CALSTRS

2026 Review of Funding Levels and Risks

Presented November 5, 2026

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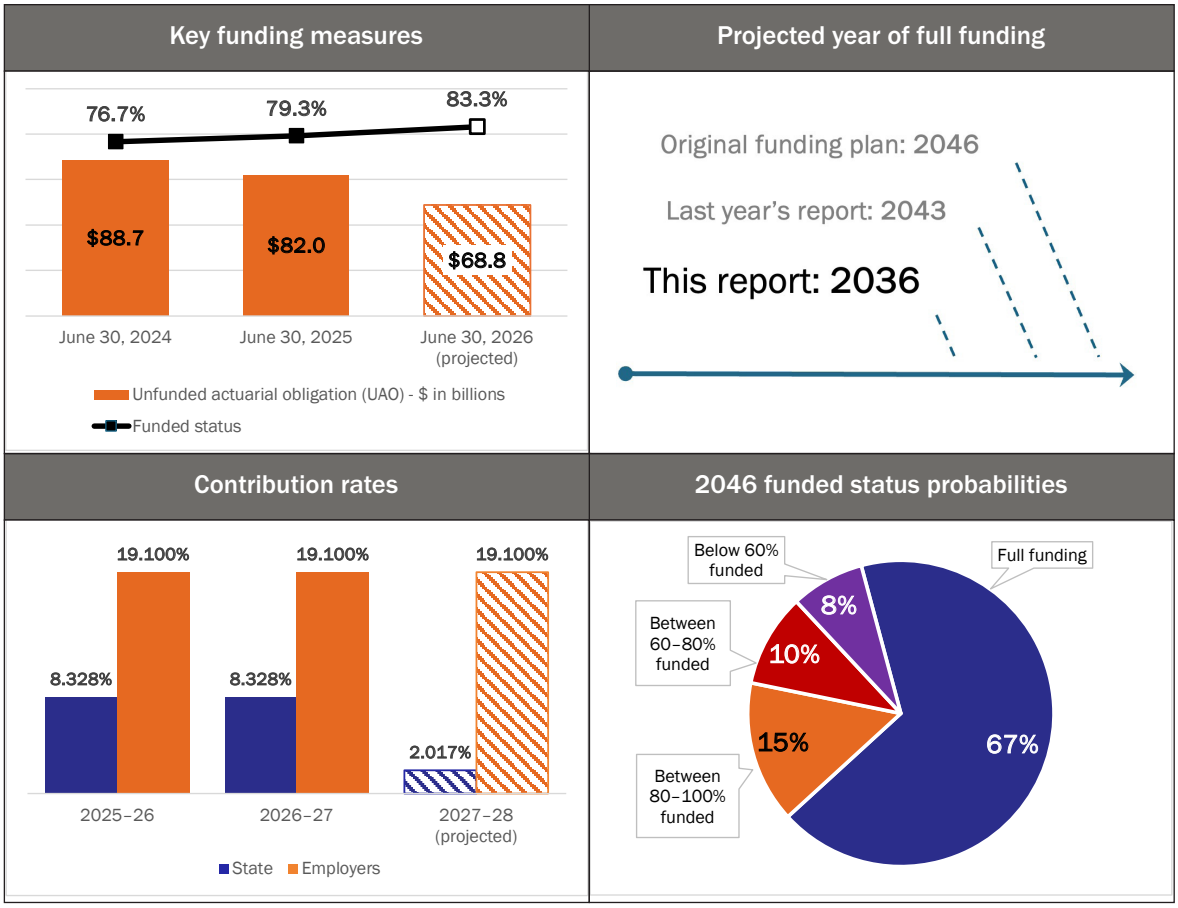
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Executive summary

This is the annual *Review of Funding Levels and Risks* report, which provides information to the Teachers' Retirement Board, stakeholders, policymakers, and the public to assess the soundness and sustainability of the CalSTRS Defined Benefit Program and to promote a better understanding of how well the CalSTRS Funding Plan is expected to accomplish its goal of achieving full funding by 2046.

The following graphic summarizes some of the key results from this report.



As shown above, CalSTRS continues to be ahead of schedule in its goal of having the Defined Benefit Program reach full funding by 2046. It's currently on track to reach full funding in 2036, 10 years ahead of schedule, if CalSTRS earns its assumed 7% investment return. The state's share of the CalSTRS unfunded actuarial obligation (UAO) has been eliminated as of June 30, 2026. As a result, the state contribution rate to the Defined Benefit Program will drop to 2.017% in fiscal year 2027–28. Even if the plan as a whole is expected to reach full funding by 2036, the employers are not expected to eliminate their share of the unfunded actuarial obligation until 2041. Employers need to continue to contribute toward their share until it is fully eliminated, even if the overall plan achieves full funding. As a result, the contribution rate for employers is expected to remain the same in fiscal year 2027–28. For additional details, please refer to the "Path to full funding" section.

The largest risk facing CalSTRS' ability to reach full funding remains investment-related risk. A single year in which the investment return is well below 7% could result in the need for increases in the state contribution rate and prevent CalSTRS from reaching full funding. This is illustrated above by the chart showing the probabilities of various funding levels in 2046. For additional details, please refer to the "Risk environment" section.

Introduction

The California State Teachers' Retirement System was founded in 1913 with 120 retired members and 15,000 active members. More than 100 years later, CalSTRS serves more than 1 million members and their beneficiaries and remains committed to its mission of securing the financial future and sustaining the trust of California's public school educators and providing retirement, disability and survivor benefits to them and their families.

To that end, CalSTRS has come a long way. Prior to the 2014 adoption of the funding plan, the Defined Benefit Program was expected to run out of assets in approximately 30 years. Thanks to the funding plan and the limited authority it provides the board to adjust the state and employer contribution rates, CalSTRS is now financially stronger and better positioned to achieve full funding and react to demographic and economic changes.

The *Review of Funding Levels and Risks* report, first published in 2016, evaluates the funded position of the Defined Benefit Program and risks associated with its funding levels in the future. It examines a range of potential negative outcomes, both economic and demographic, that could endanger the long-term funding of the system.

This report is based on the June 30, 2025 actuarial valuation of the Defined Benefit Program and reflects all relevant changes that have occurred since the valuation, including the investment return reported for the 2025–26 fiscal year.

This report includes four main sections focusing on:

- Path to full funding: Discusses the significant changes in the past year and their impact on long-term funding and contribution rates.
- Risk environment: Discusses risks to long-term funding, including longevity risk, risks related to membership and payroll decline, and investment-related risk.
- Measures of plan maturity and volatility: Discusses how increasing maturity levels impact contribution rate volatility.
- Ability to reach full funding under different actuarial assumptions: Discusses how changes to the investment return assumption combined with various long-term declines in active membership would impact contribution rates and CalSTRS' ability to reach full funding.

Path to full funding

Key findings:

- Favorable investment returns have propelled the Defined Benefit Program further ahead of schedule in its goal of reaching full funding by 2046. Full funding is now projected to be attained by 2036, 10 years ahead of schedule.
- The state eliminated its share of the unfunded actuarial obligation as of June 30, 2026. As a result, the state's contribution rate will drop to the base rate of 2.017% in fiscal year 2027–28. The employer contribution rate is expected to be maintained at 19.1% in fiscal year 2027–28.

Path to full funding

To fulfill CalSTRS' mission, it's essential to ensure a financially sound retirement system for California's educators. Progress toward this goal was made possible in 2014 with the passage of the CalSTRS Funding Plan.

The funding plan set out a measured schedule of contribution rate increases for members, employers and the state with the goal of achieving full funding by 2046. It also provided the board with limited authority to adjust rates to help keep the funding plan on schedule.

This section discusses how significant changes in the past year have impacted future funding levels and the contribution rates needed for the state and employers to continue the progress toward reaching full funding by 2046.

Significant changes in the past year

Over the last year, the board continued to exercise its rate-setting authority to keep the funding plan on track for the Defined Benefit Program to reach full funding by 2046. At the May 2026 meeting, the board voted to keep the state contribution rate to the Defined Benefit Program at 8.328%[1] of payroll and the employer contribution rate at 19.1% of payroll. Although both contribution rates could have been reduced with the Defined Benefit Program still projected to reach full funding by 2046, the board took the prudent approach of keeping contribution rates at existing levels. This decision provides rate stability for the state and employers, improves funding levels more quickly, and reduces the likelihood the board may have to increase the rates in the future.

In August 2026, CalSTRS reported a 13.9% net return on investments for the 2025–26 fiscal year. Note that this is a time-weighted return that is used to evaluate returns for portfolio performance purposes and ignores the timing impact of cash flows (i.e., benefit payments and contributions). CalSTRS also prepares and discloses a money-weighted return for financial reporting purposes. The money-weighted rate of return was 14.1% for the 2025–26 fiscal year. The money-weighted rate of return captures not only the portfolio investment performance but also reflects the impact of the timing of benefit payments and contributions. The money-weighted rate of return is what impacts the actuarial valuation's measurement of funding levels. Since this return exceeded the 7% investment return assumption, funding levels have improved further since the completion of the June 30, 2025 actuarial valuation.

The number of active members who participate in the Defined Benefit Program stayed flat at about 471,000 from June 30, 2025, to June 30, 2026, and the overall payroll increased by approximately 1.5%, below CalSTRS' long-term annual payroll growth assumption of 3.25%. This is the first time in five years that the number of active members did not increase. With the anticipated decline in the number of children in California, CalSTRS now anticipates a long-term decline in the number of active teachers of approximately 5% as part of the actuarial assumptions. The projected decline in the number of children in California and the potential impact of a decline in the number of teachers in California is discussed in greater detail in later sections.

Changes since the passage of the CalSTRS Funding Plan

When the funding plan was adopted by the Governor and Legislature in 2014, it was based on the actuarial valuation as of June 30, 2013. The funding plan was developed based on the actuarial assumptions in place at that time, which included a long-term investment return assumption of 7.5%.

Since the passage of the funding plan, the board has taken several steps to strengthen the funding of the system. The board revised how the CalSTRS investment portfolio is invested by increasing the diversification of the portfolio, including the creation of the Risk Mitigating Strategies asset class, to protect against equity market downturns. The board also adopted new actuarial assumptions reflecting lower future investment earnings and longer life expectancies.

Since fiscal year 2017–18, the first year the board was given the authority to set the state contribution rate,

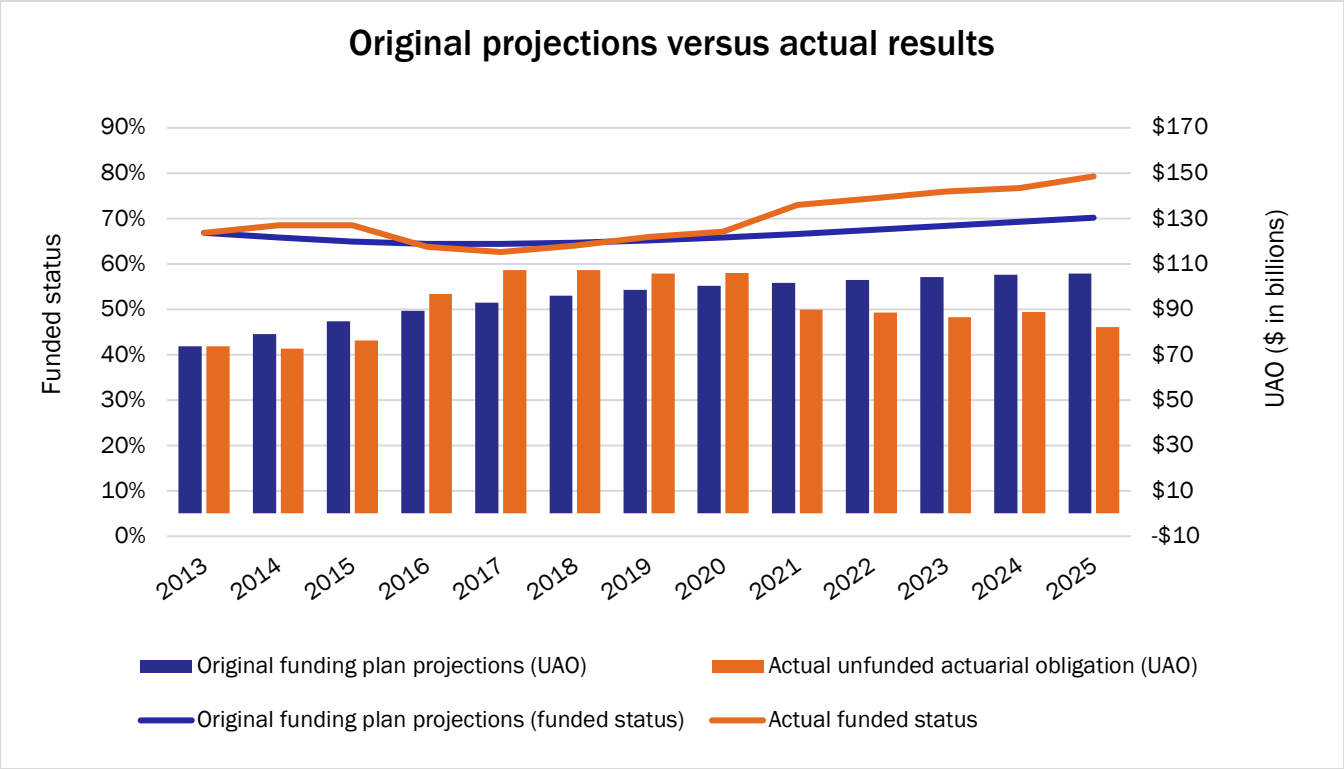
1 Throughout this report, only the state contribution rate to the Defined Benefit Program is being analyzed. The state also contributes 2.5% of payroll, reduced by $72 million each fiscal year, to fund the Supplemental Benefit Maintenance Account, CalSTRS' inflation protection program.

