CalPERS Investment Returns and Impacts to Employer Contributions

Finance Committee Presentation
October 2026

Today’s focus

- What changed in the latest valuations
- Normal cost and unfunded liability: two cost components
- Required FY 2027–28 contributions and projected payments
- Long-term risks and the City’s pension planning actions

Two components of pension cost

NORMAL COST

% of payroll

Cost of benefits earned by current employees

UAL PAYMENT

Fixed annual $

Amortization of previously accrued unfunded benefits

Total employer obligation = normal cost applied to pensionable payroll + UAL payment, less applicable employee cost sharing.

CalPERS Update

June 30, 2025 actuarial valuations | FY 2027–28 required contributions

COMBINED UNFUNDED LIABILITY

$166.58M

Down $14.01M from June 2024

FUNDED STATUS

~71%

Both Miscellaneous and Safety plans

Updated pension outlook and implications for the City budget

Funded position improved

2024 COMBINED UAL

$180.59M

2025 COMBINED UAL

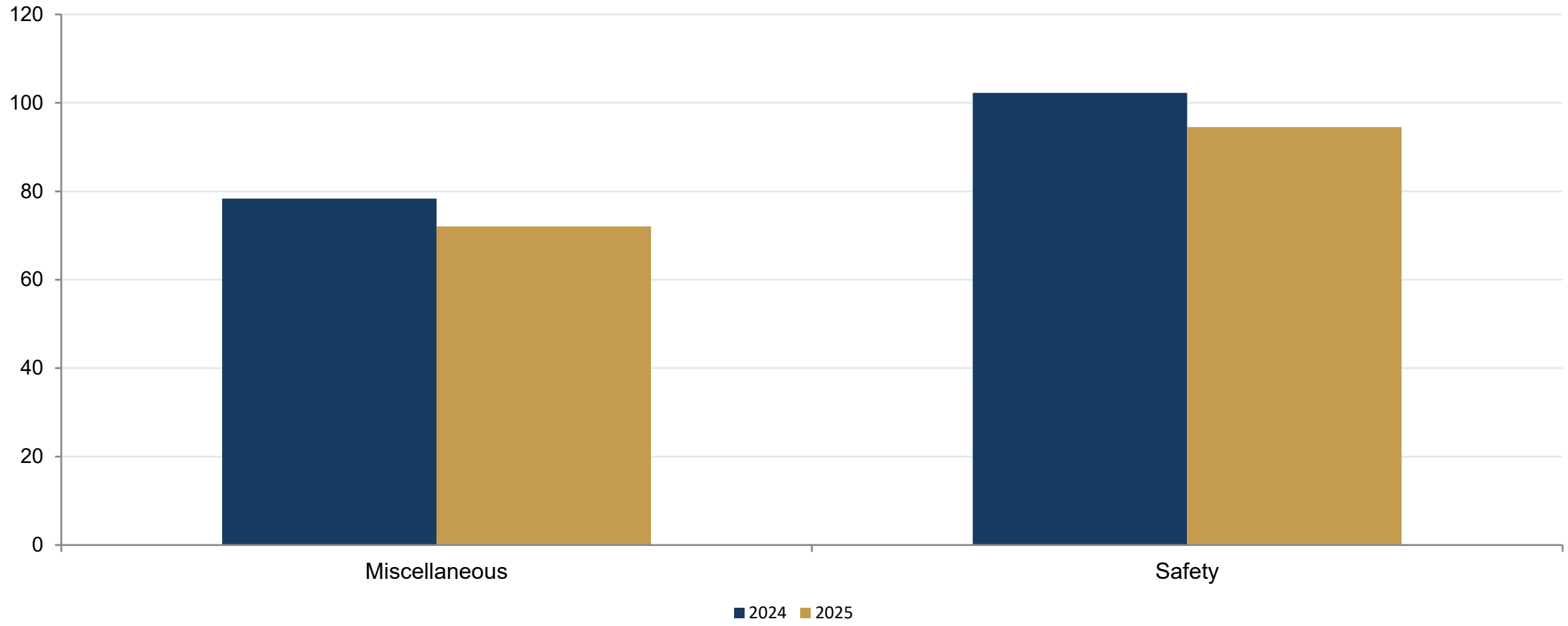
$166.58M

Decrease of $14.01M (7.8%)

Both plans improved to approximately 71% funded, although substantial liabilities remain.

