

Minimum Interest Rate - Defined Benefit Supplement Program

SUBJECT

Adoption of the Minimum Interest Rate for the Defined Benefit Supplement Program for the 2024-25 fiscal year.

SUMMARY

The “Minimum Interest Rate”, as defined by Section 22146.7 of the Education Code, with respect to the Defined Benefit Supplement Program “... means the annual interest rate determined by the board by plan amendment at which interest shall be credited to the Defined Benefit Supplement accounts for a plan year.” In addition, Section 25005(b) states that “The minimum interest rate...shall not be less than the rate at which interest is credited under the Defined Benefit Program.”

According to board policy, the Minimum Interest Rate for the Defined Benefit Supplement Program is based on the average rate for 30-year U.S. Treasury bonds during the 12-month period ending in the February immediately preceding the plan year, rounded to the next highest basis point. The rate cannot be less than the credited interest rate to the Defined Benefit Program.

The average interest rate paid on 30-year U.S. Treasury bonds during the period March 1, 2023 through February 29, 2024 was 4.185%. It results in a rate of 4.19% when rounded up to the next highest basis point. Note that this rate is less than the recommended credited interest rate for the Defined Benefit Program of 4.61%. As per existing statute, the Minimum Interest Rate for the Defined Benefit Supplement Program will be set at 4.61% for the 2024-25 fiscal year.

Note that the new Minimum Interest Rate will be higher than the rate of 3.49% adopted for the 2023-24 fiscal year. The recommend 4.61% interest rate represents the Minimum Interest Rate that will be credited to a member’s Defined Benefit Supplement account in fiscal year 2024-25. If the actual investment return is higher, the board may declare an additional earnings credit to increase the interest earnings provided to a member.

RECOMMENDATION

Staff recommends the board adopt the Minimum Interest Rate of 4.61% for the 2024-25 fiscal year for member account balances in the Defined Benefit Supplement Program.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of the Minimum Interest Rate for the Defined Benefit Supplement Program for the 2024-25 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, Section 22146.7 of the Education Code specifies that the “Minimum Interest Rate” means the annual interest rate determined by the board by plan amendment at which interest shall be credited to Defined Benefit Supplement accounts for a plan year; and

WHEREAS, Section 25005(b) of the Education Code states that the Minimum Interest Rate shall not be less than the rate at which interest is credited under the Defined Benefit Program; and

WHEREAS, the Teachers' Retirement Board adopted a policy to base the Minimum Interest Rate on the greater of the average interest rate on 30-year U.S. Treasury bonds during the 12-month period ending in the February immediately preceding the plan year and the credited interest rate for the Defined Benefit Program; and

WHEREAS, the average rate for 30-year U.S. Treasury bonds during the 12-month period ending February 28, 2024 was 4.185%, resulting in a rate of 4.19% when rounded up to the next highest basis point; and

WHEREAS, the recommended credited interest rate for the Defined Benefit Program in 2024-25 is 4.61%, higher than the 4.185% average rate for 30-year U.S. Treasury bonds; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the Minimum Interest Rate of 4.61% for the Defined Benefit Supplement Program for the 2024-25 fiscal year.

Adopted by:
Teachers' Retirement Board
On May 2, 2024

Cassandra Lichnock
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel