

## CalSTRS 2014 Funding Plan

New legislation enacted in Chapter 47, Statutes of 2014 (Assembly Bill 1469–Bonta), fully funds the CalSTRS Defined Benefit Program in 32 years through shared contribution increases among the program's three contributors, CalSTRS members, employers and the State of California. Defined Benefit Program contribution rate increases for all contributing parties will be incrementally phased in over the next several years with the first increases taking effect July 1, 2014.

In exchange for member contribution rate increases, the CalSTRS 2014 Funding Plan in AB 1469 guarantees the 2 percent Annual Benefit Adjustment, which provides a comparable, offsetting advantage required by law. Prior to this historic legislation, contributions for members had not been increased in 42 years. Statutory funding in the 2014 funding plan is predicated on the financial assumption that CalSTRS will earn a 7.5 percent annual rate of return throughout the life cycle of the plan.

## CalSTRS Member Contribution Rate Increases

Member contribution increases will be phased in over the next three years and increase by an additional 2.25 percent of payroll for CalSTRS 2% at 60 members, and an additional 1.205 percent for CalSTRS 2% at 62 members.

Effective Date	Prior Rate	AB 1469 Increases	
	All members	2% at 60 Members	2% at 62 Members*
July 1, 2014	8%	8.15%	8.15%
July 1, 2015	8%	9.20%	8.56%*
July 1, 2016	8%	10.25%	9.205%*

\*The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits. The contribution rate shown in future years assumes no change in normal cost.

CalSTRS members who perform creditable service on or after January 1, 2014, will receive a guarantee of the existing 2 percent Annual Benefit Adjustment, also referred to as the improvement factor. Under the new legislation, the 2 percent improvement factor cannot be reduced for members who retire on or after January 1, 2014. For members who retired prior to January 1, 2014, the funding legislation does not change the improvement factor benefit.

## CalSTRS Employer Contribution Rate Increases

Effective Date	Prior Rate	AB 1469 Increases	
		Increase	Total
July 1, 2014	8.25%	0.63%	8.88%
July 1, 2015	8.25%	2.48%	10.73%
July 1, 2016	8.25%	4.33%	12.58%
July 1, 2017	8.25%	6.18%	14.43%
July 1, 2018	8.25%	8.03%	16.28%
July 1, 2019	8.25%	9.88%	18.13%
July 1, 2020	8.25%	10.85%	19.10%
July 1, 2046	8.25%	Increase from prior rate ceases in 2046-47	

## State Contribution Increases

AB 1469 preserves the state's base contribution rate of 2.017 percent, and replaces the portion of the state contribution rate imposed to pay for the 1990 benefit structure with an amount that fully funds those benefits over 32 years. The base state contribution rate will then increase by 4.311 percent phased in over the next three years beginning July 1, 2014. The total state contribution rate, including the purchasing power benefit contribution of 2.5 percent, will increase to 8.828 percent by fiscal year 2016-17.

## Other Provisions of the New Legislation

- The CalSTRS funding plan in Chapter 47, Statutes of 2014 (AB 1469), grants the Teachers' Retirement Board limited rate setting authority to adjust up or down state and employer contribution rates.
- CalSTRS is required to submit a funding status report to the Legislature every five years to ensure the plan continues to sustain an appropriately funded benefit program.
- Increased contributions under AB 1469 are only payable for compensation that is creditable to the Defined Benefit Program. Compensation creditable to the Defined Benefit Supplement Program will continue to be credited with member and employer contribution rates of 8 percent each.
- Excess contributions CalSTRS receives for Defined Benefit Supplement compensation that are attributable to increases under AB 1469 will be returned to employers. Employers will then return excess member contributions to their employees, and the returned pre-tax contributions will be considered taxable income in the year they are received by the employee. This will occur regardless of when the contribution was initially paid.

## New Contribution Rates Comparison

Employer Contribution Rates	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CalPERS School	11.44%	11.77%	12.60%	15.00%	16.60%	18.20%	19.90%	20.40%
Social Security	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Total For CalPERS School Employers	17.64%	17.97%	18.80%	21.20%	22.80%	24.40%	26.10%	26.60%
CalSTRS	8.25%	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
Difference in Employer Contribution Rates	9.39%	9.09%	8.07%	8.62%	8.37%	8.12%	7.97%	7.50%