Board Agenda Item 23

DATE: March 17, 2026

TO: Board of Supervisors

SUBMITTED BY: Donald C. Kendig, CPA, Retirement Administrator

SUBJECT: June 30, 2025 Annual Actuarial Report and FY 2026-27 Retirement Contribution Rates

RECOMMENDED ACTION(S):

1. **Receive and file the Fresno County Employees' Retirement Association (FCERA) Actuarial Valuation and Review report (the Actuarial Valuation and Review report) as of June 30, 2025 completed by The Segal Group, Inc. (Segal), FCERA's actuary; and**

2. **Approve and adopt the Board of Retirement's recommended employer and member contribution rates, for FY 2025-26 as provided for in the FCERA member contribution rates in Section 4, Exhibit 3 entitled "Member Contribution Rates," the employer contribution rates in Section 2, Subsection F entitled "Recommended Employer Contribution Rate," and the Administrative Expense Load percentage of Payroll rates in Section 4, Exhibit 1 of the Actuarial Valuation and Review report as of June 30, 2025, in accordance with Government Code sections 31453 and 31454.**

Generally, under Government Code section 31453, upon the basis of the investigation, valuation, and recommendation of FCERA's actuary, the Board of Retirement, at least 45 days prior to the beginning of a fiscal year (here, FY 2026-27), recommends to your Board the changes in the rates of interest, in the rates of contributions of FCERA members, and in County and district appropriations (*i.e.*, employer contributions) as are necessary. Accordingly, Government Code section 31454 generally requires your Board, no later than 90 days following the commencement of the fiscal year (here, FY 2026-27), to adjust the rates of interest, the rates of contributions of FCERA members, and employer contributions in accordance with the recommendations of the Board of Retirement.

FCERA's delivery, on behalf of the Board of Retirement, of the accompanying Actuarial Valuation and Review report by Segal to your Board, along with this item, enables your Board to timely adopt and implement these necessary employer and FCERA member contribution rates for FY 2026-27, and would satisfy your Board's statutory requirement for that fiscal year.

The recommended employer contribution rates and FCERA member contribution rates, Valuation Highlights and Summary of Key Valuation Results, bar graphs of the projection of the unfunded actuarial accrued lability (UAAL) balances and payments, and the recommended rate of interest set forth in the Actuarial Valuation and Review report, are attached to this item. Under the Actuarial Valuation and Review report, Segal's assumed rate of return on FCERA's assets is 6.50%.

ALTERNATIVE ACTION(S):

Your Board may defer implementation of the recommended rates up to 90 days after the end of current FY

2025-26; however, that would delay the timing of the assumed funding of FCERA, as recommended by Segal in the Actuarial Valuation and Review report, and result in an adjustment by way of a subsequent Actuarial Valuation and Review report. This would likely increase employer and FCERA member contribution rates because the deferred contributions would be provided as a percentage of annual assumed payroll in a shorter period than presently assumed by Segal over the entire fiscal year (*i.e.*, the recommended rates are assumed to be effective and implemented starting July 1, 2026). The Board of Supervisors also has the option of timely pre-funding contributions based on the new rates, which would lower future rates on a relative basis.

FISCAL IMPACT:

The following are based on a review of the Actuarial Valuation and Review report, and as applicable, are rounded to the nearest thousand, shown as changes from FY 2025-26 to FY 2026-27, or, where stated as a percentage of payroll, are based on a projected covered payroll of approximately $626.1 million (Pg. 39) as of FYE June 30, 2025:

Pg. 35 - *The average FCERA member contribution rate will decrease 0.04%, from 9.41% to 9.37% of payroll*, primarily attributed to changes in actuarial assumptions, offset by a change in explicit administrative expense load (these expenses increased).

Pg. 9 or 34 - *The overall average employer contribution rate will decrease by 2.15%, from 43.60% to 41.45%*, attributable to several factors, the greatest of which was a 7.81%% decrease attributable to the 2010 UAAL amortization layers being fully amortized, and then by a 1.67% decrease due to changes in actuarial assumptions in FCERA's latest actuarial experience study and a decrease of 0.61% due to investment returns greater than expected, offset by a 7.97% increase from FCERA's addition of an employer contribution rate stabilization provision in its funding policy as described on page 104.

Pg. 12 or 38 - The decrease in the total employer contributions in FY 2026-27 are estimated at $13.5 million, from an estimated $273.0 million to $259.5 million, based on total estimated payroll of $626.1 million.

Pg. 88 or 89 - *The administrative expense load will remain the same* as current fiscal year at 1.30% of payroll.

Pg. 26 or 28 - FCERA's investment portfolio gained 11.66% in Market Value during the fiscal year 2024-25. The return was 5.16% higher than the assumed rate of return of 6.5% on the Market Value of Assets. Investment gains and losses are smoothed over a rolling five-year period. The most recent five-year and ten-year average returns, on a Market Value basis, were 9.14% and 6.82%, respectively.

