CalPERS

Finance and Administration Committee

Agenda Item 6c

April 14, 2025

Item Name: 2025 Public Employees' Retirement Fund Actuarial Assumptions

Program: Actuarial Office

Item Type: Information

Executive Summary

In accordance with the CalPERS Board of Administration's Actuarial Assumptions Policy, the Actuarial Office (ACTO) is conducting its statutorily mandated investigation (experience study) of the actuarial assumptions. The assumptions reviewed include both the economic assumptions and the demographic assumptions. This agenda item provides an early glimpse of some of the findings. In September 2025, the preliminary recommendation for new actuarial assumptions as well as a draft copy of the experience study report will be presented to the Board. The final recommendation for the adoption of new actuarial assumptions is currently scheduled to occur in November 2025. One primary economic assumption, the rate of return on investments, will be determined in conjunction with the Asset Liability Management process. Upon adoption, these proposed assumptions would become effective with the June 30, 2025 actuarial valuations. Contribution rates for the state and schools plans would be impacted in the 2026-27 fiscal year. Public agencies would be impacted in the 2027-28 fiscal year.

Strategic Plan

This item supports the CalPERS 2022-27 Strategic goal: Strengthen the long-term sustainability of the pension fund.

Background

An experience study is a summarization of actual experience over a defined period and, along with future expectations, is used in setting actuarial assumptions. Experience studies which include reviews of both economic and demographic assumptions are required every four years under the Board's Actuarial Assumptions Policy and Government Code §20133. The previous experience study was completed in 2021. Note that actuarial standards of practice require the actuary to evaluate whether assumptions are reasonable for every valuation, so some change in assumptions could be recommended in the intervening years between mandated experience studies. Not all demographic assumptions have the same relative impact on the results of the actuarial valuations (and hence on employer contribution rates). In almost all cases, retirement benefits make up most of the liabilities of a retirement system such as CalPERS. Accordingly, assumptions that affect retirement benefits will have more of an impact than assumptions that only affect death, disability, or termination benefits. Since retirement rates, salary increases and post-retirement mortality all affect the valuation of retirement benefits, these assumptions generally have a much greater impact on contribution rates than do other demographic assumptions. Economic assumptions affect all benefits as well as the expected return on plan assets and tend to have a significant impact on contribution rates.

Analysis

The Actuarial Office will present their findings of this study in detail later this year.

Budget and Fiscal Impacts

The experience study and review of assumptions was prepared internally and will be reviewed externally. Funding was already identified within existing budgetary resources.

Benefits and Risks

Actuarial assumptions determine the expected costs of the plan. The actual long-term costs of the plan will be revealed as the plan's experience is realized. Assumptions that align with future expectations are necessary if costs are to remain stable. Assumptions that are overly optimistic produce artificially low current costs but lead to significantly higher future costs. The opposite is true for assumptions that are overly conservative.

By adopting the proposed assumptions, CalPERS ensures that the resulting contribution requirements reflect, to the extent possible, the true cost of the plan under the actuarial methodology and policies adopted by the Board.

Attachments

Attachment 1 – 2025 Review of Public Employees' Retirement Fund (PERF) Actuarial Assumptions

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David Clement
Supervisory Actuary
Actuarial Office

Fritzie Archuleta
Deputy Chief Actuary

Scott Terando
Chief Actuary