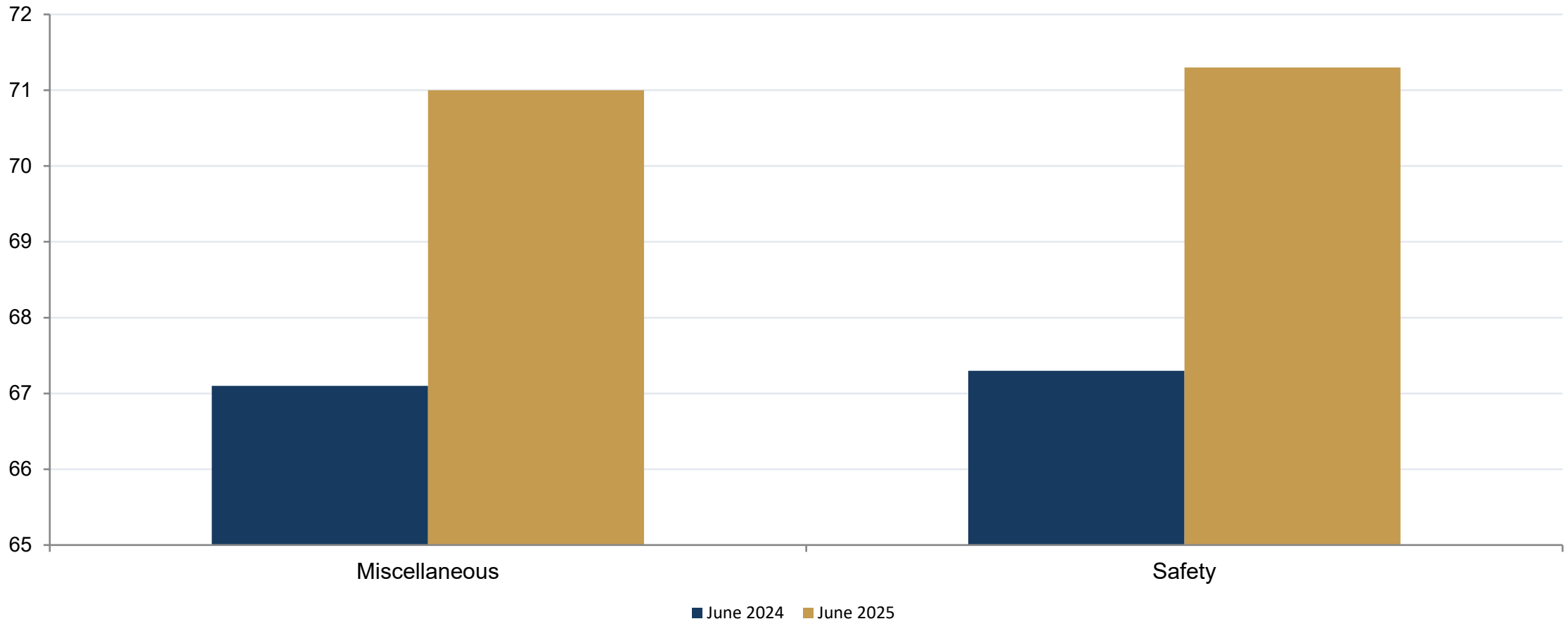
Unfunded liability by plan

Valuation dates June 30, 2024 and June 30, 2025 | $ millions



Funded ratio improved in both plans

Funding-policy basis; ratio of plan assets to accrued liabilities



Miscellaneous +3.9 percentage points | Safety +4.0 percentage points

FY 2027–28 required employer contributions

Before negotiated employee cost sharing

MISC. NORMAL COST

12.25%

SAFETY NORMAL COST

21.66%

COMBINED UAL PAYMENT

$17.49M

Miscellaneous UAL: $7,723,306

Safety UAL: $9,768,091

Annual UAL amount is separate from employer normal cost on payroll.

