



## Regular Meeting

### Item number 15c – Open session

**Subject:** Actuarial Valuation of the Cash Balance Benefit Program and Consideration for the Adoption of an Additional Earnings Credit

**Presenter(s):** David Lamoureux, CalSTRS; Nick Collier and Scott Preppernau, Milliman

**Item type:** Action

**Date and time:** May 28, 2026– 10 minutes

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#### **Attachment(s):**

Attachment 1 - June 30, 2025 Actuarial Valuation for the Cash Balance Benefit Program

Attachment 2 – Proposed Resolution for the Adoption of an Additional Earnings Credit

#### **PowerPoint presentation(s):**

Summary of Valuation Results for the Cash Balance Benefit Program

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#### **Item purpose**

The purpose of this item is to present the results of the June 30, 2025 actuarial valuation of the Cash Balance Benefit Program and to consider the adoption of an additional earnings credit of 2.81%.

#### **Recommendation**

Staff recommends that an additional earnings credit of 2.81% of the June 30, 2025 account balance be awarded to participants of the Cash Balance Benefit Program who were not retired as of June 30, 2025. Considering that the accounts for the participants of the Cash Balance Benefit Program have already been credited with a minimum interest rate of 4.19% for fiscal year 2024-25, granting the recommended additional earnings credit of 2.81% would result in a total return of 7.0% for the 2024-25 fiscal year.

**Executive Summary**

The attached report is the annual actuarial valuation of the Cash Balance Benefit Program required as per section 26211 of the Education Code. The actuarial valuation provides a snapshot of the fund’s assets and liabilities as of June 30, 2025.

**Funded Ratio**

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

**Summary of key results for Cash Balance Benefit Program**

	<b>June 30, 2025 Valuation</b>	<b>June 30, 2024 Valuation</b>
Actuarial obligation	\$483.8 million	\$445.0 million
Actuarial value of assets	\$576.2 million	\$526.0 million
Unfunded actuarial obligation / (Actuarial surplus)	(\$92.4 million)	(\$81.0 million)
Proposed additional earnings credit (estimated dollar value / percent of account balance awarded)	\$13.1 million <sup>1</sup> / 2.81%	\$15.7 million <sup>2</sup> \ 3.65%
Final unfunded actuarial obligation / (Actuarial surplus)	(\$79.3 million)	(\$65.3 million)
Funded ratio		
- Before additional earnings credit	119.1%	118.2%
- After additional earnings credit	116.0%	114.2%

The funded status and the actuarial surplus have both increased since the 2024 valuation. Note that the final funded status and actuarial surplus from the 2024 valuation are those which reflect the additional earnings credit awarded by the board in May 2025. As shown above, the funded status increased by 4.9%, from 114.2% on June 30, 2024 (after the additional earnings credit) to 119.1% on June 30, 2025 (before the additional earnings credit). The actuarial surplus increased by about \$27.1 million, from a \$65.3 million surplus on June 30, 2024 (after the additional earnings credit) to a \$92.4 million surplus on June 30, 2025 (before the additional earnings credit).

These increases were primarily the result of the return for fiscal year 2024-25, which was greater than both the assumed investment return of 7.0% and the minimum interest rate credited to the member’s account of 4.19%. As shown on page 1 of the attached report, the investment return for the Cash Balance Benefit Program was calculated to be 9.2% for fiscal year 2024-25. For

<sup>1</sup> Subject to approval by the board at the May 2026 meeting.

<sup>2</sup> Approved by the board in May 2025.

additional details on the changes in the surplus, please refer to Table 4, *Actuarial Gains and Losses*, on page 12 of the attached report.

The funded ratio for the Cash Balance Benefit Program is based on the market value of assets. This differs from the Defined Benefit Program which uses an actuarial value of assets which smooths the volatility in the investment markets by reflecting only one-third of the net accumulated investment gains and losses in a year. For the Cash Balance Benefit Program the volatility of the investment market is managed by establishing a gain and loss reserve, which, if positive, includes investment earnings in excess of the amount needed to fund the program liabilities and, if negative, reflects an unfunded actuarial obligation of the program. If, in any year, investment earnings are less than necessary, any positive balance in the gain and loss reserve is used to fund the minimum interest rate. If the balance in the gain and loss reserve is sufficient to properly protect the program against investment losses, any remaining actuarial surplus can be used to fund an additional earnings credit.

### **Additional Earnings Credit**

Section 26605 of the Education Code allows the board to declare an additional earnings credit for participants of the Cash Balance Benefit Program. The board adopted a policy on granting additional earnings credits with the purpose of providing Cash Balance Benefit participants earnings on their accounts equal to the assumed rate of return, currently 7%, over the long term. The board's policy is designed to balance the need to ensure the long-term sustainability of the program with the goal of providing robust returns to participants. The board policy states that additional earnings credits may be awarded if the funded ratio of the program surpasses certain thresholds. The thresholds are determined using a two-step allocation process.

1. The first step in the process allocates the excess of the actuarial surplus over the standard deviation of the expected long-term rate of return on the investment portfolio, limited to the difference between the minimum interest rate from the previous valuation and the long-term assumed rate of earnings.
2. The second step in the process allocates 50% of the remaining actuarial surplus over two times the standard deviation of the expected long-term rate of return on the investment portfolio.

The additional earnings credit awarded would be the sum of the allocation from the two steps.

The standard deviation for the Cash Balance Benefit Program was set at 11.3% when the board adopted the most recent experience study in January 2024. This means that the board is asked to consider an additional earnings credit only when the program has a funded status greater than 111.3%. For the second threshold, the funded ratio would have to exceed 122.6% following the first threshold allocation.

As of June 30, 2025, the Cash Balance Benefit Program had a funded ratio of 119.1%, which exceeds the first threshold. After the first allocation, the funded status is 116.0% which does not

exceed the second threshold. Based on board policy, an additional earnings credit of 2.81% has been calculated. Awarding a 2.81% additional earnings credit will reduce the funded status of the program from 119.1% down to 116.0% and reduce the actuarial surplus by \$13.1 million, from \$92.4 million down to \$79.3 million. For more details on the calculation of the recommended additional earnings credit refer to Table 6, *Additional Earnings Credit Based on Board Policy*, on page 14 of the attached report.

As shown on page 2 of the attached report, granting the recommended additional earnings credit of 2.81% would be the 8<sup>th</sup> time in the last 10 years that an additional earnings credit is granted to the participants of the Cash Balance Benefit Program.

Considering that the accounts for the participants of the Cash Balance Benefit Program have already been credited with a minimum interest rate of 4.19% for fiscal year 2024-25, granting the recommended additional earnings credit of 2.81% would result in a total return of 7% credited to members' accounts for fiscal year 2024-25. The table below shows the average compounded return credited to members' accounts over the last five, 10 and 20 years for the Cash Balance Benefit Program, reflecting all previously granted additional earnings credit and the 2.81% under consideration in this item.

**Average compounded return credited to members' accounts**

<b>Last 5 years</b>	<b>Last 10 years</b>	<b>Last 20 years</b>
8.1%	6.6%	6.2%

If awarded, the additional earnings credit of 2.81% will be applied to the June 30, 2025, account balance for members who were not retired as of June 30, 2025.

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

**Board Policy linkage:** Board Governance Manual: Section 7G - Benefits and Services Policy - Actuarial Valuations of the Defined Benefit Supplement Program and the Cash Balance Benefit Program.

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