Path to full funding

the board increased the state contribution rate by 0.5% of payroll on four occasions to keep the funding plan on track. The board also voted to maintain the employer rate at 19.1% for the last six years to keep the employers on track to eliminate their share of CalSTRS' unfunded actuarial obligation by 2046 and to provide rate stability.

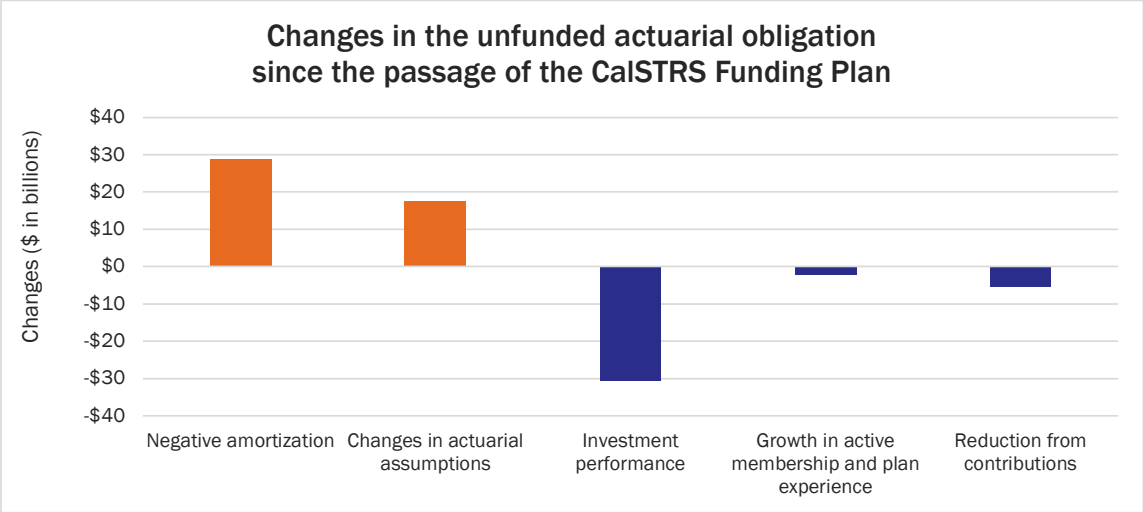
However, during the COVID-19 pandemic, CalSTRS experienced significant volatility in its investment returns and active membership. In fiscal year 2020–21, CalSTRS earned the highest return in its history at 27.2%, which was followed in the next fiscal year by the system's first negative return since the great recession. During this time, CalSTRS experienced a decrease of nearly 20,000 active members in a single year. Since then, that number rebounded back to an all-time high, reaching more than 471,000 active members as of June 30, 2025, and staying approximately level as of June 30, 2026.

Given all these changes, it's instructive to see how the funded status and total unfunded actuarial obligation have changed since the adoption of the funding plan in the following chart.



As shown above, the funded status has increased from 66.5% as of June 30, 2013, to 79.3% as of June 30, 2025. This increase is greater than originally anticipated when the funding plan was adopted. At the time, it was projected that the funded status as of June 30, 2025, would be 70.2%, 9.1% less than the actual funded status. Similarly, the unfunded actuarial obligation is lower than originally anticipated when the funding plan was adopted. On June 30, 2025, the unfunded actuarial obligation was $82.0 billion, about $24 billion lower than originally anticipated, which was $105.8 billion. The following chart illustrates the major factors that have led to the changes in the unfunded actuarial obligation since the passage of the funding plan.

Path to full funding



The unfunded actuarial obligation increased by approximately $29 billion from negative amortization. When a pension plan is less than 100% funded, contributions toward the unfunded actuarial obligation must exceed the interest on the unfunded actuarial obligation to prevent it from increasing over time. Failing to contribute an amount greater than the interest will result in an increase in the unfunded actuarial obligation from year to year. This is referred to as negative amortization. For CalSTRS to avoid negative amortization, payments toward the unfunded actuarial obligation must be more than 7% of the unfunded actuarial obligation. With the phased-in rate increases established through the funding plan, it was anticipated that contributions would not be sufficient to prevent the unfunded actuarial obligation from increasing for several years, and in fact, this is what occurred.

For the last few years, however, contributions have exceeded the interest on the unfunded actuarial obligation. In those years, aggregate contributions by employers and the state exceeded the interest on the unfunded actuarial obligation by approximately $5.4 billion, reducing the unfunded actuarial obligation. This is shown in the above chart under the category labeled “Reduction from contributions.” Note that this category includes all prior supplemental payments made by the state to reduce its share of the unfunded actuarial obligation.

It’s also worth pointing out that contributions from employers and the state have exceeded the actuarially determined contribution since fiscal year 2022–23 and are expected to continue to exceed it in fiscal year 2026–27. By collecting contributions that exceed the actuarially determined contribution, CalSTRS is able to improve funding levels more quickly and remain on its path to reach full funding by 2046.

Changes in actuarial assumptions have resulted in an increase of approximately $17.6 billion in the unfunded actuarial obligation. Note that the changes in actuarial assumptions, despite increasing the unfunded actuarial obligation, better anticipate future plan experience which will lower long-term costs, improve the stability of the funding plan, and reduce the risk of future shortfalls, putting CalSTRS in a stronger financial position long-term.

Several factors helped mitigate the increases in the unfunded actuarial obligation. Positive plan experience—mainly investment performance, growth in active membership, and the supplemental payments made by the state to reduce its share of CalSTRS’ unfunded actuarial obligation—has resulted in a total decrease of approximately $38.1 billion in the unfunded actuarial obligation.

The net effect is that the unfunded actuarial obligation as of June 30, 2025, has increased by a total of $8 billion since 2013, compared with an expected increase when the funding plan was adopted of $32 billion over that same time period. Put another way, the unfunded actuarial obligation is currently approximately $24 billion lower than originally anticipated when the funding plan was adopted.

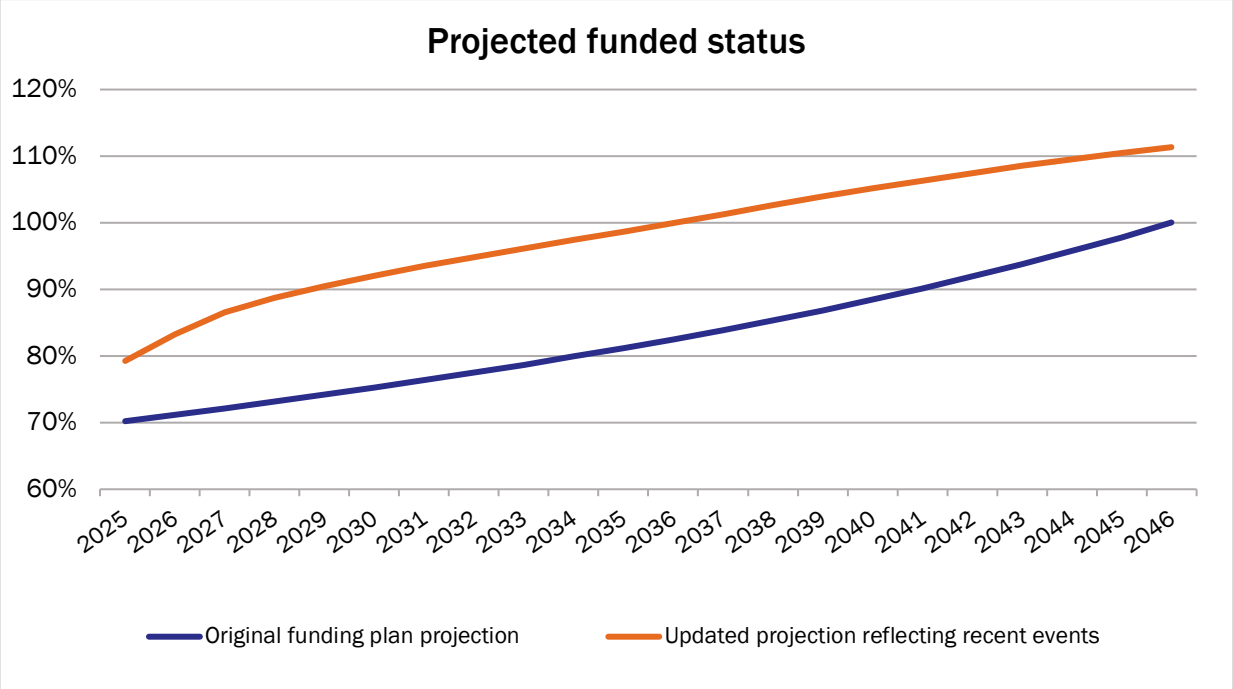
The next section provides additional details on projected funding levels and the projected unfunded actuarial obligation.

Path to full funding

Projected funding levels

When the June 30, 2025 actuarial valuation was presented to the board in May 2026, it showed the funded status of the Defined Benefit Program was 79.3%. The valuation also showed projected funding levels were ahead of the funding plan's schedule to reach full funding by 2046. These projections assumed CalSTRS would earn a 7% investment return in all future years, including for fiscal year 2025–26.

The following chart compares the projected funding levels that were expected when the funding plan was adopted in 2014 to the current projected funding levels reflecting last year's money-weighted rate of return of 14.1%.



As shown above, CalSTRS remains ahead of the original schedule to reach full funding by 2046. Full funding is now projected to occur in 2036, 10 years ahead of schedule. While the plan as a whole is expected to reach full funding by 2036, the employer portion of the unfunded obligation will persist until 2041. See the next section for more details.

