CALSTRS

Regular Meeting

Item number 7 – Open session

Subject: 2026 Review of Funding Levels and Risks Report

Presenter(s): David Lamoureux, Jordan Fassler and Paul Tschida

Item type: Information

Date and time: November 5, 2026– 30 minutes

Attachment(s): 2026 Review of Funding Levels and Risks Report

PowerPoint presentation(s): Summary of Review of Funding Levels and Risks Report

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Item purpose

The purpose of this item is to present the 2026 Review of Funding Levels and Risks report. This report is intended to assist the board and CalSTRS stakeholders in assessing the soundness and sustainability of the system and to better understand how the CalSTRS Funding Plan is expected to accomplish its goal of achieving full funding by 2046.

Recommendation

This is an information item only.

Executive Summary

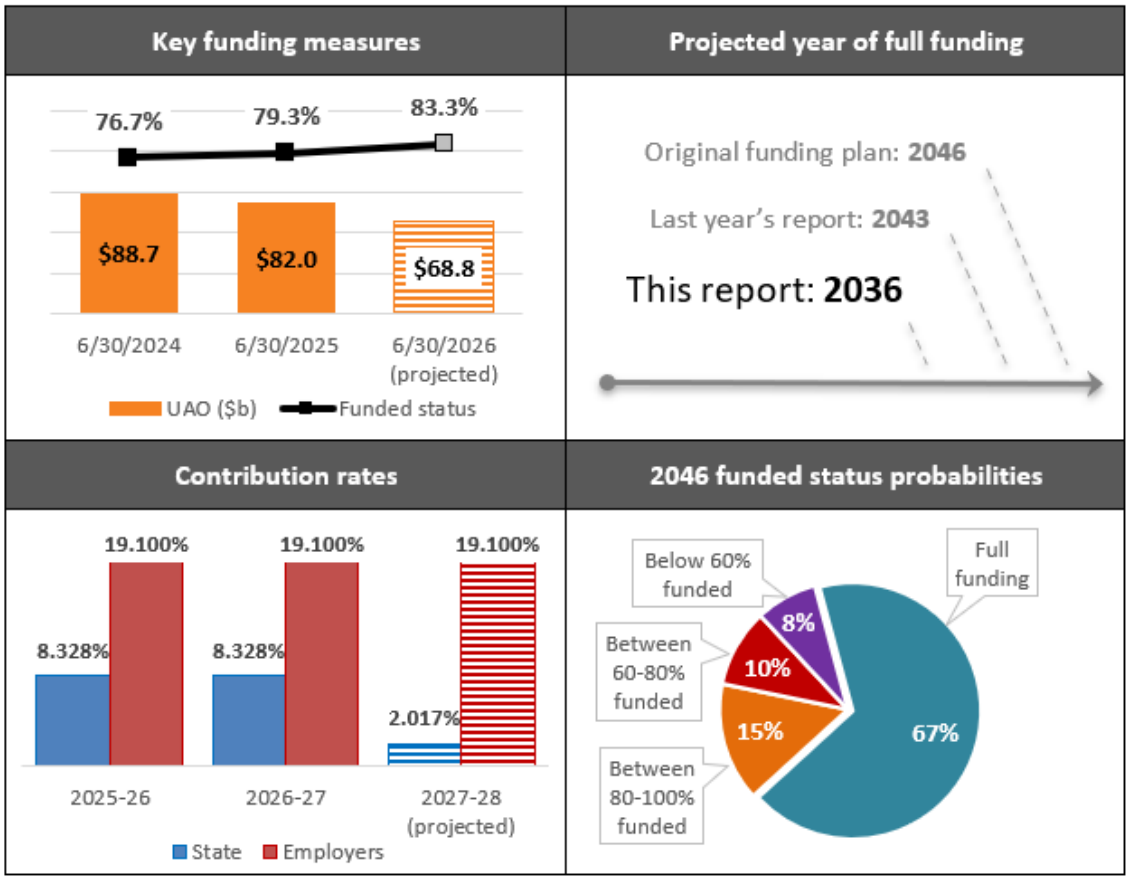
The Review of Funding Levels and Risks report was first published in November 2016 with the intention of further educating the board and stakeholders on the risks that could impact the newly adopted funding plan and CalSTRS' ability to reach full funding by 2046. Since that first report was published CalSTRS has withstood a global pandemic, fluctuations in the number of active members, and volatility in investment markets. As a result, the board has taken steps to strengthen the funding of the system through increased diversification in the asset allocation, the adoption of more robust actuarial assumptions, and by maintaining state and employer contribution rates. Combined, these events and actions have placed CalSTRS funding in a much stronger position.

Over the years, the report has evolved to include a variety of different measures of risk, scenarios that illustrate how the funding plan operates, and analysis of both past changes and potential future events

that could impact long-term funding. In doing so, the report provides an in-depth look at how the CalSTRS funding plan is progressing on its goal of reaching full funding by 2046.

This year's report is based on the results of the June 30, 2025 actuarial valuation that was presented to the board in May 2026 and reflects significant events that have taken place over the last fiscal year. Specifically, the report reflects the investment return for fiscal year 2025–26, which was greater than the assumed 7.0%, and the number of active members as of June 30, 2026, which remained stable at about 471,000.

The following charts illustrate some of the key results in the report.



The investment return in fiscal year 2025-26 helped the CalSTRS Defined Benefit Program move further ahead of its schedule to reach full funding by 2046. It is 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 from 8.328% 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. As a result, the employer contribution rate is expected to remain the same in fiscal year

2027–28. For additional details, please refer to the "**Path to full funding**" section of the attached report.

Investment risk continues to be the most significant risk facing the CalSTRS Funding Plan. 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 by the above chart showing that, even though the funding plan is on track to reach full funding by 2036, the probability of being fully funded in 2046 is 67%. The funding plan provides CalSTRS with some capacity to withstand a recession in the next few years while keeping the funding plan on track. However, the risk that a negative investment return might impact CalSTRS' ability to reach full funding is accentuated by the elimination of the state's share of CalSTRS unfunded actuarial obligation as of June 30, 2026 and that the state contribution rate will drop to 2.017% in fiscal year 2027–28. This is because the state contribution rate can be increased by only 0.5% per year, potentially limiting CalSTRS' ability to react to changing conditions. For additional details, please refer to the "**Risk environment**" section of the attached report.

Investment risk will become increasingly pronounced as the Defined Benefit Program continues to mature. This maturation, evidenced by the projected decline in the ratio of active to retired members and negative cash flows, serves to amplify contribution rate volatility. Combined with the 2046 end date of the funding plan, this will make it increasingly hard for CalSTRS to react to an investment loss as 2046 nears. For more information, please refer to the "**Measures of plan maturity and volatility**" section of the attached report.

Overall, the report highlights how the funding plan has facilitated improvements in funding levels and put CalSTRS in a stronger position to react to the risks discussed in the report. The report also highlights certain features of the funding plan that could limit the ability to react adequately to changes in economic and demographic conditions and reach full funding. These features include the end date of 2046, the 0.5% limit on increases to the state contribution rate, and the inability to address the unallocated share of the unfunded actuarial obligation.

CalSTRS will continue to monitor funding progress and the risks identified in the attached report and 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.

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