

Report from the California Actuarial Advisory Panel on the State Actuarial Valuation

Joint Information Hearing on California Public Retirement Systems

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California Actuarial Advisory Panel (CAAP)

- Established in 2008
- 8-member panel
- Housed in the State Controller's Office
- Pursuant to Government Code section 7507.2(a):
 - ...the panel shall provide impartial and independent information on pensions, other postemployment benefits, and best practices to public agencies...
- CAAP issued guidance

(available at: https://www.sco.ca.gov/Actuarial_Products_Guidance.html)

Appointing Entities

Governor
(2)

Speaker of the
Assembly

Senate
Committee on
Rules

CalSTRS

CalPERS

UC Board of
Regent

State Association
of County
Retirement
Systems

[Full listing](https://www.sco.ca.gov/caap_members.html) available here:

https://www.sco.ca.gov/caap_members.html

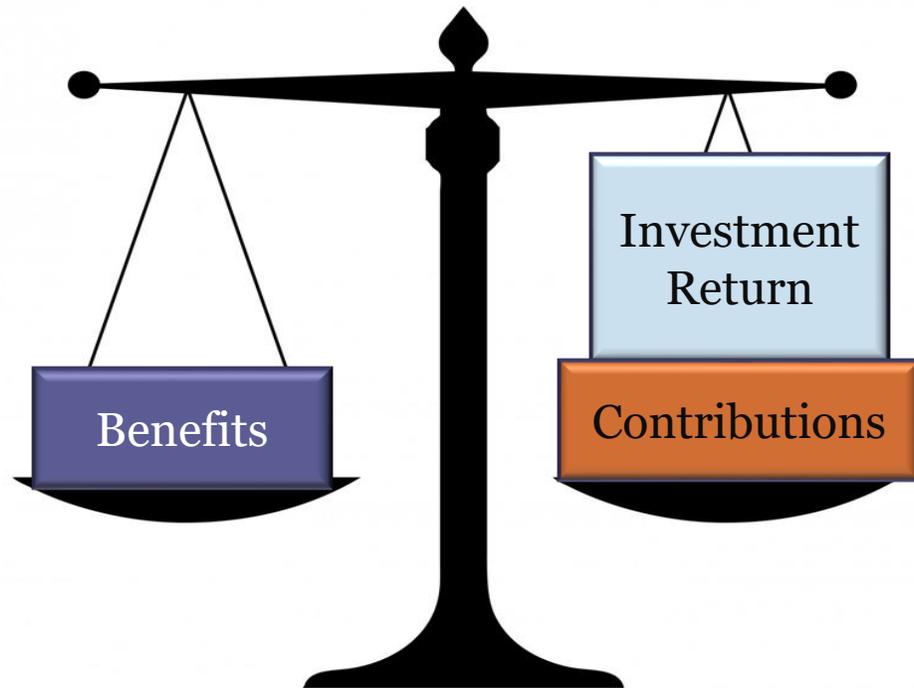
Government Code §20229

- Requires CalPERS to annually provide certain information related to pension cost for State employees:
 - Liabilities and contribution rates using an investment return assumption that is 2% higher and 2% lower than assumed
 - Contribution rates calculated by paying down unfunded liability over the average remaining service period of State employees

Government Code §20229 - continued

- Requires a representative from the CAAP present information to this joint legislative hearing:
 - Explain the role played by the investment return assumption and amortization period in the calculation of contribution rates.
 - Describe the consequences to future State budgets if the investment return assumption is not realized.
 - Report whether the Board's amortization period exceeds the average remaining service periods of employees covered by the contributions.

Role Played by the Investment Return



- CalPERS investment return assumption is 6.8%
- If future returns are lower than 6.8%, future state contribution rates will have to increase.
- If future returns are higher than 6.8%, future state contribution rates could be lowered.

Role Played by the Amortization Period

- CalPERS uses a 20—year amortization period for “new” unfunded liability
 - CAAP guidance on Funding Policies: 15-20 years is model practice
- Shorter period
 - Higher contribution rates but lower total costs long-term
 - Current tax-payers pay more toward current unfunded liability
- Longer period
 - Lower contribution rates but higher total costs long-term
 - Future tax-payers pay more toward current unfunded liability

Role Played by the Amortization Period - continued

- Government Code §20229
 - CAAP representative must report if the CalPERS amortization period exceeds the average remaining service periods of employees covered by the contributions.
- Average remaining service period for state plans is between 11 and 12 years.
- Current amortization period exceeds the average remaining service period for all state plans.

Meeting Government Code 20229

- State Actuarial Valuation Report as of June 30, 2024
 - Released by CalPERS in November 2025
 - (<https://www.calpers.ca.gov/documents/2024-state-valuation-pdf/download>)
 - Pages 43-53 provide the information required as per GC 20229
- Report covers five different retirement plans:
 - State Miscellaneous (Tier 1 and Tier 2)
 - State Industrial
 - State Safety
 - State Peace Officers and Firefighters
 - California Highway patrol