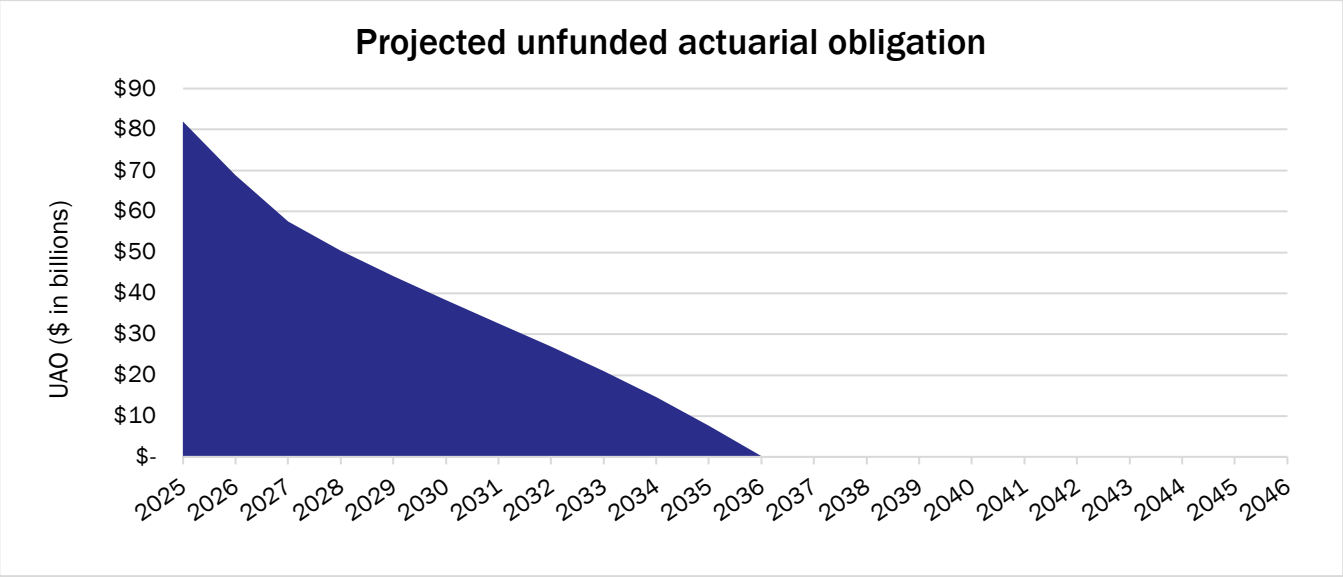
It's important to remember that these projections assume all actuarial assumptions will be met in the future. Specifically, it assumes the fund will earn 7% each year and that payroll will grow at 3.25% annually over the long term. A period of low investment returns could materially impact future funding levels, especially now that the state's supplemental rate will be reduced to zero in fiscal year 2027–28 and can only be increased by 0.5% per year in the future.

Note that for funding purposes, the funded status reported by CalSTRS is based on the actuarial value of assets calculated using the three-year asset smoothing policy adopted by the board. This "smoothed" value differs from the market value by reflecting only one-third of the net accumulated investment gains and losses. This approach is used to smooth out the impact of investment volatility on funding levels and contribution rates.

Path to full funding

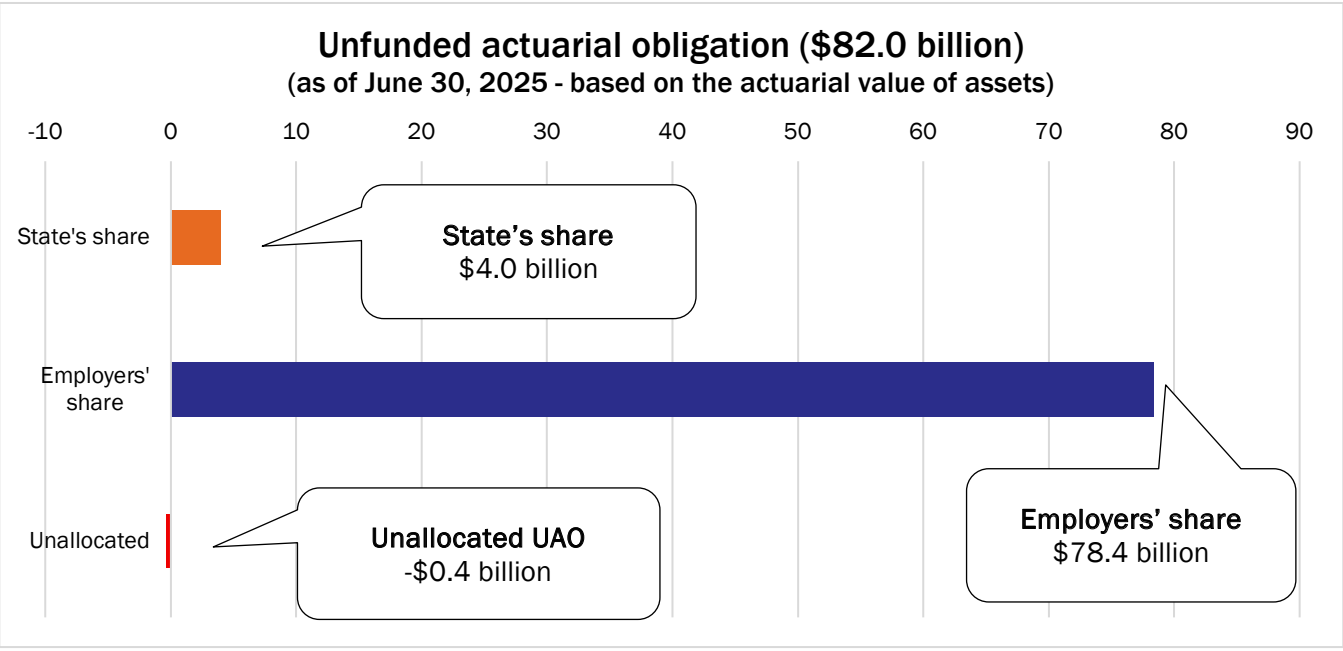
Projected unfunded actuarial obligation

Although the system is currently on a path to reach full funding, it's important to understand the unfunded actuarial obligation and how its various components are expected to evolve. The following chart illustrates how the unfunded actuarial obligation is expected to change over time.



As per the rules of the funding plan, the unfunded actuarial obligation is divided between the state, the employers and the unallocated portion. The unallocated portion of the unfunded actuarial obligation is the portion for which the funding plan did not provide any authority to CalSTRS to adjust contribution rates to pay it down.

The following chart illustrates the breakdown of the unfunded actuarial obligation as of June 30, 2025. As can be seen, the unallocated portion is negative, meaning it's in a surplus position. Prior to 2021, the unallocated portion had always been positive. The employers' share is also much larger than the state's share because the rules set in the funding plan allocate the greatest share of the unfunded actuarial obligation to employers.



Path to full funding

If the employer contribution rate remains unchanged and the plan experience aligns with actuarial assumptions, the employers' share of the unfunded actuarial obligation is projected to be eliminated by 2041. While the plan as a whole is expected to reach full funding by 2036, the employer portion of the unfunded obligation will persist until 2041. During the period between 2036 and 2041, the unallocated portion and the state's share of the unfunded actuarial obligation are anticipated to be in a surplus position, effectively offsetting the employers' share. This results in a plan-wide funded status above 100%. However, under the funding plan rules, employers must continue contributing a supplemental rate until their share is fully eliminated, even if the overall plan achieves full funding.

The state's share of the unfunded actuarial obligation has been eliminated as of June 30, 2026, based on contributions and investment performance through June 30, 2026. However, the state's share remains extremely sensitive to investment performance. If CalSTRS were to experience a year with an investment return below its 7% assumed return, the state's share of the unfunded actuarial obligation could return.

As noted above, the unallocated portion is currently in a surplus position. If plan experience remains in line with the actuarial assumptions, this unallocated surplus is expected to grow over time to more than $10 billion by 2046. The unallocated portion could also quickly become unfunded again if CalSTRS were to have a year in which the investment return is well below 7%.

Projected contribution rates

Both the state and employers are projected to eliminate their shares of the CalSTRS unfunded actuarial obligation without future rate increases. As mentioned earlier, the state's share has been eliminated as of June 30, 2026 and by keeping the employer rate at 19.1% of payroll, the employers' share is expected to be eliminated by 2041.

It's important to highlight one of the features of the funding plan. Pursuant to the rules of the funding plan, once the state has eliminated its share of CalSTRS' unfunded actuarial obligation, the state contribution rate will be immediately reduced to the base contribution rate of 2.017% of payroll. Since the state's share of the unfunded actuarial obligation has been eliminated as of June 30, 2026, the state contribution rate to the Defined Benefit Program will go from 8.328% of payroll in fiscal year 2026–27 to 2.017% of payroll in fiscal year 2027–28, when the June 30, 2026 actuarial valuation is used to determine contribution rates.. This poses an additional risk to the funding plan if CalSTRS were to experience a year in which the investment return is well below 7%. If this occurs, the board would only be able to raise the state contribution rate by 0.5% each year. It would take 12 years to simply return to the state contribution rate in place in fiscal year 2026–27, potentially resulting in a situation where the state can no longer eliminate its share of the unfunded obligation by 2046.

Risk environment

Key findings:

- Investment-related risk continues to be the largest risk facing CalSTRS' ability to reach full funding.
- The drop in the state's contribution rate in fiscal year 2027–28, combined with the fixed target year of 2046 in the funding plan, has accentuated the risk that CalSTRS may not reach full funding following a period of poor investment returns.

Risk environment

The risk environment is dynamic. Since the funding plan was adopted in 2014, CalSTRS has withstood a global pandemic, fluctuations in the number of active members and volatility in the investment markets. These events have had both positive and negative impacts on CalSTRS' funding levels. The various ups and downs, combined with steady increases in contributions from members, employers and the state, have accelerated the path to full funding and put CalSTRS in a stronger position than it was before the funding plan. Regardless, risks remain and cannot be eliminated, only planned for and mitigated.

This section discusses the long-term funding impact of the most significant risks facing CalSTRS. Specifically, this section examines the risks associated with longevity, the size of the active membership and payroll, and investments.

Longevity risk

Longevity risk refers to the potential that members live longer than anticipated, and thus, the lifetime benefit they receive lasts longer than expected. This section analyzes longevity from a historical perspective and discusses how CalSTRS addresses the risk using generational mortality.

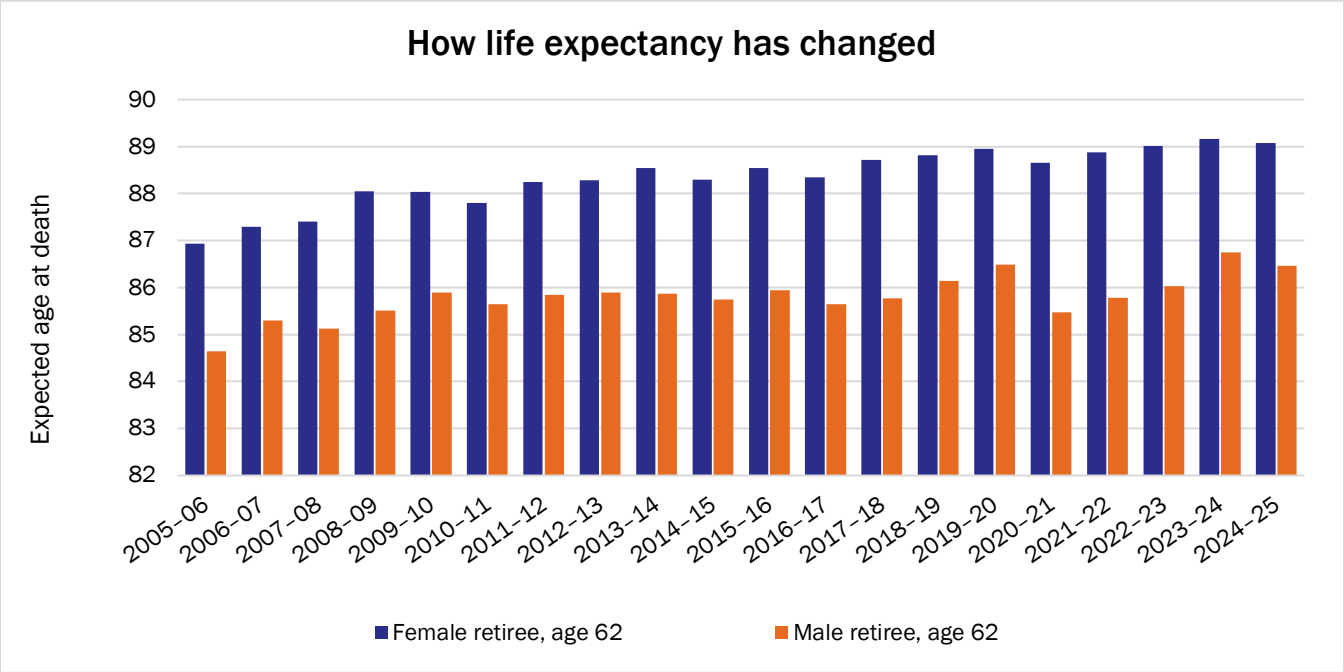
To manage longevity risk, it's important that the actuarial assumptions accurately reflect expected future outcomes. CalSTRS performs an in-depth study of mortality every four years as part of the experience analysis. The most recent analysis was completed in January 2024, at which time the board adopted new mortality assumptions. Overall, CalSTRS experienced greater mortality than projected under the previous assumptions. The analysis included data that was impacted by the COVID-19 pandemic, and it remains uncertain whether COVID-19 will continue to impact mortality levels over the long term. The board adopted mortality rates that were slightly lower than what the data indicated, essentially not fully reflecting the impact of the pandemic. Regardless, the assumptions adopted did result in a slight decrease in life expectancy compared with the previous assumptions.