Pgs. 26 or 28, and 34 - The return on the Valuation Value of Assets was 7.17% for the fiscal year 2024-25 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%. This actuarial investment gain (after asset smoothing)
decreased the average employer contribution rate by 0.61% of payroll. The most recent five-year and 10-year average returns, on a Valuation Value basis, was 7.02% and 6.22%, respectively.

Pg. 23 - The total unrecognized deferred return (net investment gain) as of June 30, 2025 for the five-year period of FYE June 30, 2025 through FYE June 30, 2029 is approximately $288.0 million as compared to an unrecognized net investment loss of approximately $9.2 million in the previous valuation for the five-year period of FYE June 30, 2024 through FYE June 30, 2028. This deferred investment gain of about $288.0 million will be recognized in the determination of the Actuarial Value of Assets for funding purposes in the next five years as shown in Section 2, Subsection B of the Actuarial Valuation and Review report. Deferred gains as of June 30, 2025 recognized in each of the next five years (*i.e.*, "smoothing") is expected as follows:

(a) Amount recognized on June 30, 2026	$64,622,867
(b) Amount recognized on June 30, 2027	64,622,867
(c) Amount recognized on June 30, 2028	64,622,867
(d) Amount recognized on June 30, 2029	65,640,637
(e) Amount recognized on June 30, 2030	28,452,499
Total	$287,961,737

Unless offset by future investment losses or other unfavorable experience, the recognition of the $288.0 million market gains is expected to have a positive impact on FCERA's future valuation value of assets based funded ratio, catching up with the market value of assets based ratio.

Segal's Actuarial Valuation and Review report sets the rates recommended for FY 2026-27, by member types (general and safety) and retirement tier as provided in the member contribution rates in Section 4, Exhibit 3, entitled "Member Contribution Rates" (pages 126-142), the employer contribution rates in Section 2, Subsection F entitled "Recommended Employer Contribution Rate" (pages 36-39), and the Administrative Expense load as a percentage of payroll in Section 4, Exhibit 1 (page 88-89).

DISCUSSION:

In accordance with Government Code Section 31453 and 31454, the Board of Retirement for FCERA reviews and approves the retirement contribution rates as set forth in the Fresno County Employees' Retirement Association Actuarial Valuation and Review report (the Actuarial Valuation and Review report), and then, at least 45 days prior to the beginning of the next fiscal year (here, FY 2026-27), recommends those rates to the Fresno County Board of Supervisors for its adoption and implementation. The Board of Supervisors then implements those adopted rates no later than 90 days after the beginning of the succeeding fiscal year (here, FY 2026-27). However, as stated above, the recommended rates in the Actuarial Valuation and Review report are assumed to be effective and implemented starting July 1, 2026.

Under the Actuarial Valuation and Review report, Segal's assumed rate of return on FCERA's assets is 6.50%.

In summary, the Board of Retirement reviews, approves, and recommends the retirement rates for the adoption and implementation by the Board of Supervisors.

Pursuant to the Actuarial Valuation and Review report, the Board of Retirement adopted the average employer contribution rate and member contribution rates for all retirement tiers as presented by Segal in the Actuarial Valuation and Review report at the Board of Retirement's regular meeting held on December 3, 2025.

Further, starting with the June 30, 2025 actuarial valuation, the Board of Retirement updated FCERA's funding policy to incorporate contribution stabilization provisions that would modify the UAAL contribution rates as follows for various circumstances:

a) maintain the prior year's calculated UAAL contribution rate if the new calculated contribution rate would decrease by less than 2% of payroll;
b) limit the decrease in the UAAL contribution rate to half of the actual decrease in the calculated UAAL contribution rate if the decrease from prior year would be between 2% and 4%; or
c) cap the decrease in the UAAL contribution rate to 2% of payroll if the decrease in the calculated UAAL contribution rate would be more than 4%.

For June 30, 2025, the decrease in the calculated rate was greater than 4% and the rates could have decreased another 7.97% without the cap. Banking the 7.97% will get FCERA to 100% more smoothly with anticipated reductions of UAAL contributions rates of approximately 2% annually until the UAAL has been fully funded. The provisions also cushion against any potential rate increases in the future making anticipated reductions much more certain.

In addition to the fiscal impact information, above, key findings of the Actuarial Valuation and Review report are as follows (dollar amounts are stated in approximate thousands).

Pg. 14 or 28 - The Board of Retirement's recommended rates of interest (*i.e.*, FCERA's assumed net investment rate of return) is 6.50% for FY 2024-25.

Pg. 15 or 18 - FCERA's membership totals 22,105 and is comprised of: 8,638 retired members, disabled members, and beneficiaries receiving benefits; 5,526 terminated members entitled to, but not yet receiving benefits (also known as inactive vested members) or entitled to a return of their member contributions (also known as inactive nonvested members) (collectively, "Inactive Members"), and 7,941 active members.