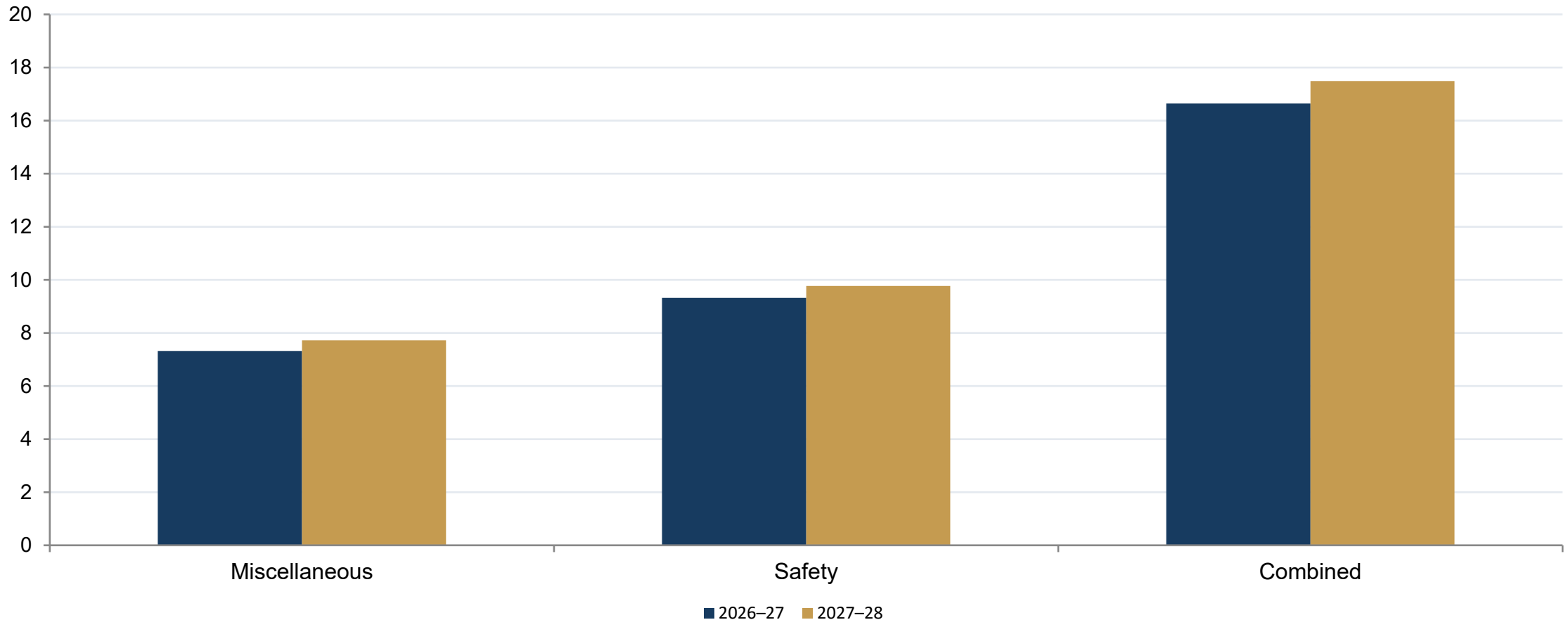
Employee pension contributions and cost sharing @ FY 2027-28

Total employee contribution includes the member base share plus negotiated employer cost sharing.