CalSTRS continually monitors mortality experience and will continue to make adjustments when appropriate.

Risk environment

Historical and projected life expectancy

CalSTRS has been tracking life expectancy of CalSTRS retired members since 1990. The following chart shows the historical trend over the last 20 years of life expectancy for a CalSTRS member retiring at age 62.



The chart above illustrates a measure of life expectancy known as the period life expectancy. This is a point-in-time measurement of how long an individual would live if their mortality rates stayed constant throughout their life at the level experienced in the given fiscal year. As a point-in-time measurement, there is small variation from year to year. However, certain trends can be observed, such as the general increase in life expectancy over the last 20 years. The chart also shows some of the impact of the COVID-19 pandemic; following fiscal year 2019–20, there was a drop in period life expectancy due to the increased mortality experience from the pandemic. Since then, life expectancy has steadily recovered for both males and females, and the general trend of increasing life expectancy has continued.

To mitigate longevity risk, CalSTRS uses a technique known as generational mortality. This technique anticipates future improvements in life expectancy in the funding of the system, recognizing potential improvements in mortality ahead of time. CalSTRS uses the MP-2021 Ultimate Projection Scale for this purpose, a commonly used table produced by the Society of Actuaries.

To illustrate the impact of generational mortality, consider a member retiring at age 62. Without generational mortality, this member would be expected to live to age 89 (female) or age 86 (male). Including generational mortality, this same member would be expected to live to age 90 (female) or age 88 (male). This effect compounds over time: by 2046, a member retiring at age 62 would be anticipated to live even longer—to age 92 (female) or age 89 (male).

To get an idea of the financial implications, consider that for the 2025–26 fiscal year, CalSTRS paid close to $21 billion in benefits. If each member receiving a benefit today lives an additional two years, an additional $42 billion in benefits would be paid over the life of the member as compared to what would have been paid if there were no improvements in mortality over time.

By adopting generational mortality, CalSTRS is accounting for these anticipated increases in life expectancy when determining the contribution rates needed to fund the system, putting CalSTRS in a stronger funding position as a result.

Risk environment

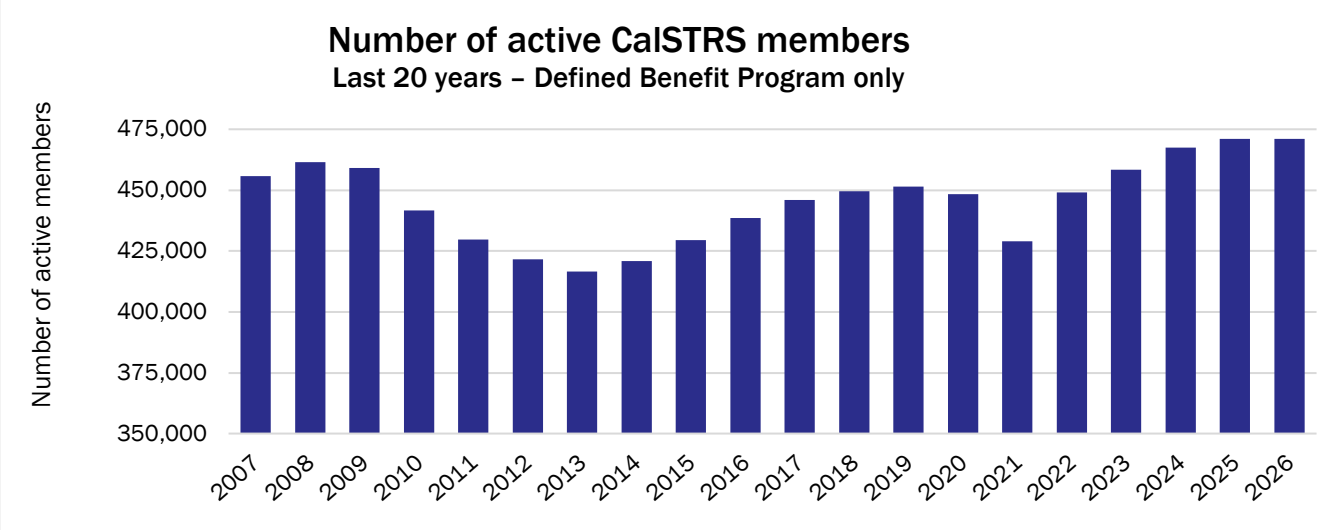
Membership and payroll growth risk

Uncertainty and variability in the active member headcount and payroll growth is another source of risk affecting both funding levels and contribution rates. In January 2024, the board adopted a reduction in the rate at which the payroll is assumed to increase, from 3.5% per year down to 3.25% per year. In using this assumption, CalSTRS is effectively assuming that the population of active members will decline by approximately 5% over the next 20 years. This assumption is key in determining contribution rates and whether the funding plan will successfully eliminate the current unfunded actuarial obligation by 2046 since CalSTRS collects contributions as a percentage of payroll. If the active membership declines faster than anticipated and the payroll fails to grow as assumed, CalSTRS' ability to make progress toward full funding could be at risk.

It's important to realize that payroll failing to increase as assumed does not increase the overall cost to fund retirement benefits, nor does it change the dollar amount required to eliminate the unfunded actuarial obligation. However, the contribution rates needed to collect these contributions must increase just to collect the same amounts. If the needed increases in the contribution rates exceed the limits imposed by the funding plan, CalSTRS may not be able to reach full funding by 2046. Later in this report, the impact of potential declines in the active membership on CalSTRS' ability to reach full funding is measured in combination with the impact of lower-than-assumed investment performance.

Recent changes in active membership

The following chart shows the number of active members participating in the Defined Benefit Program over the last 20 years.



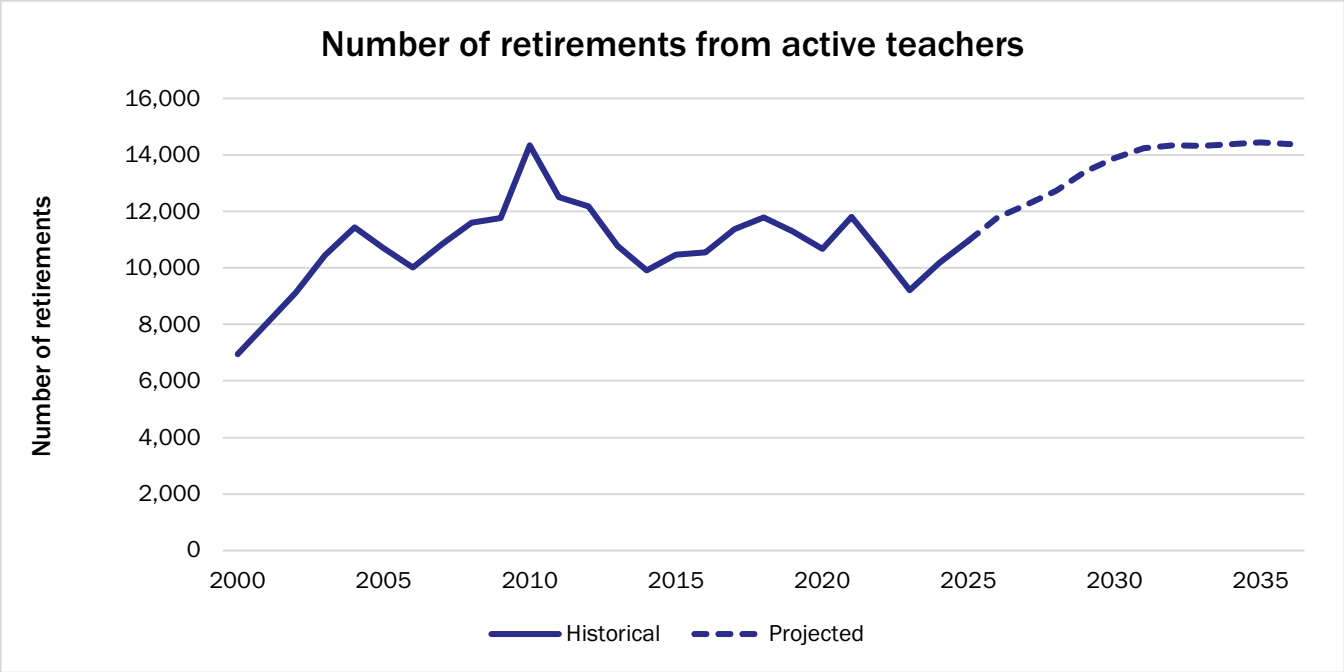
The active membership, which declined sharply during the COVID-19 pandemic, has rebounded to approximately 471,000 members. Since the passage of the funding plan in 2014, the number of active teachers has increased by approximately 50,000. This overall increase in active teachers has helped strengthen the funding plan.

Looking ahead, CalSTRS produced demographic projections to show potential trends in the expected number of retirements over the next decade. When examining the potential number of teachers retiring in a particular year, one of the biggest drivers is the number of active teachers eligible to retire. Today, there are an estimated 103,000 active teachers over the age of 55. In 2009–10, when CalSTRS experienced its highest number of active teachers retiring in a single year, approximately 110,000 active teachers were over the age of 55.

Risk environment

Over the next decade, the number of teachers eligible to retire is expected to increase. By 2031, CalSTRS projects there will be just under 117,000 active teachers above the age of 55. This can be explained in part by the significant increase in the number of active teachers in California during the 1990s. Between the years 1990 and 2000, the number of active teachers who were members of the Defined Benefit Program increased from approximately 300,000 to 420,000. Most of the teachers hired in that decade are either currently eligible to retire or will become eligible to retire in the next few years. As a result, retirements from active teachers are expected to increase significantly over the next five to 10 years.

The following chart shows the historical number of retirements from active teachers since 2000 as well as the projected number of retirements for the next decade.



As can be seen above, the number of retirements is expected to increase over the next decade, approaching the level seen in 2010 when CalSTRS experienced its highest ever number of retirements.

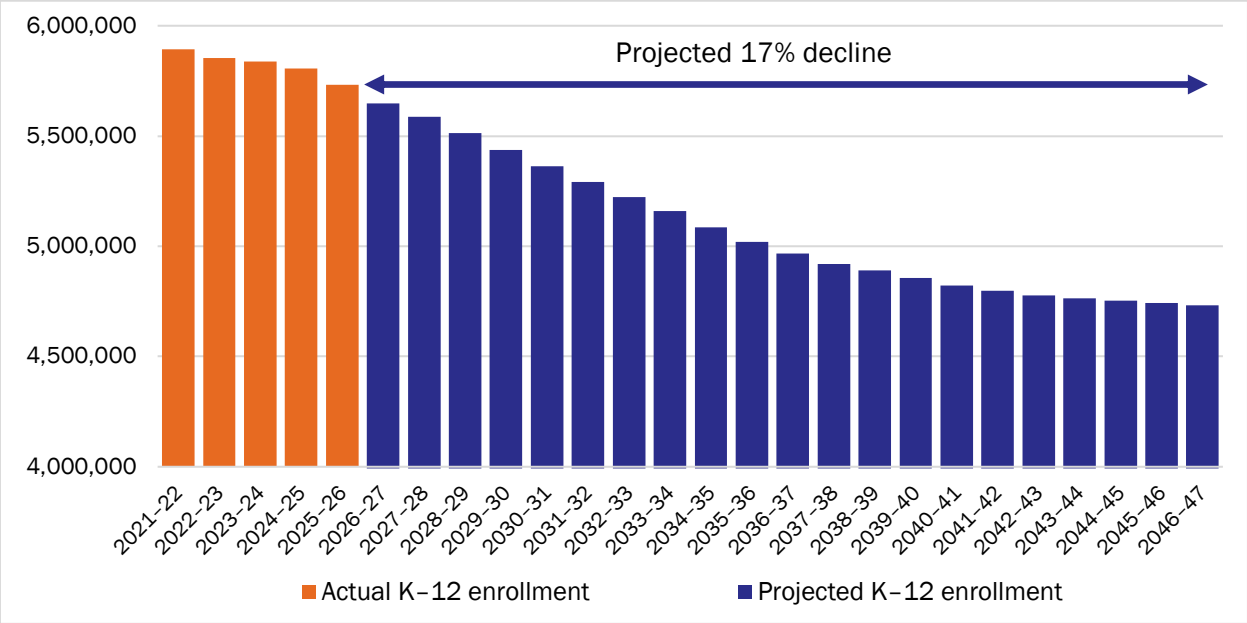
Although an increase in retirements does not necessarily impact long-term funding, if schools do not replace the teachers who retire in the future, it could result in a reduction in the overall number of teachers and impact CalSTRS' ability to reach full funding by 2046. With the anticipated decline in the number of children enrolled in K–12 public schools discussed in the next section, the risk that the number of teachers may go down in the future was one of the considerations when the board lowered the payroll growth assumption in January 2024.