Pg. 18 - For each active member, there are 1.78 non-active members (*i.e.*, inactive vested and nonvested members, and retired members and beneficiaries).

Pg. 74 - The Contra Tracking Account increased $94.2 million, from $1,858.9 million at June 30, 2024, to $1,953.1 million at June 30, 2025.

Pg. 14 - On a Valuation Value of Assets basis (smoothed), the UAAL decreased $187.6 million, from $1,089.8 million at June 30, 2024 to $902.2 million at June 30, 2025. On a Market Value of Assets basis, the UAAL decreased $484.6 million from $1,098.9 million at June 30, 2024 to $614.3 million at June 30, 2025.

Pg. 14 - The funded ratio, on a Valuation Value of Asset basis, increased from 85.94% at June 30, 2024 to 88.71% at June 30, 2025, while *on a Market Value of Asset basis, the funded ratio increased from 85.82% at June 30, 2024 to 92.32% at June 30, 2025*.

Pg. 88 - The Administrative Expense load remained the same as the current fiscal year at 1.30% of payroll. The allocation of the expense between Employer Basic Normal Cost, Employer Basic UAAL, and the Member Basic rates are adjusted annually, and are shown below with historical rates.

Expense Load Category	6/30/25	6/30/24	6/30/23	6/30/22
Employer Basic Normal Cost Rate	0.28%	0.23%	0.21%	0.22%
Employer Basic UAAL Rate	0.74%	0.84%	0.88%	0.86%
Member Basic Rate	0.28%	0.23%	0.21%	0.22%
Total	1.30%	1.30%	1.30%	1.30%

Pg. 9 - The decrease in the average employer contribution rate (from 43.60% of payroll at June 30, 2024 to 41.45% of payroll at June 30, 2025) is primarily due to the effect of a decrease in the UAAL rate from a greater than expected increase in total payroll and 2010 UAAL amortization layers being fully amortized and then by a 1.67% decrease due to changes in actuarial assumptions (see page 30) in FCERA's latest actuarial experience study and a decrease of 0.61% due to investment returns greater than expected (see page 34), offset by a 7.97% increase from FCERA's addition of an employer contribution rate stabilization provision in its funding policy as described on page 104*. A complete reconciliation of FCERA's average employer contribution rate is provided in Section 2, Subsection F, on page 34.

Continued in the Actuarial Valuation and Review report is a Risk Assessment beginning on page 45, in Section 2, Subsection I, required by Actuarial Standards of Practice No. 51 ("ASOP 51"). The Risk Assessment is a concise discussion of some of the primary risks that may affect the plan's future financial condition. As a mature pension plan, determined by the ratio of members in pay status to active participants, the cash needed to fulfill benefit obligations will increase over time. Therefore, the plan's asset allocation needs to evolve to meet emerging pension liabilities.

Retirement plans are subject to volatility in the level of required contributions. A further discussion of plan maturity measures and how they relate to changes in assets and liabilities is included in Section 2,

Subsection J, Volatility Ratios starting on page 49.

- The Asset Volatility Ratio (AVR) equals the Market Value of Assets divided by total payroll and is currently about 11.8, which means that a 1% asset gain or loss (relative to the assumed investment return of 6.5%) translates to about 11.8% of one year's payroll. Since these gains and losses are amortized over 15 years, there would be an approximate 1.0% of payroll decrease/(increase) in the required contribution for each 1% asset gain/(loss).

- The Liability Volatility Ratio (LVR) equals the Actuarial Accrued Liability divided by payroll, and provides an indication of the longer-term potential for contribution volatility for any given level of investment volatility. The current total plan LVR is about 12.8, but is 11.9 for General members compared to 17.0 for Safety members.

Please refer to page 50 of the Actuarial Valuation and Review report for a chart of the AVR and LVR from fiscal years ended 2016 through 2025).

REFERENCE MATERIAL:

BAI #25, February 25, 2025 - Actuarial Valuation and Review Report
BAI #5, February 20, 2024 - Actuarial Valuation and Review Report

ATTACHMENTS INCLUDED AND/OR ON FILE:

Excerpts of June 30, 2025 Actuarial Valuation and Review report:
Highlights of the Valuation and Summary of Key Valuation Results: Section 1, entitled, "Actuarial Valuation Summary" (pages 7-15)
Employer Contribution Rates: Section 2, Subsection F, entitled, "Recommended Employer Contribution Rate" (pages 36-39)
Member Contribution Rates: Section 4, Exhibit 3, entitled, "Member Contribution Rates" (pages 126-142)

On file with Clerk - June 30, 2025 Actuarial Valuation and Review report

CAO ANALYST:

Paige Benavides