PLAN	BARGAINING GROUP	CLASSIC TOTAL	PEPRA TOTAL	COST SHARING
Misc.	CME	**14.00%**	**14.50%**	**6.00%**
Misc.	CPSA	**14.00%**	**14.50%**	**6.00%**
Misc.	CNF / DIR / L39 / SEIU	**11.00%**	**11.50%**	**3.00%**
Misc.	UPEC	**13.00%**	**13.50%**	**5.00%**
Safety	CFSM	**14.00%**	**20.50%**	**5.00%**
Safety	CPM / CPOA/DIR-S	**12.00%**	**18.50%**	**3.00%**
Safety	IAFF	**14.00%**	**17.50%**	**5.00%/2.00%**
Safety	UPEC	**14.00%**	**20.50%**	**5.00%**

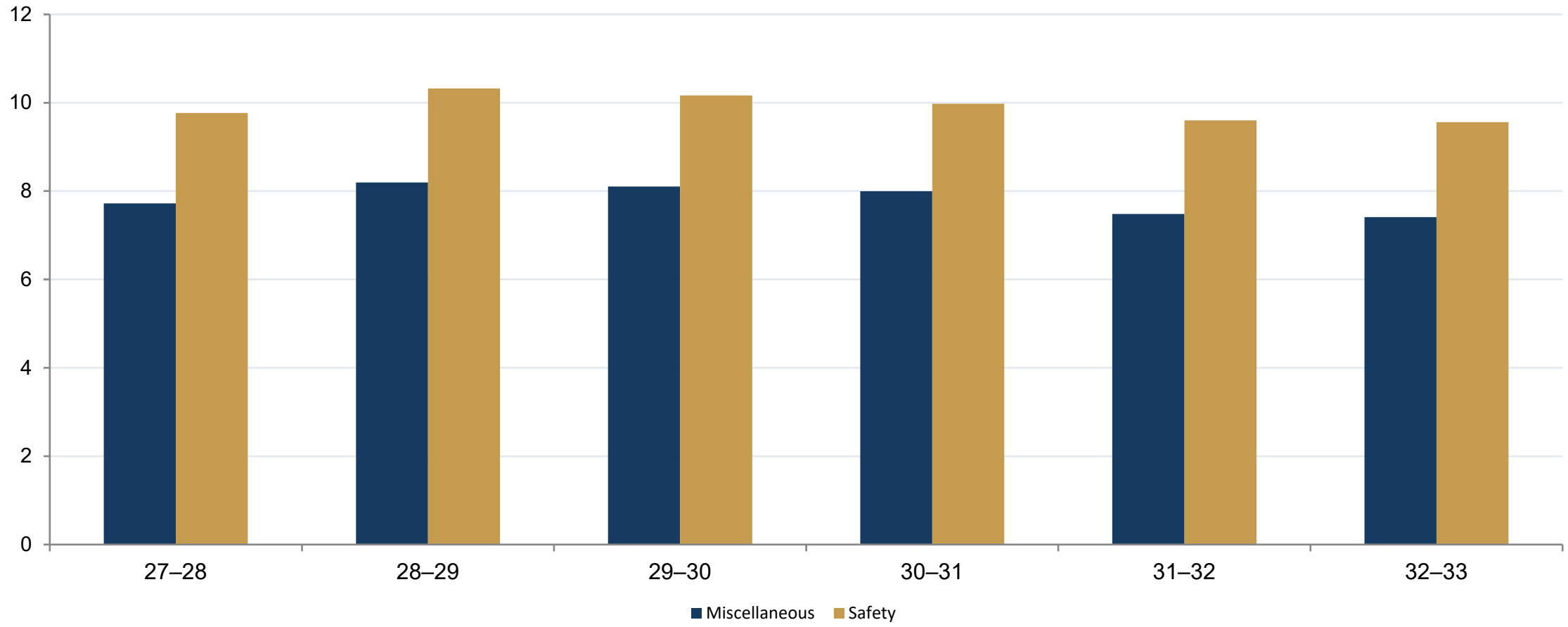
UAL payment: year-over-year increase

FY 2026–27 vs FY 2027–28 | $ millions