Risk environment

Enrollment in K–12 public schools and community colleges

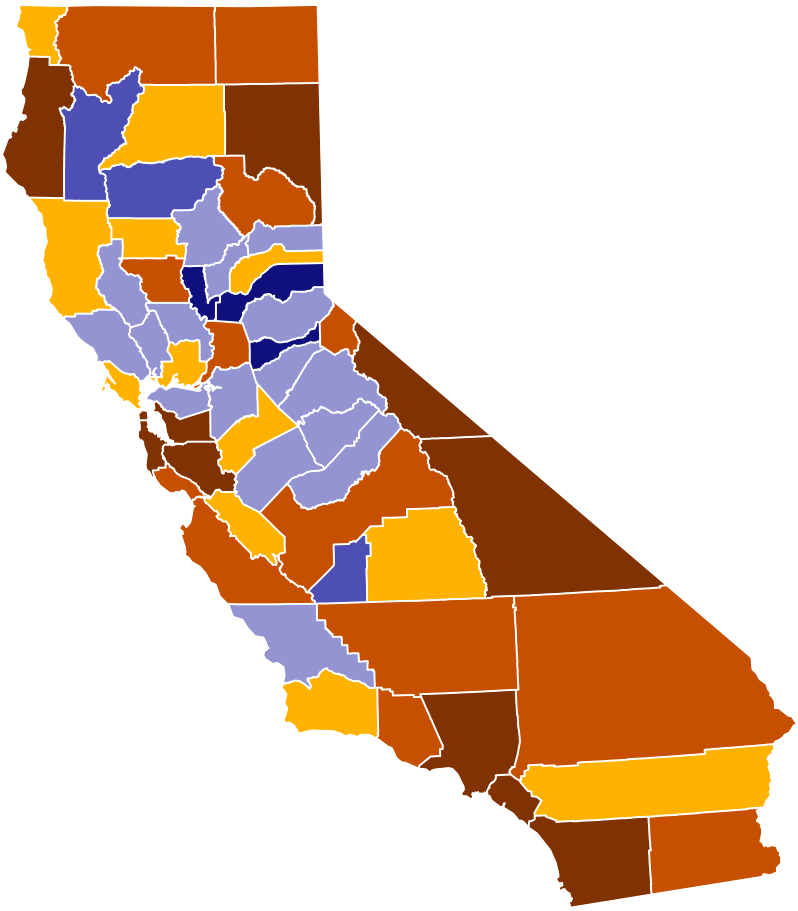
An area of particular concern related to payroll growth and the number of teachers in California is the decreasing population of students enrolled in K–12 public schools (transitional kindergarten through twelfth grade) and those enrolled in community colleges in California. After remaining fairly steady between 2010 and 2020, California experienced a significant decline in enrollment in both K–12 public schools and community colleges starting in 2020–21. Total enrollment in K–12 public schools in California dropped by approximately 432,000, or a 7% reduction, between 2019–20 and 2025–26. At the same time, the number of students enrolled at community colleges dropped by approximately 310,000, or a 20% reduction, between fall 2019 and fall 2021. Since then, however, community college enrollment has rebounded from fall 2021 to fall 2025 and is now down approximately 2%, or approximately 36,000, since 2019.

Looking ahead, in August 2026, the State of California updated its projection of K–12 enrollments. The update projects the number of children enrolled in K–12 public schools will continue to decline for the next 20 years. The most recent projection anticipates a decline of approximately 12% over the next 10 years and approximately 17% over the next 20 years. As shown in the following chart, the number of children enrolled in K–12 public schools is expected to drop below 5 million over the next 20 years. The last time California had fewer than 5 million children enrolled in K–12 public schools was in fiscal year 1990–91. Note that enrollment projections for community colleges are not available.



Risk environment

The following chart breaks down this data further based on which counties are expected to see decreases in enrollment and which counties are expected to see increases in enrollment. As illustrated, the greatest decreases are expected to occur in some of the most densely populated counties in southern California and the Bay Area, with increases expected to occur in the north-eastern portions of the state.



Decrease greater than 20%
Humboldt, Lassen, Mono, Alameda, San Francisco, San Mateo, Santa Clara, Inyo, Los Angeles, Orange, and San Diego county

Decrease between 10–20%
Siskiyou, Modoc, Plumas, Colusa, Sacramento, Alpine, Santa Cruz, Fresno, Monterey, Kern, San Bernardino, Ventura, and Imperial county

Decrease between 0–10%
Del Norte, Shasta, Mendocino, Glenn, Nevada, Solano, Marin, Stanislaus, San Benito, Tulare, Santa Barbara, and Riverside county

Increase between 0–10%
Butte, Sierra, Yuba, Lake, Yolo, El Dorado, Napa, Sonoma, Contra Costa, San Joaquin, Calaveras, Tuolumne, Mariposa, Madera, Merced, and San Luis Obispo county

Increase between 10–20%
Trinity, Tehama, and Kings county

Increase greater than 20%
Sutter, Placer, and Amador county

Regardless of where the decreases occur, if the anticipated reduction in enrollment results in a need for fewer teachers in California, it would impact the number of active teachers who participate in the Defined Benefit Program and ultimately the growth in payroll. The situation could intensify if school districts were to rely either on layoffs or hiring freezes to reduce budget pressure, leaving positions vacant as teachers leave or retire. One countervailing force that could potentially offset some of the factors listed above would be reductions in class sizes. Between the 2019–20 and 2025–26 school years, the statewide student-teacher ratio decreased by 9%, from 22.5 students per teacher to 20.4, based on data published by the California Department of Education. This illustrates that reductions in student enrollment might not necessarily result in a proportional reduction in the number of active teachers.

In response to the anticipated decline in enrollment in K–12 public schools, CalSTRS' payroll growth assumption was reduced from 3.5% to 3.25% in January 2024. By lowering the payroll growth assumption by 0.25%, CalSTRS is projecting that the number of active teachers will shrink by approximately 5% through 2046. CalSTRS will continue to monitor the number of active teachers in this report, in the actuarial valuations and as part of the regular experience studies.

Risk environment

Update on charter schools not electing CalSTRS

Following the adoption of the funding plan, CalSTRS observed a trend among newly created charter schools selecting a retirement system other than CalSTRS. This potentially poses a risk to the funding plan if a significant number of charter schools were to elect to not provide retirement benefits through CalSTRS. However, since the COVID-19 pandemic, the growth in the number of charter schools has slowed significantly. Since the 2020–21 school year, 93 new charter schools have opened in California, and the total number of charter schools in California has declined from a peak of 1,317 in 2019–20 to a current total 1,263 active charter schools, of which 88% offer a CalSTRS benefit. Due to this slowdown in the growth of charter schools, the risk to funding is currently minimal. CalSTRS will continue to monitor charter school activity and report to the board if future trends warrant concern.

Investment risk

Investment risk—the risk that CalSTRS may not be able to meet its assumed investment return over the long term—remains the greatest risk facing CalSTRS today. The combination of a maturing retirement system, the elimination of the state's supplemental contribution rate in 2027–28, and the decreasing timeframe of the funding plan only serves to increase this risk.

The funding plan interacts with investment risk in several ways. First, when investment returns are below expectations, the unfunded actuarial obligation increases, requiring additional contributions to bridge the gap. The funding plan provides the board limited authority to increase contribution rates for both the state and employers through 2046 for this purpose.

Second, although employers are currently responsible for the greatest share of the unfunded actuarial obligation, the state bears the greatest risk when it comes to investment volatility. This is due to rules set in the funding plan that allocate the largest share of the assets to the state. As a result, the state's share of the unfunded actuarial obligation is most sensitive to investment volatility. There is also the issue of the unallocated share of the unfunded actuarial obligation. As stated earlier in this report, the unallocated portion of the unfunded actuarial obligation is the portion for which the funding plan did not provide any authority to CalSTRS to adjust contribution rates to pay it down. Even though the unallocated portion is currently in a surplus position, it could quickly become unfunded again if CalSTRS were to have a year in which the investment return is well below 7%.

Third, the limitation the funding plan places on contribution rate increases for the state hinders CalSTRS' ability to respond to investment volatility. The board has authority to increase the state's contribution rate by up to 0.5% of payroll each year with no limit on the maximum rate. Furthermore, now that the state has eliminated its share of the unfunded actuarial obligation as of June 30, 2026, the state rate will be reduced from 8.328% to 2.017% of payroll in fiscal year 2027–28. The risk associated with this aspect of the funding plan is particularly concentrated given the sensitivity of the state's share of the unfunded actuarial obligation to investment volatility, which is demonstrated in this report.

Finally, since the funding plan has an expiration date, the time period over which to fund any existing and new unfunded actuarial obligation is decreasing each year. The funding plan set the target of 2046 to fully fund the Defined Benefit Program, after which the board's authority to adjust contribution rates expires. As the 2046 deadline approaches, CalSTRS' capacity to withstand economic stresses will be increasingly limited and will make it harder for CalSTRS to reach full funding and sustain funding levels after 2046.

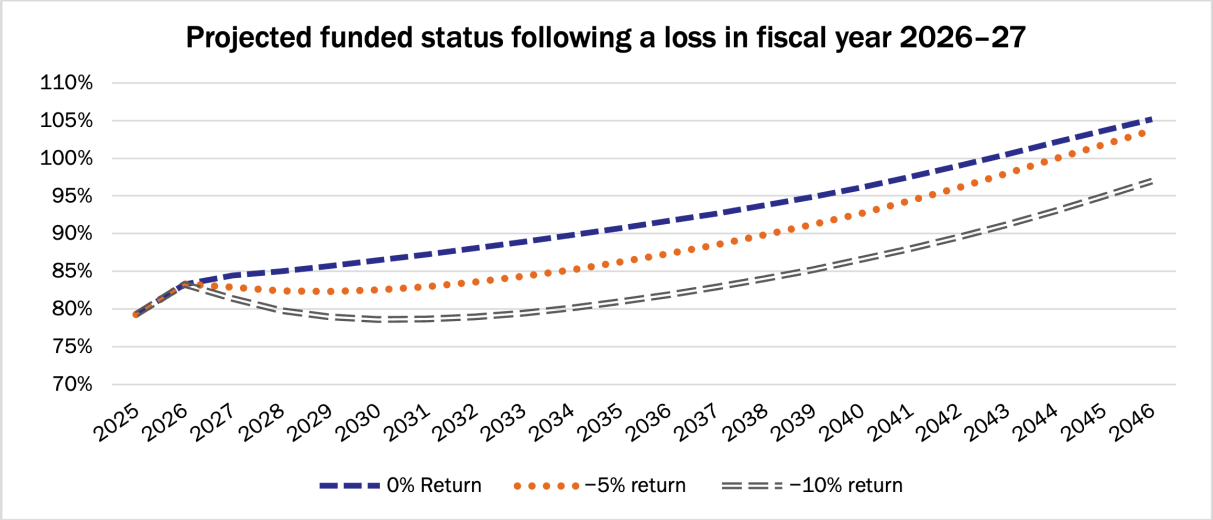
Risk of a large investment loss in a single year

This section explores how an investment shock in a single year affects the plan's ability to become fully funded by 2046. While the favorable investment return in 2025–26 means the plan is even further ahead of schedule in reaching full funding, the risk of not meeting the funding plan due to an investment shock still exists. This is due to a combination of the state's supplemental rate being eliminated and constraints in the funding plan on the board's ability to adjust contribution rates.

