Section 1: Actuarial Valuation Summary

The rates calculated in this report may be adopted by the Board for the fiscal year that extends from July 1, 2026 through June 30, 2027.

Highlights of the valuation

Experience study

1. The results of this valuation reflect changes in the actuarial assumptions and methods as recommended by Segal and adopted by the Board for the June 30, 2025 valuation. These changes were documented in our July 1, 2021 through June 30, 2024 Actuarial Experience Study dated June 10, 2025 and are also outlined in *Section 4, Exhibit 1* starting on page 88 of this report. These assumption changes resulted in a decrease in the average employer rate of 1.67% of payroll[1] (which includes a decrease in normal cost rate of 0.18% of payroll and a decrease in the unfunded actuarial accrued liability (UAAL) rate of 1.49% of payroll associated with a decrease in the UAAL by $101.6 million) and a decrease in the average member rate by 0.07% of payroll.

   The decrease in the employer rate is mainly due to demographic assumption changes that reduce cost (such as higher termination rates and new mortality tables that predict shorter life expectancies for payees at advanced ages).

   There is a decrease in the average member rate for all General and Safety membership groups and tiers combined. However, there are slight increases in the General Tier 3 and Tier 4 member rates due to assumption changes of 0.02% and 0.08% of payroll, respectively, due to the increase in the merit and promotion salary increases assumption. For other General tier members, the impact due to the increase in the merit and promotion salary increases assumption is completely offset by other recommended demographic assumptions. For Safety Tier 4 and Tier 5 members, there are increases in the member rates due to assumption changes of 0.17% and 0.09% of payroll, respectively, due to the increase in the merit and promotion salary increases assumption. For Safety Tier 1 and Tier 2 members, the impact due to the increase in the merit and promotion salary increases assumption is completely offset by the change in allocation of normal cost to provide the COLA benefits for legacy members with 30 years of service from employees to the employer recommended in the experience study.

Funding measures

2. The funded ratio (the ratio of valuation value of assets to the actuarial accrued liability) increased from 85.9% to 88.7%. This ratio is one measure of funding status, and its history is a measure of funding progress. Using the market value of assets, the funded ratio increased from 85.8% to 92.3%. These measurements are not necessarily appropriate for assessing the sufficiency

[1] Before the application of the glide path strategy.

of plan assets to cover the estimated cost of settling the plan's benefit obligation or the need for, or the amount of, future contributions. A history of the plan's funded ratios is provided in *Section 2, Subsection G* on pages 42 and 43.

3. The UAAL (the difference between the actuarial accrued liability and the valuation value of assets) decreased from $1,089.8 million to $902.2 million. The decrease in UAAL is primarily due to contributions made during the year to pay down the UAAL, changes in actuarial assumptions, investment return on the valuation value (i.e., after asset smoothing) greater than the assumed rate of 6.50% used in the June 30, 2024 valuation, and actual contributions greater than expected offset somewhat by the individual salary increases greater than expected for active members. A reconciliation of the Association's UAAL from the prior year is provided in *Section 2, Subsection E* on page 31.

   A table of the current UAAL amortization balances and payments may be found in *Section 3, Exhibit H* starting on page 76. A graphical projection of the UAAL amortization balances and payments is provided in *Section 3, Exhibit I* starting on page 86.

4. The UAAL amortization layers established as of the June 30, 2010 valuation have been fully amortized as of June 30, 2025 which resulted in a decrease in the UAAL contribution rate of about 7.81% of payroll for the plan in total.[1] For illustration we have continued to show the 2010 layers in *Section 3, Exhibit H*, but with zero "Outstanding Balance" and "Years Remaining".

   Before the application of the glide path strategy under the new stabilization of employer contribution rates and surplus management policy component of the funding policy, the UAAL contributions are expected to continue to decline in the next few valuations as other layers are fully amortized, as shown in the graphical projection found in *Section 3, Exhibit I* on page 87.