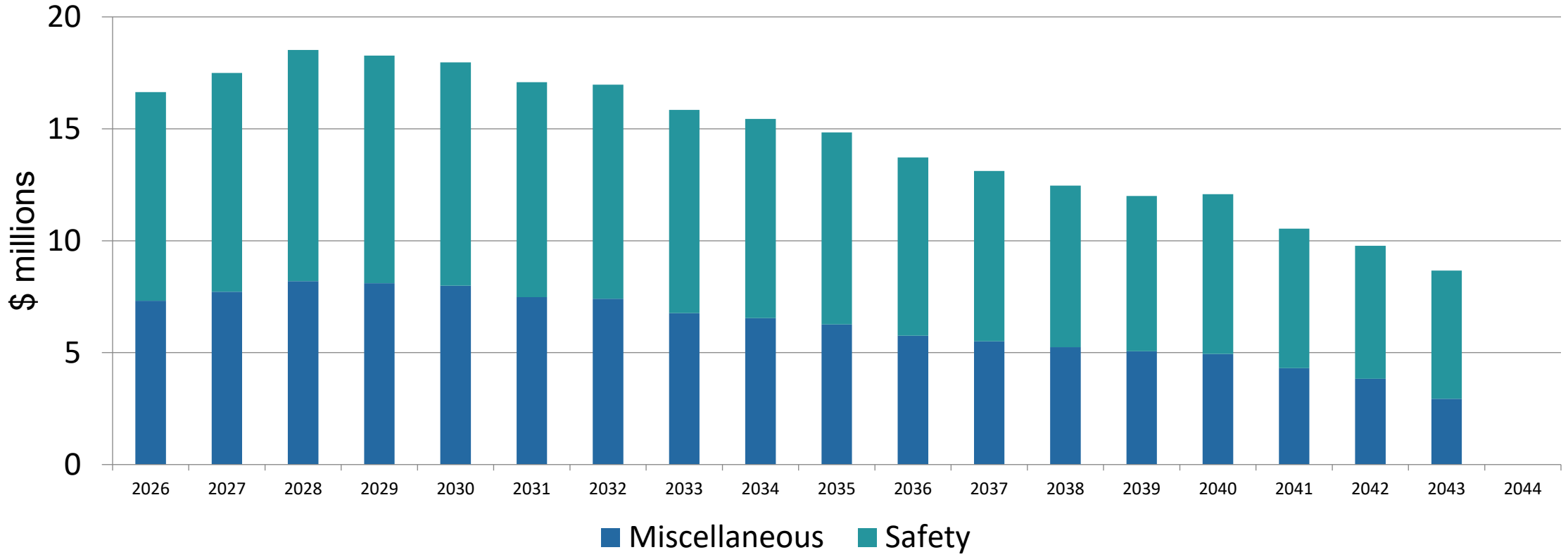
Projected UAL Payments: 2026–2033

Required FY 2027–28; subsequent years are projections | $ millions



Combined peak in this projection: $18.52M in FY 2028–29

Projected UAL Payments Through 2043



Projected peak: $18.52M in 2028 • $8.67M in 2043 • $0 scheduled in 2044

July prepayment option for FY 2027–28

REGULAR ANNUAL UAL

$17.49M

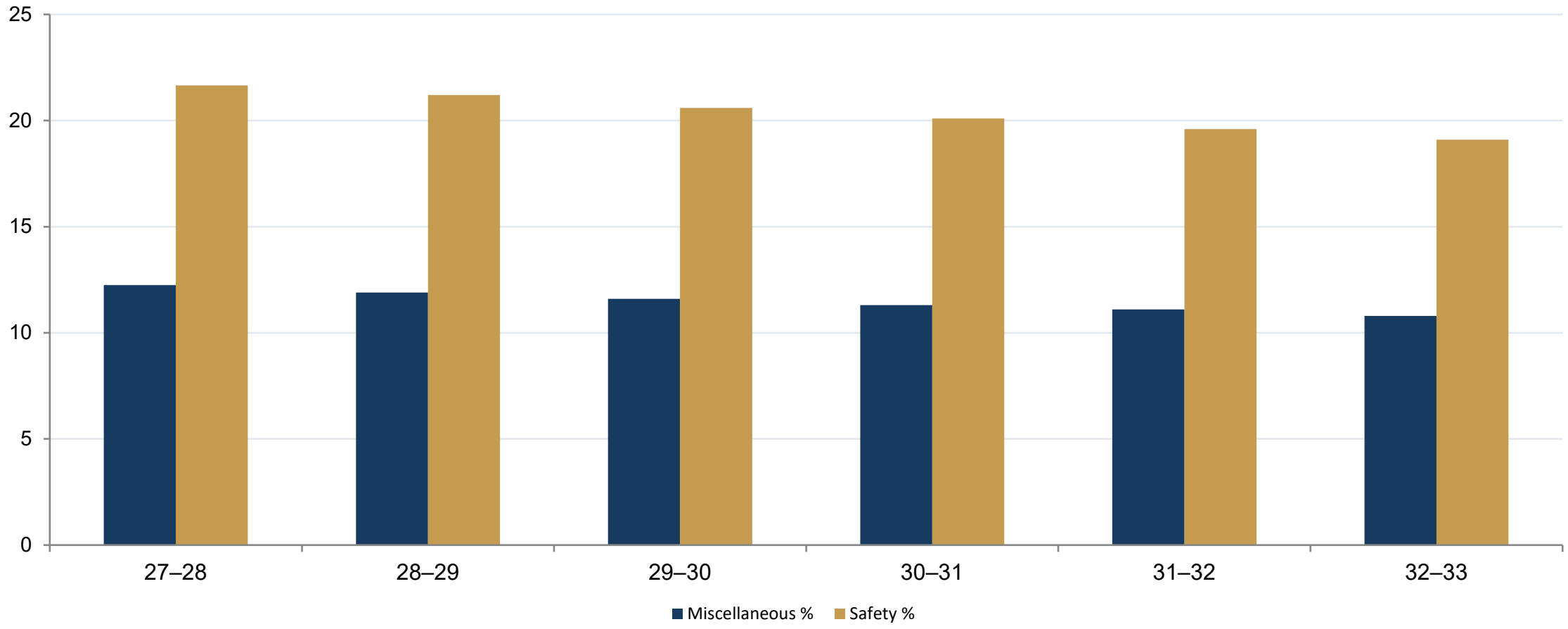
JULY PREPAYMENT

$16.93M

Potential reduction: approximately $566,000 compared with regular annual billed amount.

Employer normal cost trends

Expected decline as lower-cost PEPRA tiers represent more of payroll



PEPRA transition: change in active membership

June 30, 2024 vs. June 30, 2025 | City of Chico CalPERS valuations

MISCELLANEOUS

66.2% → 70.5%

4.3 percentage-point increase

SAFETY

58.5% → 62.4%

3.9 percentage-point increase

Miscellaneous PEPRA membership increased by 22; Safety remained at 103, while its Classic count declined by 11.

Source: CalPERS City of Chico Miscellaneous and Safety actuarial valuations, Status of PEPRA Transition, page 35 (2024 and 2025).

