



Regular Meeting

Item Number 10e – Open Session

Subject: Adoption of Contribution Rates and Interest Rates for Fiscal Year 2022-23

Presenter(s): David Lamoureux

Item Type: Consent Action

Date & Time: May 4, 2022 – 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

PowerPoint(s): None

PURPOSE

The purpose of this item is to adopt the following interest and contribution rates for fiscal year 2022-23:

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

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 the interest rates needed for the administration of the various CalSTRS programs, 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 2020 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, 2022, 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. Since 2014-15, these rates have been rounded to the next highest basis point to set the recommended rates for adoptions. 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 2022-23 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.

Fiscal Year	Regular Interest	Credited Interest DB	Minimum Interest CBB	Minimum Interest DBS	2-Year Treasury Notes	30-Year Treasury Bonds
2022-23	7.00%	0.43%	2.09%	2.09%	0.4270%	2.0880%
2021-22	7.00%	0.19%	1.53%	1.53%	0.1810%	1.5250%
2020-21	7.00%	1.80%	2.44%	2.44%	1.7960%	2.4320%
2019-20	7.00%	2.60%	3.12%	3.12%	2.5940%	3.1170%
2018-19	7.00%	1.54%	2.89%	2.89%	1.5360%	2.8900%
2017-18	7.00%	0.90%	2.64%	2.64%	0.8910%	2.6400%
2016-17	7.50%	0.72%	2.88%	2.88%	0.7130%	2.8770%
2015-16	7.50%	0.49%	3.15%	3.15%	0.4840%	3.1440%
2014-15	7.50%	0.32%	3.55%	3.55%	0.3130%	3.5440%

Fiscal Year	Regular Interest	Credited Interest DB	Minimum Interest CBB	Minimum Interest DBS	2-Year Treasury Notes	30-Year Treasury Bonds
2013-14	7.50%	0.50%	3.00%	3.00%	0.2709%	2.9284%

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. This rate is generally set equal to the contribution rate for the Defined Benefit Program, to the extent the contribution rate exceeds thresholds determined based on a policy adopted by the board.

In a separate agenda item discussing the results of the June 30, 2021 actuarial valuation for the Defined Benefit Program, the board will be asked to adopt a total employer contribution rate of 19.1% of payroll for fiscal year 2022-23. The board would normally be asked to adopt the same contribution rate for elected officials of employee organizations and for employees in the reduced workload program. However, it is not yet known whether employers will contribute less to CalSTRS next fiscal year. This fiscal year, employers are contributing 2.18% less to the Defined Benefit Program than the contribution rate that was adopted by the board due to a short-term rate relief enacted through the 2020 State Budget. This rate relief is set to expire on June 30, 2022. It is not yet known if further rate relief will be provided to employers in fiscal year 2022-23 as part of the 2022 State Budget.

For this reason, rather than adopting the specific rate of 19.1% for elected officials of employee organizations and for employees in the reduced workload program, the board is being asked to adopt a rate equal to 19.1% minus any applicable rate relief, as long as the net employer contribution exceeds 10.564% of payroll for 2% at 60 members and 7.945% of payroll for 2% at 62 members, the thresholds calculated as per board policy. A detailed description of the board policy and how these thresholds are determined is available in attachments 5 and 6.

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 more stable in years in which there are no changes to the underlying assumptions. As a result, no changes are being recommended to the permissive service contribution rates for fiscal year 2022-23. Attachment 7 contains an analysis of the Permissive Service Contribution Rates being recommended for the purchase of additional service credit.

RECOMMENDATION

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

RECOMMENDED RATES	Recommended Rate (effective 7/1/22)	Current Rate
Regular Interest Rate – Defined Benefit Program	7.00%	7.00%
Credited Interest Rate – Defined Benefit Program	0.43%	0.19%
Minimum Interest Rate – Cash Balance Benefit Program	2.09%	1.53%
Minimum Interest Rate – Defined Benefit Supplement Program	2.09%	1.53%

Staff recommends that the Employer Contribution Rate for fiscal year 2022-23 for the Elected Officials of Employee Organizations and for the Reduced Workload Program be set equal to 19.1% minus any applicable rate relief provided through the 2022 State Budget to the extent the net employer contribution rate exceeds 10.564% for 2% at 60 members and 7.945% for 2% at 62 members.

Staff also recommends the board adopt the Permissive Service Contribution Rates in Attachment 7. Specific information on each recommendation is attached.