the last four years, even though the actuarial valuations indicated it could be decreased in those years.

The following table compares the state contribution rate for this year and provides two options for the contribution rate for next fiscal year.

	Rate for fiscal year 26-27		Current rate for fiscal year 25-26
	Option 1 (recommended rate)	Option 2 (calculated rate)	
State contribution rate			
Base (DB Program)	2.017%	2.017%	2.017%
Supplemental (DB Program)	6.311% ¹	5.811%	6.311%
Total to DB Program	8.328%	7.828%	8.328%
Contribution to SBMA ²	2.500%	2.500%	2.500%
Total state contribution to CalSTRS	10.828%	10.328%	10.828%

Option 1 above would maintain the state’s contribution rate at the current level. Option 2 would decrease the rate by 0.5% of payroll for next fiscal year. Considering the extreme sensitivity of the state’s share of the unfunded liability to both demographic and investment performance, it is recommended the board adopt option 1. Option 1 will provide a more stable rate, improve funding levels, and reduce the risk of adverse outcomes in the event of a recession.

¹ Recommended for board adoption.

² The state contributes an additional 2.5% of payroll to fund the Supplemental Benefit Maintenance Account (SBMA) that is used to provide inflation protection to CalSTRS retirees and their beneficiaries. Pursuant to Education Code section 22954, the state contribution to the SBMA is reduced by \$72 million each fiscal year.

It is also worth noting that the Governor’s proposed budget, released in January 2026, includes an amount for CalSTRS based on the expectation the total state contribution rate to CalSTRS will remain unchanged next fiscal year at 10.828%.

Employer Contribution Rate

Employers are required to contribute a base contribution rate of 8.25% of payroll to CalSTRS as well as a supplemental contribution rate to eliminate their share of the CalSTRS unfunded actuarial obligation by 2046.

Effective with fiscal year 2021-22, the board has had the authority to adjust the employer supplemental contribution rate pursuant to the CalSTRS Funding Plan. The board can adjust the employer supplemental contribution rate up or down by a maximum of 1% of payroll in a single year. The total employer rate cannot exceed 20.25% of payroll.

Consistent with statute and the board valuation policy, annual adjustments to the employer supplemental contribution rate are based on the rate needed to eliminate the employers’ share of the unfunded actuarial obligation by 2046.

Since fiscal year 2021-22, the board voted to keep the employer supplemental contribution rate at 10.85% of payroll, even though the actuarial valuation indicated it could be decreased in those years. The total employer contribution rate in fiscal year 2025-26 is 19.1% of payroll.

Based on the results of the June 30, 2025 actuarial valuation, the employers continue to be ahead of schedule to eliminate their share of the unfunded actuarial obligation by 2046. In fact, the employers’ share of the unfunded actuarial obligation is currently on schedule to be eliminated by 2043. As a result, an employer supplemental contribution rate of 9.850% was calculated to be sufficient in fiscal year 2026-27 for the employers to remain on schedule to eliminate their share of the unfunded actuarial obligation by 2046. This rate is 1% of payroll lower than the employer supplemental contribution rate in effect for fiscal year 2025-26.

Although the valuation indicates the board can decrease the employer supplemental contribution rate by 1% of payroll, the board has the authority to make no change in the rate. The board has kept the employer supplemental contribution rate at 10.85% since fiscal year 2021-22, resulting in a total contribution of 19.1%. The board kept the employer contribution rate at the existing level, even if it could have been reduced, in order to maintain stability in the employer contribution rate, improve funding levels quicker and reduce the likelihood the board may have to raise the employer rate in the future.

The following table shows the breakdown of the total employer contribution rate under two options, maintaining the supplemental rate at its current level and decreasing the supplemental rate to the level calculated in the valuation.

	Fiscal year 2026-27		Current rate for fiscal year 2025-26
	Option 1 (recommended rate)	Option 2 (calculated rate)	
Employer contribution rate			
Base	8.250%	8.250%	8.250%
Supplemental rate	10.850% ³	9.850%	10.850%
Total employer contribution rate	19.100%	18.100%	19.100%

Option 1 would maintain the employer contribution rate at its current level. Option 2 would decrease the employer rate by 1%. Both options are consistent with the board valuation policy.

However, several risks could impact the employers’ ability to eliminate their share of the unfunded actuarial obligation by 2046 and could require the board to increase the employer rate in the future. The main risk for employers is the uncertainty around K-12 enrollment levels and how it could impact the future size of the teacher payroll.

Over the last few years, California experienced a decline in enrollment in both K–12 public schools and community colleges. Total enrollment in K–12 public schools in California dropped by about 367,000, or a 6% reduction since 2019. At the same time, the number of students enrolled at community colleges dropped by about 115,000 or 7%.

In November 2025, the State of California updated its projection of K–12 enrollment for California. The most recent projection anticipates a decline of about 16% over the next 20 years. Continued decreases in enrollment in K–12 public schools could lead to future declines in the size of the active membership, resulting in lower than anticipated payroll growth. This could negatively impact CalSTRS’ ability to achieve full funding, requiring contribution rate increases for employers.

It is recommended that the board adopt option 1 and keep the employer rate at existing levels to maintain stability in the employer contribution rate, improve funding levels quicker and reduce the likelihood the board may have to raise the employer rate in the future.

Member Contribution Rate

Under the California Public Employees’ Pension Reform Act of 2013 (PEPRA), 2% at age 62 members are required to pay at least one-half of the normal cost of their Defined Benefit Program benefit, rounded to the nearest quarter of one percent. The normal cost is the annual cost applied to each year of service that is necessary to adequately fund the benefits over time if all assumptions are met. The normal cost does not include costs associated with amortizing, or paying down, any unfunded actuarial obligations.

Current law states that the contribution rate for PEPRA members should be adjusted if the

³ Recommended for board adoption.

normal cost changes by more than 1% since the last time the member contribution rate was adjusted. The last adjustment took place on July 1, 2018, when the contribution rate for 2% at age 62 members increased by 1%. The normal cost for 2% at 62 members at that time was 17.893%. 2% at age 62 members are currently paying 9% toward the normal cost. 2% at age 62 members also contribute an additional 1.205% as per the CalSTRS Funding Plan, for a total contribution rate of 10.205%.

As shown on page 8 of the attached report, the normal cost has increased by 0.452% since that time. It is now at 18.345%. This is a cumulative change of less than 1%. Therefore, no change in the 2% at 62 member contribution rate is necessary for next fiscal year. It is recommended the board adopt the normal cost for 2% at 62 members of 18.345%.

The contribution rate for 2% at 60 members is set in statute at 10.250%.

The following table compares the member contribution rates for this year and the next fiscal year.

Member's contribution rate	June 30, 2025 valuation (Rate for FY 26-27)	June 30, 2024 valuation (Rate for FY 25-26)
2% at 60 members	10.250%	10.250%
2% at 62 members	10.205%	10.205%

Note that the number of members subject to the 2% at age 62 formula continues to increase steadily. Generally, new teachers hired on or after January 1, 2013 are covered under the 2% at 62 formula. The number of 2% at 62 members has increased by almost 16,000 since the 2024 valuation. There were about 217,000 2% at 62 active members as of June 30, 2025. This represents about 46% of the roughly 471,000 total number of active members on June 30, 2025.

Strategic Plan linkage: Goal 1: Trusted stewards – Ensure a well-governed, financially sound trust fund.

Board Policy linkage: Board Governance Manual: Section 7F - Benefits and Services Policy - Actuarial Valuations of the Defined Benefit Program.