Actuarial experience

5. The net actuarial experience loss of $18.2 million, or 0.23% of actuarial accrued liability (AAL), is due to a net loss from sources other than investment or contributions of $92.5 million, or 1.16% of the AAL, offset to some degree by an investment gain of $44.2 million, or 0.55% of AAL, and a net contribution gain of $30.2 million, or 0.38% of the AAL, prior to reflection of assumption changes, if applicable. The loss from sources other than investments was primarily due to individual salary increases greater than expected for active members.
6. The rate of return on the market value of assets was 11.66% for the year ending June 30, 2025. The return on the valuation value of assets was 7.17% for the same period after recognizing a portion of this year's investment gain and a portion of prior years' investment gains and losses. This resulted in an actuarial gain when measured against the assumed rate of return of 6.50% used in the June 30, 2024 valuation. This actuarial investment gain (after asset smoothing) decreased the average employer contribution rate by 0.61% of payroll.[1]

[1] Before the application of the glide path strategy.

Contributions

7. As discussed above, starting with the June 30, 2025 actuarial valuation, the Board updated the Plan's funding policy to apply a glide path strategy to each UAAL cost sharing group when there is a UAAL contribution rate decrease calculated compared to the prior year's actuarial valuation. The update to the funding policy also includes a surplus management provision under which the decrease in the UAAL contribution rate would be capped for the cost group if the cost group has a surplus (valuation value of assets in excess of AAL).

8. The average total employer rate calculated in this valuation has decreased from 43.60% to 41.45% of payroll. Prior to the application of the glide path strategy to stabilize employer contribution rates, the average UAAL contribution rate decreased from 30.17% to 20.20% of payroll.[1] This decrease is primarily due to effect of June 30, 2010 UAAL amortization layers becoming fully amortized, amortizing prior years' UAAL over a larger than expected projected total payroll, changes in actuarial assumptions, the 7.17% investment return on the valuation value (i.e., after asset smoothing) greater than the assumed rate of 6.50% used in the June 30, 2024 valuation and actual contributions greater than expected, offset somewhat by individual salary increases greater than expected for active members. After the application of the glide path strategy to stabilize employer contribution rates, the decrease in the UAAL contribution rate within each cost group is capped at 2% of payroll resulting in a decrease in the average UAAL contribution rate from 30.17% to 28.17% of payroll[2] (compared to 20.20% of payroll before the application of the glide path strategy). A complete reconciliation of the Association's aggregate employer rate is provided in *Section 2, Subsection F* on page 34.

9. The average member rate calculated in this valuation has decreased from 9.41% to 9.37% of payroll due to changes in actuarial assumptions and changes in active member demographics. A complete reconciliation of the Association's aggregate member rate is provided in *Section 2, Subsection F* on page 35.

   The detailed member rates by cost group are provided in *Section 4, Exhibit 3* on page 126.

10. The allocation of the administrative expenses between the employer and the member is calculated based on the components of the total average contribution rate before expenses and before the application of the glide path strategy. The determination of the allocation can be found in *Section 4, Exhibit 1* of this report starting on page 88.

11. For each membership group, the allocation of the glide path strategy contribution rate in the current valuation between the regular and the settlement benefits has been made based on the proportion of the total UAAL contribution rate, after the application of the glide path strategy, allocated between the regular and the settlement benefits in the prior valuation.

12. In preparing the breakdown of the total costs of the General Tier 1 plan into the cost to provide the "Regular" and the "Settlement" benefits, we have followed the FCERA practice of allocating the cost to provide a benefit under Section 31676.12

[1] There is a reduction in the UAAL contribution rate from 29.06% to 19.22% of payroll for General and from 35.82% to 25.18% of payroll for Safety.
[2] There is a reduction in the UAAL contribution rate from 29.06% to 27.06% of payroll for General and from 35.82% to 33.82% of payroll for Safety.

as the cost for the "Regular" benefit and allocating the difference between this "Regular" benefit cost and the cost to provide a benefit under Section 31676.14 plus Section 31627 as the "Settlement" benefit. In particular, this means that the difference between benefits under Sections 31676.12 and 31676.14 is considered "Settlement" and so under the Settlement Agreement could be funded out of future undistributed excess earnings. Based on discussions with Counsel, the Agreement might not be clear as to what should be considered the "Settlement" benefit. We will require guidance from the Board if and when the Board and Counsel consider the use of any future undistributed excess earnings to pay the cost of the "Settlement" benefit.

