



Regular Meeting

Item Number 23e – Open Session

Subject: Adoption of Contribution Rates and Interest Rates for Fiscal Year 2024-25

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: May 2, 2024 – 0 minutes

Attachment(s):

Attachment 1 – Regular Interest Rate – Defined Benefit Program

Attachment 2 – Credited Interest Rate – Defined Benefit Program

Attachment 3 – Minimum Interest Rate – Cash Balance Benefit Program

Attachment 4 – Minimum Interest Rate – Defined Benefit Supplement Program

Attachment 5 – Employer Contribution Rate for Elected Officials of Employee Organizations

Attachment 6 – Employer Contribution Rate for the Reduced Workload Program

Attachment 7 – Permissive Service Contribution Rates – Defined Benefit Program

Attachment 8 – Present Value Factor for Unused Excess Sick Leave

PowerPoint(s): None

Item Purpose

The purpose of this item is to adopt the following interest and contribution rates for fiscal year 2024-25:

1. Regular Interest Rate – Defined Benefit Program
2. Credited Interest Rate – Defined Benefit Program
3. Minimum Interest Rate – Cash Balance Benefit Program
4. Minimum Interest Rate – Defined Benefit Supplement Program
5. Employer Contribution Rate for Elected Officials of Employee Organizations
6. Employer Contribution Rate for the Reduced Workload Program
7. Permissive Service Contribution Rates – Defined Benefit Program
8. Present Value Factor for Unused Excess Sick Leave Recommendation

Staff recommends the board adopt the following interest rates and contribution rates:

RECOMMENDED RATES	Recommended Rate (effective 7/1/24)	Current Rate
Regular Interest Rate – Defined Benefit Program	7.00%	7.00%
Credited Interest Rate – Defined Benefit Program	4.61%	3.49%
Minimum Interest Rate – Cash Balance Benefit Program	4.19%	3.35%
Minimum Interest Rate – Defined Benefit Supplement Program	4.61%	3.49%
Employer Contribution Rate for Elected Officials of Employee Organizations	19.10%	19.10%
Employer Contribution Rate for the Reduced Workload Program	19.10%	19.10%

Staff also recommends the board adopt the Permissive Service Contribution Rates shown in Attachment 7 and the Present Value Factor used for the billing of employers for unused excess sick leave shown in Attachment 8.

Specific information on each recommendation is attached to this item.

Executive Summary

Each year the Teachers' Retirement Board is required to adopt interest rates and contribution rates to be used for the administration of the various CalSTRS programs. To set these rates, the board has adopted policies that tie the various crediting interest rates to either the investment return assumption adopted by the board or interest rates on U.S. Treasuries.

The current investment return assumption is 7%. This rate was last reviewed and reaffirmed in January 2024 as part of the review of actuarial assumptions. As a result, the Regular Interest Rate for the Defined Benefit Program will remain at 7%. However, all other interest rates tied to U.S. Treasuries will be increasing effective July 1, 2024, reflecting the increase in interest rates over the past 12 months.

As per board policy, 2-year U.S. Treasury notes are used as the basis for the Credited Interest Rate in the Defined Benefit Program, and 30-year U.S. Treasury bonds are used as the basis for the Minimum Interest Rates in the Defined Benefit Supplement and Cash Balance Benefit programs. Also, Section 25005(b) of the Education Code states that the Minimum Interest Rate for the Defined Benefit Supplement Program shall not be less than the Credited Interest Rate for the Defined Benefit Program. Note that over the last 12 months, interest rates on 2-year U.S. Treasury notes have been greater on average than interest rates on 30-year U.S. Treasury bonds.

As a result, the Minimum Interest Rate for the Defined Benefit Supplement Program for fiscal year 2024-25 will be set equal to the Credited Interest Rate in the Defined Benefit Program.

The following table shows a 10-year history of the U.S. Treasuries used as the basis to set the various interest rates and the interest rates recommended for adoption for fiscal year 2024-25 and those adopted by the board the previous nine years. Please refer to attachments 1 through 4 for more details on the various board policies and how each rate is determined.

Historical Interest Rates

Fiscal Year	Regular Interest	Credited Interest DB	Minimum Interest CBB	Minimum Interest DBS	2-Year Treasury Notes	30-Year Treasury Bonds
2024-25	7.00% ¹	4.61% ¹	4.19% ¹	4.61% ¹	4.608%	4.185%
2023-24	7.00%	3.49%	3.35%	3.49%	3.486%	3.350%
2022-23	7.00%	0.43%	2.09%	2.09%	0.427%	2.088%
2021-22	7.00%	0.19%	1.53%	1.53%	0.181%	1.525%
2020-21	7.00%	1.80%	2.44%	2.44%	1.796%	2.432%
2019-20	7.00%	2.60%	3.12%	3.12%	2.594%	3.117%
2018-19	7.00%	1.54%	2.89%	2.89%	1.536%	2.890%
2017-18	7.00%	0.90%	2.64%	2.64%	0.891%	2.640%
2016-17	7.50%	0.72%	2.88%	2.88%	0.713%	2.877%
2015-16	7.50%	0.49%	3.15%	3.15%	0.484%	3.144%

In addition to setting interest rates, the board must also set various contribution rates for the administration of CalSTRS programs. The employer contribution rate for elected officials of employee organizations and for employees in the reduced workload program is set annually by the board. For fiscal year 2024-25, this rate will be the same as the employer contribution rate that will be in effect for the Defined Benefit Program. In a separate agenda item discussing the result of the June 30, 2023 actuarial valuation for the Defined Benefit Program, the board will be asked to adopt an employer supplemental contribution rate that will result in a total employer contribution rate of 19.1% of payroll for fiscal year 2024-25. The board is being asked to adopt the same employer contribution rate for elected officials of employee organizations and for employees in the reduced workload program. A detailed description of the board policy and how this contribution rate is determined is available in attachments 5 and 6.

¹ Recommended for board adoption.

The board must also set the contribution rates that are used when members elect to purchase additional service credit. A few years ago, a new method was developed to determine the permissive service contribution rates. This method results in rates that are stable in years in which there are no changes to the underlying assumptions but may result in updates when the assumptions are changed. In January 2024, the board adopted updated mortality assumptions and merit salary scales with the 2024 Experience Analysis. As a result, slight changes are being recommended to the permissive service contribution rates for fiscal year 2024-25. For the 2% at 60 members, the changes in assumptions resulted in small increases for most ages below 64 and slight decreases for ages 64 and above. For the 2% at 62 members, the changes in actuarial assumptions resulted in increases for all ages below 66, with slight decrease at ages 66 and above. Attachment 7 contains an analysis of the Permissive Service Contribution Rates being recommended for the purchase of additional service credit.

Finally, following the adoption of a new actuarial assumptions, the board reviews the present value factor that is used to bill employers for the present value of service credit awarded for unused excess sick leave. The present value factor depends on several inputs including information on the demographics of the average retiree, the assumed rate of return on investments, and the mortality assumptions. The changes in both the demographics and the mortality assumptions resulted in no change in the Present Value Factor, thus staff recommends the Present Value Factor remains at the current level of 0.335 for service credited for unused excess sick leave.

Strategic Plan Linkage: Goal 1: Trusted stewards – Ensure a well-governed financially sound trust fund.

Board Policy Linkage: Board Governance Manual, Section 7E - Benefits and Services Policy - Specified Interest and Contribution Rates and Lump-Sum Death Benefit.