The funding plan requires the state's supplemental contribution rate to be reduced to 0% of payroll following the elimination of the state's share of the unfunded actuarial obligation as of June 30, 2026. This means the state's total contribution rate toward the Defined Benefit Program will drop from the current level of 8.328% of payroll to the base rate of 2.017% in

fiscal year 2027–28, when the June 30, 2026 actuarial valuation is used to determine contribution rates. If the state contribution rate needs to be increased again, the board is limited to increases of only 0.5% of payroll each year. Since, at that point, the state rate would be starting from 2.017% and increasing by only half a percent each year, it could take many years before the board would be able to increase the rate to the levels necessary to reduce any newly realized unfunded actuarial obligation.

The following chart illustrates the impact to the projected funded status of a 0%, −5%, and −10% return in fiscal year 2026–27.



The chart above illustrates that the funding plan currently has the capacity to withstand a single-year investment return of 0% or −5% and still reach full funding, but a −10% return would cause the plan to fall short. This is a change from last year's analysis when the plan was still able to reach full funding after a −10% return. The difference is that the hypothetical −10% return is now occurring after the state's supplemental rate has been eliminated. The supplemental rate starts at 0% of payroll and the board can increase it by only 0.5% per year, which is not enough to reach full funding by the target date of 2046.

This risk not only increased from last year to this year, it increases even more as time goes on. For example, while the goal of the funding plan can still be met after a −5% return in 2026–27 (as shown above), a −5% return occurring instead six years later (in 2032–33) prevents the plan from reaching full funding by 2046. The reason is similar to the one above: the state's supplemental rate can be increased by only 0.5% per year; however, the time over which the investment loss can be recouped becomes shorter each year.

Risk environment

Worst investment performance the funding plan can absorb

The analysis on the previous page illustrates that while the funding plan is still capable of recovering from some investment shocks, there is less resilience once the state's supplemental rate is eliminated in 2027–28. To expand on that exercise, the following table shows the worst investment returns the plan can absorb in the immediate future over one, three and five years and still achieve full funding by 2046.

Lowest investment returns the funding plan can absorb and still reach full funding by 2046		
Time period	**Years**	**Lowest investment returns during time period**
1 year	2026–27	–8%
3 years	2026–27 through 2028–29	3%
5 years	2026–27 through 2030–31	5%

To help put these results in historical context, a single year return worse than –8% occurred during the dot-com crash in the early 2000s, and a three-year average return worse than 3% and five-year average return worse than 5% each occurred during two periods of market turmoil: the dot-com crash and the 2008 financial crisis. This would be the case even if the current portfolio, which is believed to be better insulated from downside risk, had been in place over the last 30 years. While the past is not an indication of the future, this shows that market conditions adverse enough to prevent the plan from becoming fully funded by 2046 have occurred in the relatively recent past.

The economic conditions that may give rise to a period of poor returns could also lead to a contraction in the labor market. Lower payroll resulting from fewer teachers would mean less contributions coming into the fund, slowing progress toward full funding. Examining the impact of both low investment returns over a sustained period and a decline in active membership provides a fuller picture of how the funding plan functions and its strengths and challenges during periods of adverse experience, such as a recession. The following chart revisits the worst returns the plan could absorb if an abrupt 15% decline in teacher headcount were to occur at the same time.

Lowest investment returns the funding plan can absorb and still reach full funding by 2046 (with 15% immediate membership decline)		
Time period	**Years**	**Lowest investment returns during time period**
1 year	2026–27	–3%
3 years	2026–27 through 2028–29	5%
5 years	2026–27 through 2030–31	6%

It's worth noting that these scenarios do not assume an economic recovery will occur. Past recessions were typically followed by some level of economic rebound with the number of teachers and corresponding payrolls recovering to prerecession levels. A recovery would likely relieve some of the stress placed on the funding plan's capacity to recover funding levels.

Overall, a period of sustained low returns and a decline in active members would impact the state and employer contribution rates. The employer contribution rate is most affected by membership decline whereas the state contribution rate is most affected by low investment returns. Member contribution rates are not impacted by plan experience, but rates for members under the CalSTRS 2% at 62 benefit structure could be impacted if actuarial assumptions were to change. This is discussed in more detail later in this report.

Risk environment

Risk measures

Another useful way to analyze the impact of investment volatility on the funding plan is to use a stochastic model. A stochastic model uses a technique known as Monte Carlo simulation in which a large number of random hypothetical scenarios are generated. These scenarios are calibrated to have the statistical characteristics of the CalSTRS Investment Portfolio, using both the capital market assumptions and asset allocation adopted by the board in 2023 as part of the most recent asset-liability management study. For this analysis, 5,000 simulations of hypothetical future returns were generated. For each simulation, the assets and liabilities for the system were projected forward for more than 30 years. With this information, it is possible to assess how investment volatility can affect funding levels.

Using these stochastic simulations, this section updates the risk measures that were introduced in previous *Review of Funding Levels and Risks* reports. These measures are intended to assess these main risks:

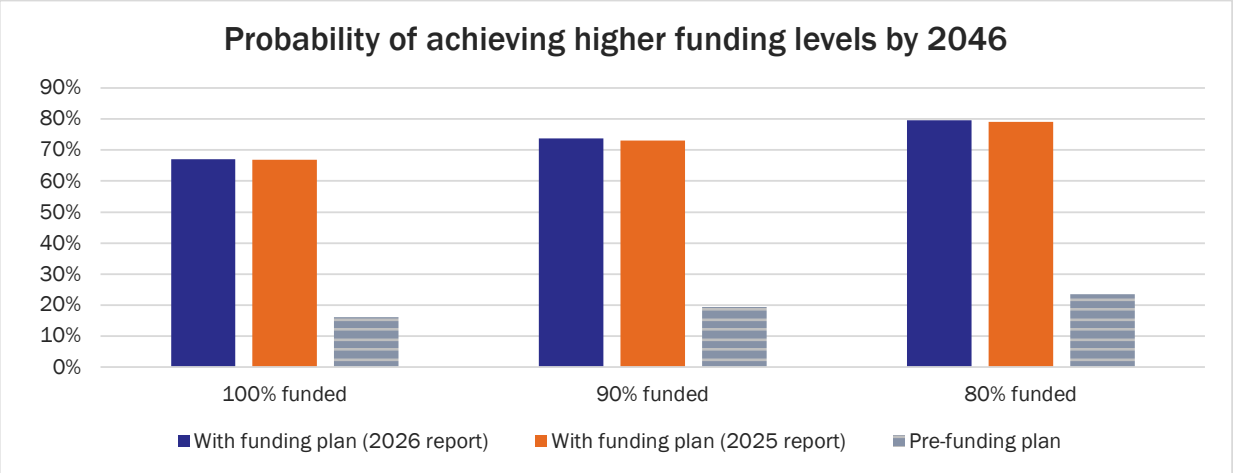
- Ability to achieve full funding.
- Risk of low funding levels.

An additional risk of high state contribution rates was assessed in previous years. With the state's supplemental contribution rate being reduced to 0% in 2027–28, however, this risk has been mostly eliminated and therefore removed from this analysis. Under the funding plan, the state's supplemental rate can be increased by only 0.5% per year. This constrains the board's ability to have the state pay down any new unfunded actuarial obligation that arises due to unfavorable investment returns. With only approximately 20 years remaining in the funding plan, even if a large loss were experienced in the coming year(s), the highest the state supplemental rate could get by 2046 is 10%.

Probability of achieving full funding

The funding plan sets a target of achieving a 100% funded status by 2046. As discussed earlier, the Defined Benefit Program is currently ahead of schedule in the goal of reaching full funding by 2046. Even so, there is a great deal of uncertainty in this projection. To better understand how likely the plan is to make progress toward its goal of reaching full funding by 2046, the first risk measure quantifies the probability that the funded status attains specific funding thresholds by the 2046 target date.

The following chart illustrates the probability that, by the 2046 target year, the fund will have attained a funded status of either 100%, 90% or 80%. For comparison, the chart also shows this risk measure's probability from the previous year's report.



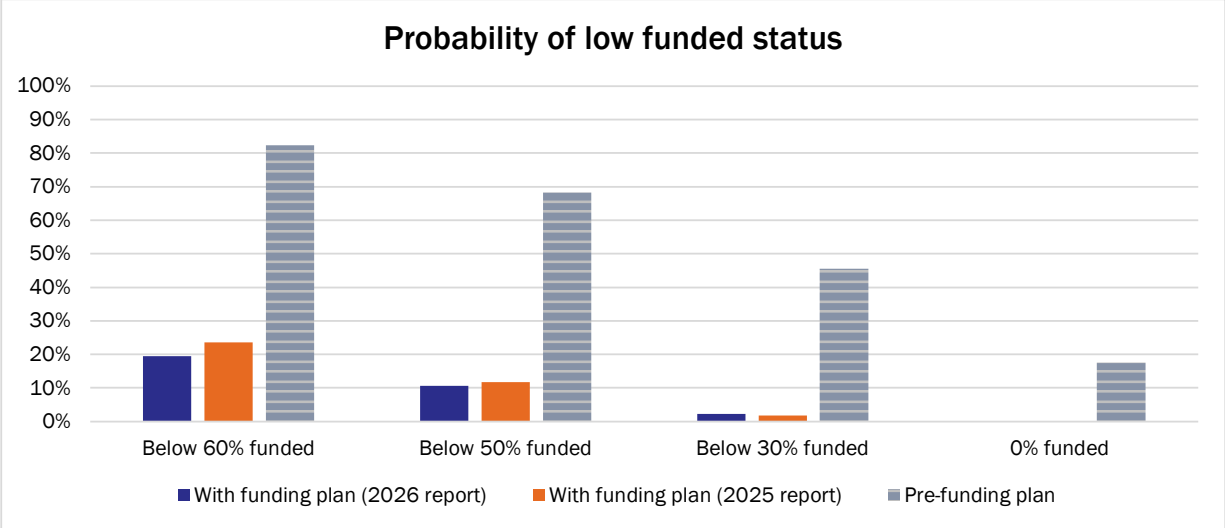
Risk environment

The probability of achieving higher funding levels has increased marginally since the previous report. While the greater-than-assumed investment return for fiscal year 2025–26 served to increase these probabilities, both the state and the employer supplemental contributions are now projected to be reduced or eliminated earlier than projected last year. This reduction in future cash flow has an offsetting effect on these probabilities. The above chart also shows the probability of reaching the various funding levels had the funding plan not been implemented. As shown, the fund would have much lower probabilities of reaching full funding by 2046 had the funding plan not been adopted.

Probability of low funding levels

Prior to the passage of the funding plan in 2014, the fund was projected to run out of assets by 2046. Although the funding plan has effectively eliminated the risk of completely depleting the assets by 2046, there is still a risk that the funded status could decline and fall to uncomfortably low levels. This risk will never be fully eliminated due to the maturity level of the system, the investment volatility implied by the CalSTRS asset allocation and the rules of the funding plan.

The second risk measure quantifies the risk of funding levels declining by measuring the probability that the funded status will fall below certain thresholds at any point over the duration of the funding plan. The following chart shows the probability that the funded status will fall below 60%, 50%, 30% or down to 0% at some point over the duration of the funding plan. The chart illustrates how this risk measure has changed over the last year and compares it to the probabilities had the funding plan not been adopted.



As illustrated above, the probability the fund will run out of assets by 2046 has been eliminated. Had the funding plan not been adopted, there would be an approximately 18% chance of running out of assets. The chart also shows the probability of falling to a low funded status decreased over the last year. The decrease in these probabilities is the result of the improvement in funded status from the better-than-assumed investment return in fiscal year 2025–26.