13. Segal strongly recommends an actuarial funding method that targets 100% funding of the AAL. Generally, this implies payments that are ultimately at least enough to cover normal cost, interest on the UAAL and the principal balance. The funding policy adopted by the Board meets this standard.

Future expectations

14. As part of the completion of the June 30, 2024 valuation, we recommended and the Board approved an adjustment to the asset smoothing method that combines the deferred gains and losses from the June 30, 2024 valuation into a single net deferred loss of $9.2 million. The net deferred loss is then recognized over the next four and a half years from that date in nine level amounts of approximately $1.0 million for each six-month period. This reduces the volatility associated with the pattern of the deferred loss recognition and results in both more stable funded ratios (on a valuation value basis) and more level employer contribution rates.

15. The total unrecognized net investment **gain** as of June 30, 2025 is $288.0 million as compared to an unrecognized net investment **loss** of $9.2 million in the previous valuation. This net deferred gain of $288.0 million will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years as shown in *Section 2, Subsection B* on page 23.

    The net deferred gain of $288.0 million represents about 3.9% of the market value of assets. Unless offset by future investment losses or other unfavorable experience, the recognition of the $288.0 million net market gain is expected to have an impact on the Association's future funded ratio and contribution rate requirements. This potential impact may be illustrated as follows:

    a. If the net deferred gain was recognized immediately in the valuation value of assets, the funded percentage would increase from 88.7% to 92.3%.

       For comparison purposes, if the net deferred loss in the June 30, 2024 valuation had been recognized immediately in the June 30, 2024 valuation, the funded percentage would have decreased from 85.9% to 85.8%.

    b. If the net deferred gain was recognized immediately in the valuation value of assets, the average employer contribution rate would remain unchanged at 41.45% of payroll, after the application of the first year of the glide path strategy to stabilize employer contributions.

For comparison purposes, if the net deferred loss in the June 30, 2024 valuation had been recognized immediately in the June 30, 2024 valuation, the average employer contribution rate would have increased from 44.02% to 44.16% of payroll.

Risk

16. It is important to note that this actuarial valuation is based on plan assets as of June 30, 2025. The Plan's funded status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the plan year. Segal is available to prepare projections of potential outcomes of market conditions and other demographic experience upon request.
17. Because the actuarial valuation results are dependent on a given set of assumptions, there is a risk that emerging results may differ significantly as actual experience proves to be different from the assumptions. While we have not been engaged to perform a detailed analysis of the potential range of the impact of risk to the Association's future financial condition, we have included a brief discussion of some risks that may affect the Association in *Section 2, Subsection I*, starting on page 45. This discussion of risks is included to satisfy the disclosures required by the Actuarial Standard of Practice No. 51 (ASOP 51).
18. The risk assessment in *Section 2, Subsection I* includes the disclosure of a "Low-Default-Risk Obligation Measure" (LDROM). This disclosure, along with commentary on the significance of the LDROM, is a requirement under Actuarial Standard of Practice No. 4 (ASOP 4) for all pension funding actuarial valuation reports and can be found starting on page 48.
19. For a plan such as that offered by the Retirement Association that may utilize excess earnings to provide contribution rate offsets and additional settlement and non-statutory benefits, we are required to indicate in the valuation report that the possible impact of any such application of future excess earnings on the future financial condition of the Association has not been explicitly measured in the valuation. However, the balance of $1.95 billion (negative) in the Contra Tracking Account has to be fully restored before any excess earnings can be utilized in the future to provide any of the above offsets and benefits under the Board's interest crediting policy. The Contra Tracking Account tracks any cumulative shortfalls in investment earnings relative to earnings required to credit full interest at the assumed rate to valuation reserves.