Investment results and assumptions

FY 2024–25 RETURN

11.6%

PERF investment return

DISCOUNT RATE

6.8%

Unchanged

PRICE INFLATION

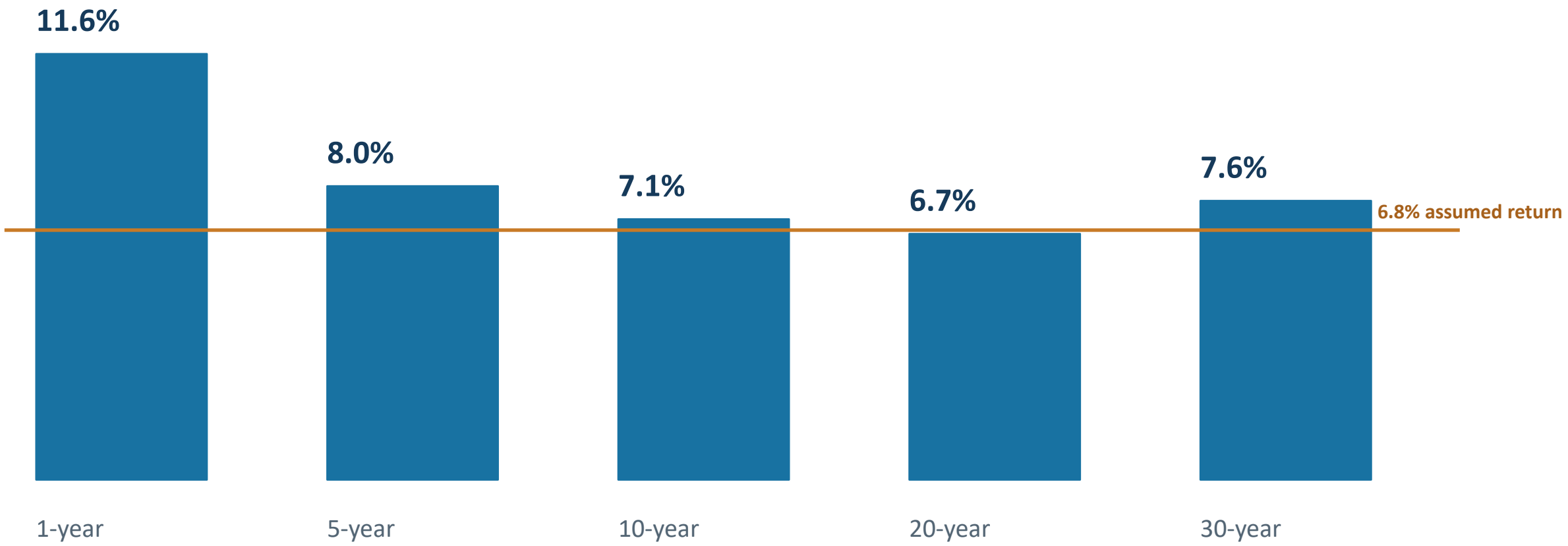
2.5%

Previously 2.3%

Updated demographic and wage assumptions also affect FY 2027–28 requirements.

CalPERS investment performance

Preliminary net investment returns through June 30, 2025



FY 2024–25 return exceeded the assumed rate by 4.8 percentage points.

How investment gains affect employer contributions

The 2024–25 investment gain is recognized through future UAL contributions

11.6%

Actual FY 2024–25 return

6.8%

Expected return

+4.8 pts

Investment gain above assumption

2024–25

Investment gain occurs

FY 2027–28

First impact on public agency UAL payments

Following years

Gain is amortized over time

A favorable investment year does not eliminate the UAL or reduce payments dollar for dollar.

Understanding the long-term pension outlook

How investment performance, contributions and amortization shape Chico's future

Investment performance

Returns above or below 6.8% create actuarial gains or losses.

Funded status

Assets and accrued liabilities determine the funded percentage.

UAL payments

Existing amortization bases are scheduled to decline and expire.

Chico's current UAL schedule projects payments through 2043, with $0 scheduled in 2044.

These are projections, not a guarantee; new gains, losses or assumption changes can create future UAL.

What could change the outlook?

- Investment returns above or below 6.8%
- Changes to mortality, retirement, inflation and payroll assumptions
- New unfunded gains or losses and amortization bases
- Future labor agreements, workforce mix and cost sharing

Actions already taken by Chico

- Employee pension contributions and negotiated cost sharing
- PEPRA lower-cost benefit tiers for newer employees
- Annual July prepayment of required UAL amounts
- Section 115 Pension Stabilization Trust and PERS UAL Fund
- Budget policy allocating 50% of General Fund surplus to pension trust

Pension Reserve and Stabilization Fund Balances

FY 2025–26 actual • Cash/fund balance at June 30, 2026

Fund 903 | CalPERS UAL Reserve

$10,624,537

FY 2024–25: $9,874,184

Year-over-year change: +$750,353

Funds annual unfunded liability payments

Fund 904 | Section 115 Trust

$10,906,400

FY 2024–25: $8,662,306

Year-over-year change: +$2,244,094

Resources for future pension contributions

Combined June 30, 2026 balance: $21,530,937

Combined increase from FY 2024–25: $2,994,447

Finance Committee takeaways

- Funding position improved: combined UAL down $14.01 million
- Both plans now approximately 71% funded
- FY 2027–28 UAL payments total $17.49 million before prepayment
- Projected FY 2028–29 UAL payments rise to $18.52 million
- Continued pension reserves and long-range budgeting remain important

Questions and Discussion