Measures of plan maturity and volatility

Key findings:

- The continued maturation of the system makes it increasingly sensitive to unfavorable plan experience, especially investment returns.
- The increase in contribution rates that would be needed to keep the funding plan on track following a period of poor investment returns has increased from past years, and is expected to increase further in the future. This will make it more difficult to react to an investment loss as 2046 approaches.

Measures of plan maturity and volatility

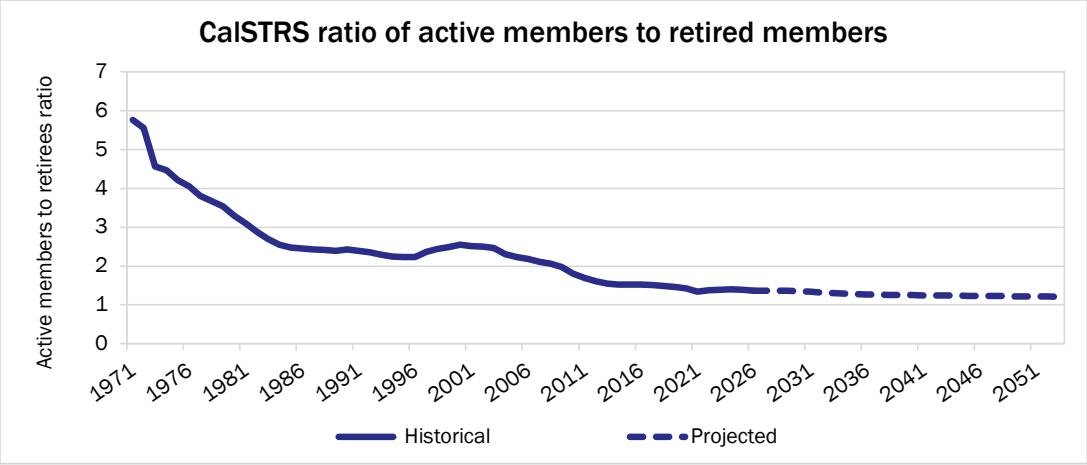
As expected, CalSTRS continues to mature as a pension plan. As pension plans mature, they become more sensitive to certain risks. Understanding plan maturity is essential when analyzing how investment return volatility, improvements in longevity, or even growth in payroll and size of active membership could impact the ability of CalSTRS to reach full funding.

In this section, the maturity of the system is examined in the context of the number of active members to retirees, the projected cash flows and the contribution volatility, which measures the sensitivity of hypothetical contribution rates to changes in obligation or assets, especially investment returns.

Ratio of active members to retired members

The aging of the population and the retirement of baby boomers has been felt by retirement systems across the nation. This demographic shift has long been predicted by actuaries and reflected in the funding of the system. Even though it was anticipated, this demographic shift has increased the amount of risk faced by the system.

There are various ways to assess the maturity level of a retirement system. One is to look at the ratio of active members to retired members. In the early years of a retirement system, the ratio of active to retired members will be very high as the system will be mostly composed of active members. As the system matures, the ratio starts declining. A mature system will often have a ratio near or below one. For CalSTRS and other retirement systems in the United States, these ratios have been declining steadily in the last 20 to 30 years. The following chart illustrates CalSTRS' historical and projected ratio of active to retired members. Note that the count of retired members for this ratio also includes beneficiaries currently receiving a benefit.



Focusing on the historical section of the chart, the ratio of active members to retired members for CalSTRS was about 6-to-1 in 1971. The 1970s and 1980s saw a rapid decrease in the ratio as the number of retirees increased significantly due to the retirement of the teachers who taught the baby boomers. In the late 1990s and early 2000s, there was a slight rise in the ratio due to increases in the number of active members that resulted from class-size reduction initiatives at the time. Since then, the ratio has decreased steadily to about 1.4-to-1, where it is today.

Looking forward, with the anticipated 5% reduction in the number of active members built into the actuarial assumptions adopted by the board in January 2024 along with the anticipated increases in the number of retirements

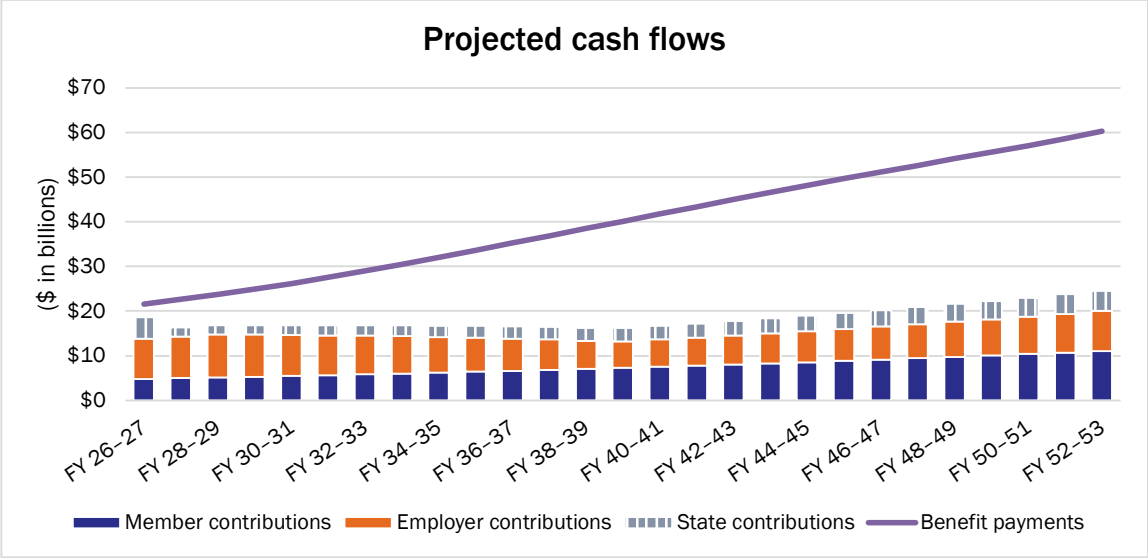
over the next decade, the ratio is projected to approach 1-to-1 over the next 40 years. However, the ratio of active to retired members is not expected to go below one over the projected time period.

If the decline in the CalSTRS active member population accelerates or if improvements in life expectancy are greater than the improvements currently built into the actuarial assumption, it would impact the ratio of active to retired members. This pattern could potentially bring the ratio closer to one over a shorter period of time, and possibly below one, resulting in increased contribution rate volatility as discussed in more detail in this section.

Projected cash flows

The cash flows for a retirement system are another indicator of the maturity level of the system. As a pension plan matures, it's normal for benefit payments to exceed contributions coming into the system. Having negative cash flows does not indicate the plan has been poorly managed. When prefunding a pension plan, the objective is to accumulate assets to pay benefits. Put another way, the objective of prefunding is to ultimately create negative cash flows.

CalSTRS first experienced negative cash flows in 1999. The gap between contributions and benefits paid increased in the years leading up to the funding plan. With the passage of the funding plan and the increased contributions from members, employers and the state, the gap narrowed for a few years but started once again to increase. The following chart shows the projected cash flows for the Defined Benefit Program and Supplemental Benefit Maintenance Account combined.



As shown in the chart above, the gap between benefit payments and contributions will continue to increase year after year, especially after the state supplemental contribution rate is eliminated starting in fiscal year 2027–28.

It's important not to view negative cash flows as an inherent issue and to remember pension plans are designed to pay benefits. It's normal for mature pension plans to have benefit payments that exceed contributions coming into the system. While negative cash flows must be considered in the asset-liability management process of a pension plan, they do not necessarily mean the system will have to sell assets to make benefit payments. Cash generated from investments, such as coupons on bonds, rent on real estate, and dividends, must be considered as well as the relative size of the cash flows compared to the total assets in the fund.

The gap between projected benefit payments and contributions is expected to represent between 1% and 3% of the assets each year through the end of the funding plan. Since fiscal year 1997–98, cash generated by investments has averaged 2.5%. More recently, in the last eight years, the average has been closer to 2%, which reflects the increased investment in illiquid assets that generate less cash. Even if cash generated by investments was not sufficient to cover

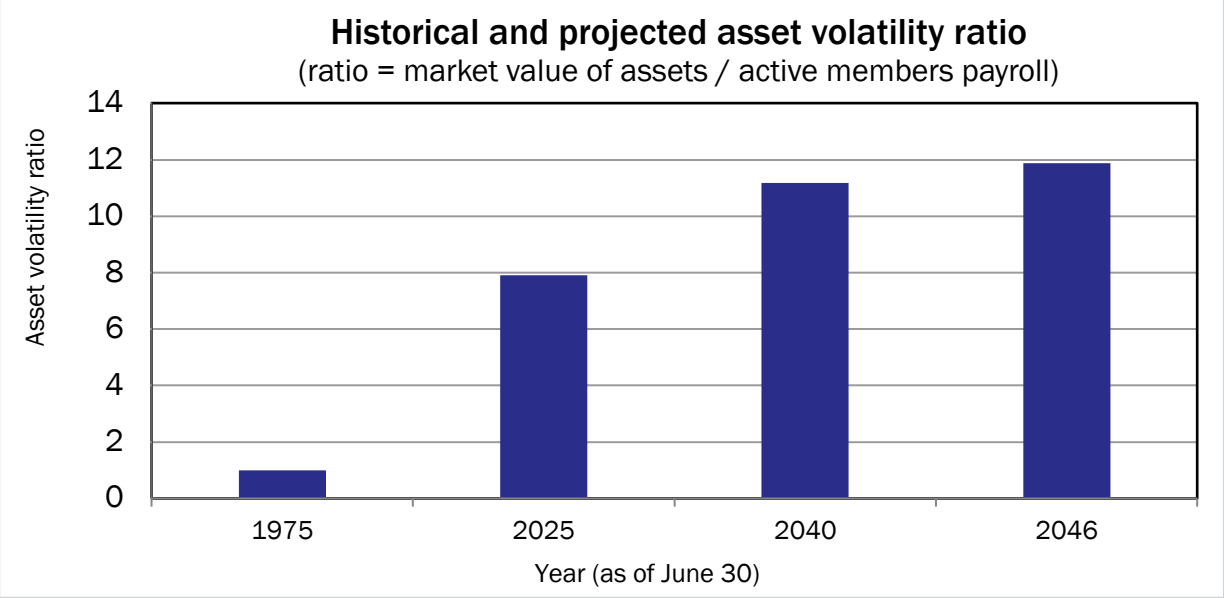
the negative cash flows, the asset allocation adopted by the board allocates 2% of the assets to cash to help minimize the likelihood CalSTRS would have to sell assets to pay benefits. While enough cash is currently being generated from investment income to cover the cash flow gap, negative cash flows will continue to be an important consideration in future asset-liability management studies.

Increasing volatility

As retirement systems become more mature, they're subject to increased volatility in the contribution rates needed to fully fund the benefits. The drop in the active-to-retiree ratio over the last decade has increased this volatility for CalSTRS, and it will increase further as the ratio continues to drop in the future.

One indicator of contribution volatility is the asset volatility ratio, which is the ratio of the market value of assets to the total payroll for active members. Plans with a high ratio are subject to greater volatility in contribution needs resulting from investment performance.

The asset volatility ratio for CalSTRS has increased significantly over the last 50 years. Back in 1975, the asset volatility ratio was at about one, meaning the assets of the plan were about the same size as the payroll. The size of the assets, when compared to payroll, has increased steadily over time. As of the most recent actuarial valuation, the asset volatility ratio was about eight, which is typical for a mature system like CalSTRS. This means that the contribution volatility is currently about eight times higher than it was in 1975. As shown on the following chart, the asset volatility ratio for CalSTRS is expected to continue to increase over time, exceeding 11 in 15 years and reaching nearly 12 by the end of the funding plan.