Summary of key valuation results

Average Employer Contribution as of June 30

($ in '000s)

Tier	2025 Contribution Rate	2025 Annual Amount[1]	2024 Contribution Rate	2024 Annual Amount[1]
General				
• General Tier 1	47.07%	$67,180	49.65%	$70,862
• General Tier 2	44.58%	3,329	47.06%	3,514
• General Tier 3	44.88%	13,708	47.37%	14,469
• General Tier 4	36.52%	6,355	39.14%	6,811
• General Tier 5	34.96%	113,678	37.02%	120,376
Safety				
• Safety Tier 1	64.87%	21,372	65.97%	21,734
• Safety Tier 2	63.71%	2,924	65.77%	3,019
• Safety Tier 4	51.86%	3,512	53.83%	3,646
• Safety Tier 5	46.92%	27,456	48.82%	28,568
All Categories Combined	**41.45%**	**$259,514**	**43.60%**	**$272,999**

[1] Amounts are based on June 30, 2025 projected annual compensation shown on the page 39.

Average Member Contribution as of June 30

($ in '000s)

Tier	2025 Contribution Rate	2025 Annual Amount[1]	2024 Contribution Rate	2024 Annual Amount[1]
General				
• General Tier 1	10.57%	$15,086	10.56%	$15,072
• General Tier 2	7.29%	544	7.31%	546
• General Tier 3	8.66%	2,645	8.60%	2,627
• General Tier 4	7.95%	1,384	7.84%	1,364
• General Tier 5	7.90%	25,688	7.96%	25,883
Safety				
• Safety Tier 1	13.23%	4,359	13.75%	4,530
• Safety Tier 2	12.16%	558	12.26%	563
• Safety Tier 4	11.33%	767	11.12%	753
• Safety Tier 5	13.10%	7,666	13.00%	7,607
All Categories Combined	**9.37%**	**$58,697**	**9.41%**	**$58,945**

[1] Amounts are based on June 30, 2025 projected annual compensation shown on the page 39.

Valuation Results as of June 30

($ in '000s)

Line Description	2025	2024
Actuarial accrued liability		
• Total actuarial accrued liability	$7,994,715	$7,749,850
– Retired members and beneficiaries	5,064,440	4,929,963
– Inactive members[1]	408,389	416,101
– Active members	2,521,886	2,403,786
• Normal cost for plan year beginning June 30[2]	141,831	135,498
Assets		
• Market value of assets (MVA)[3]	$7,380,434	$6,650,853
• Actuarial value of assets (AVA)[3]	7,092,473	6,660,013
• AVA as a percentage of MVA	96.10%	100.14%
• Valuation value of assets (VVA)[3]	$7,092,473	$6,660,013
Funded status		
• Unfunded actuarial accrued liability on MVA basis	$614,281	$1,098,997
• Funded percentage on MVA basis	92.32%	85.82%
• Unfunded actuarial accrued liability on VVA basis	$902,242	$1,089,837
• Funded percentage on VVA basis	88.71%	85.94%
Key assumptions		
• Net investment return	6.50%	6.50%
• Inflation rate	2.50%	2.50%
• Payroll growth	3.00%	3.00%
• Cost-of-living adjustments		
– Tiers with 3.00% COLA	2.75%	2.75%
– Tiers without COLA	0.00%	0.00%

1 Includes inactive members with member contributions on deposit with less than five years of service.
2 Includes administrative expense load.
3 Excludes the balances in the following non-valuation reserves: (1) Supplemental COLA and (2) Retiree Health Benefit (BOR).

Demographic Data as of June 30

Demographic Data by Status	2025	2024	Change
Active members			
• Number of members	7,941	7,910	0.4%
• Average age	41.8	41.7	0.1
• Average service	10.0	9.8	0.2
• Total projected compensation	$626,128,725	$581,141,061	7.7%
• Average projected compensation	$78,848	$73,469	7.3%
Retired members and beneficiaries			
• Number of members	8,638	8,490	1.7%
– Service retired	6,898	6,807	1.3%
– Disability retired	432	420	2.9%
– Beneficiaries	1,308	1,263	3.6%
• Average age	71.3	71.0	0.3
• Average monthly benefit[1]	$3,705	$3,579	3.5%
Inactive members			
• Number of members[2]	5,526	5,404	2.3%
• Average age	44.2	43.9	0.3
Total members	**22,105**	**21,804**	**1.4%**

1 Benefits include regular and settlement benefits but exclude non-vested supplemental benefits, if any.
2 Includes inactive members with member contributions on deposit with less than five years of service.