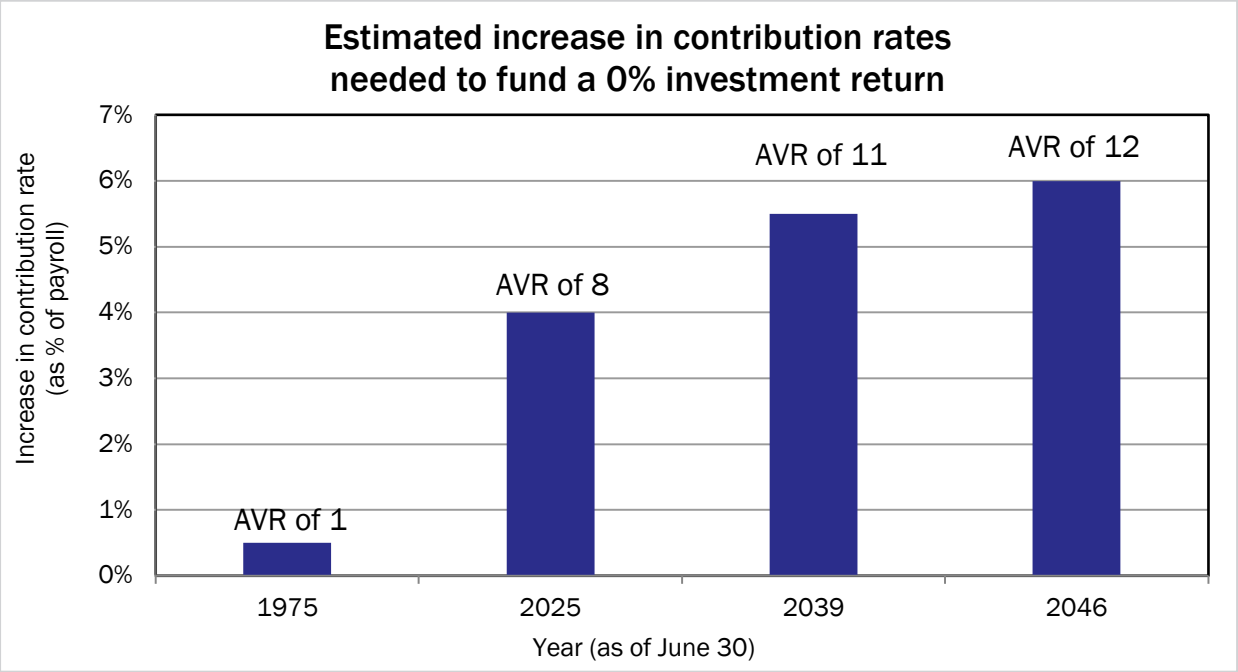
There are various reasons why the asset volatility ratio is projected to increase over time. One is expected improvements in funding levels. As of the June 30, 2025 actuarial valuation, the Defined Benefit Program was approximately 79.3% funded. As additional contributions flow into the system pursuant to the funding plan, the funded status is projected to improve and move toward the target of being 100% funded. As a result, the asset volatility ratio will increase over time. If the system were 100% funded today, the asset volatility ratio would be 8.9. In addition, the system has not yet reached its full maturity stage. As more members retire, the asset volatility ratio is also expected to continue to increase.

Measures of plan maturity and volatility

It's important to keep in mind that there is nothing to "fix" if the asset volatility ratio is high. A high asset volatility ratio simply indicates there is more money invested for the plan—a good thing overall. It is, however, a reminder that the more money invested, the more of an impact investment gains and losses will have on the contributions needed to fully fund the system.

With the expected increases in asset volatility ratio over time, the funding risk of the system will be greater in 20 years than it is today, resulting in greater volatility in the level of contributions that would be needed to ensure the plan remains 100% funded over the long term.

To help demonstrate this increased contribution volatility, the following chart displays the cost to eliminate, over a 20-year funding period, the unfunded actuarial obligation created from a one-time 0% investment return. Note that a 0% investment return represents an investment loss from an actuarial perspective of approximately 7%, since 0% is 7% less than the assumed 7% investment return. Since the year 2000, the system has experienced a negative return on five occasions.



Further compounding contribution rate volatility is the fixed time frame for paying down the unfunded actuarial obligation in the funding plan. As 2046 approaches, the period over which the unfunded actuarial obligation is amortized will decrease, increasing contribution volatility more each year. Today, the existing shortfall is amortized through 2046, over a period of 20 years. In 10 years, any remaining shortfall will be amortized over 10 years. If markets were to fall short of expectations in 19 years, the shortfall would have to be paid in a single year, requiring higher contributions than would normally be needed if the funding period were 20 years. As a result, as 2046 nears, the limited rate-setting authority granted to the board becomes increasingly unlikely to be sufficient following an economic downturn due to the combined impact of the funding period shortening and maturity levels increasing.

Ability to reach full funding under different actuarial assumptions

Key findings:

- While the board adopted more conservative actuarial assumptions in recent years, CalSTRS would still be expected to reach full funding by 2046 if the investment return or payroll growth assumptions were changed to be even more conservative.
- The contribution rates for the state, employers, and CalSTRS 2% at 62 members would potentially need to be increased to keep the funding of the system on track under more conservative actuarial assumptions.

Ability to reach full funding under different actuarial assumptions

The previous sections of this report have focused on scenarios and risk measures illustrating the funding plan's capacity to react to short-term and long-term deviations from the current actuarial assumptions and achieve full funding by 2046. For all scenarios analyzed in this report, it was assumed the underlying actuarial assumptions would remain the same when calculating the liabilities.

This section explores how the funding plan would fare under different economic actuarial assumptions. For each scenario analyzed, both the liabilities and the assets were projected using the revised set of assumptions, assuming the change would be long term and permanent.

Including this information in this report is not an indication that actuarial assumptions must be changed. The information is provided for informational purposes only to help illustrate how the funding plan would absorb the impact of using more conservative actuarial assumptions in the funding of the system.

Various combinations of actuarial assumptions for the investment return and long-term decline in membership were analyzed to see how the funding plan would react and whether CalSTRS would still be able to reach full funding by 2046.

Regarding the investment return assumption, the board adopted a new asset allocation in May 2023 and an assumed investment return of 7.0% in January 2024. The current capital market assumptions and asset allocation still support an assumed investment return of 7.0%. Despite this, it's useful to examine how the funding plan would react to lowering the investment return assumption if at some point in the future the board decides to reduce investment risk or if expectations of future market performance change significantly.

As discussed earlier in the report, in January 2024, the board adjusted the payroll growth assumption down to 3.25%, which is equivalent to assuming the number of active teachers will decline over the long term by approximately 5% through 2046.

The ability of the funding plan to react to changes in actuarial assumptions was tested by lowering the investment return assumption from 7.0% to 6.75% and 6.5%. In combination with these reductions in assumed investment return, the payroll growth assumption was lowered from 3.25% to 3.0% and 2.75%. These reductions are equivalent to assuming that the active teacher population will decrease by 10% through 2046 and 15% through 2046, respectively.

Under all scenarios analyzed, the funded status is expected to reach or exceed 100% by June 30, 2046. There is sufficient flexibility in the funding plan to absorb changes in long-term investment return and membership growth expectations and still reach full funding by 2046.

However, adopting more conservative assumptions would impact contribution rates for the state, employers and CalSTRS 2% at 62 members. Generally, the state contribution rate is most impacted by a change in the assumed investment return while the employer contribution rate is more sensitive to changes in the payroll growth assumption. The CalSTRS 2% at 62 member contribution rate is sensitive to increases in the normal cost of their Defined Benefit Program benefit, which generally is most sensitive to changes in the assumed investment return.

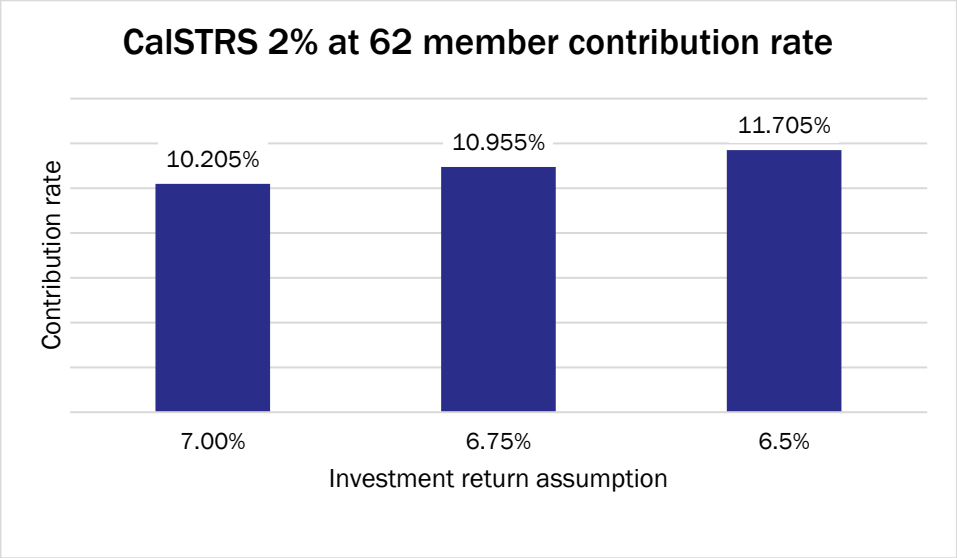
For the state, adopting a more conservative investment return assumption would increase the average contribution rate modestly. Under a 6.75% return assumption, the state contribution rate would need to remain at the current level for one additional year before dropping to 2.017%. Under a 6.5% return assumption, it would need to remain at the current level for two additional years. In all cases, the impact of membership decline has a negligible impact on the state contribution rate.

For employers, the average contribution rate is modestly affected by both a more conservative investment return assumption and a decline in membership. Moving from a 7% return assumption to 6.5% would require the employer contribution rate to remain at the current level for an additional year relative to the current projection. Combining this reduction in the investment return assumption with a 15% decline in active membership would require the contribution rate to remain at the current level for an additional two years.

Ability to reach full funding under different actuarial assumptions

A change in the actuarial assumptions would have no impact on the contribution rates of members with the CalSTRS 2% at 60 benefit formula as their contribution rate is set in statute. Adopting more conservative actuarial assumptions could impact the CalSTRS 2% at 62 member contribution rate. Under the California Public Employees' Pension Reform Act of 2013 (PEPRA), CalSTRS 2% at 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 1%. The normal cost is the annual cost for each year of service that is necessary to adequately fund the benefits over time if all assumptions are met. Adopting a more conservative investment return assumption would increase the normal cost. However, under the rules of PEPRA, to affect the CalSTRS 2% at 62 member contribution rate, the normal cost would have to change by more than 1% since the last time the rate was set.

The following chart shows the CalSTRS 2% at 62 member contribution rate under the current investment return assumption of 7% and two hypothetical alternative assumptions, 6.75% and 6.5%.



As shown in the chart above, decreasing the investment return assumption to 6.75% would trigger an increase of 0.75% of pay in the CalSTRS 2% at 62 member contribution rate, and decreasing the investment return assumption to 6.5% would trigger an increase of 1.50% of pay. Note that a decline in active membership would not impact the contribution rate for CalSTRS 2% at 62 members.

This analysis shows that CalSTRS would still be in a favorable position today and would still be expected to reach full funding if the board elected to adopt more conservative actuarial assumptions in the funding of the system. However, there would be additional costs for the state, employers and some members under these assumptions.

Conclusion

This report discusses a variety of risks associated with the funding of CalSTRS. Even if baseline projections indicate CalSTRS expects to reach full funding by 2036, 10 years ahead of schedule, significant risks remain that could prevent the system from reaching full funding by 2046 and remaining fully funded after 2046.

Although the risks related to longevity, active membership decline and future payroll growth are real and important, the fact remains that the largest risk facing CalSTRS is from investment returns falling short of the assumed return. This risk is accentuated now that the state's contribution rate is dropping from 8.328% of payroll to 2.017% in fiscal year 2027–28 on account of its share of unfunded actuarial obligation being eliminated. This risk will continue to increase over time due to the natural maturing of the system and the scheduled end date of the funding plan, currently set at 2046.

Some of the features of the funding plan could limit CalSTRS' ability to react adequately to changes in economic and demographic conditions and reach full funding. These features include the:

- End date of 2046.
- 0.5% limit on state contribution rate increases.
- Inability to address the unallocated share of the unfunded actuarial obligation.

CalSTRS will continue to monitor funding progress and the risks identified in this report and will continue to engage with CalSTRS stakeholders about plan funding, the strengths of the funding plan and potential opportunities for furthering the long-term sustainability of the fund on behalf of California's public educators.