

June 25, 2012

TO: All County Superintendents of Schools  
District Superintendents of Schools  
Community College Districts and  
Other Employing Agencies

FROM: Jack Ehnes  
EXECUTIVE OFFICE

SUBJECT: Employer Directive 2012-02  
*Supersedes Employer Directive 2011-01*  
Interest and Contribution Rates and Present Value Factor for  
Fiscal Year 2012-13

## **PURPOSE**

The purpose of this directive is to communicate the following rates and present value factor as adopted by the Teachers' Retirement Board in April and June 2012:

- Regular Interest Rate – Defined Benefit Program
- Credited Interest Rate – Defined Benefit Program
- Minimum Interest Rate – Cash Balance Benefit Program and Defined Benefit Supplement Program
- Penalties and Interest Rate – Defined Benefit Program and Cash Balance Program
- Permissive and Nonqualified Service Credit Contribution Rate – Defined Benefit Program
- Employer Contribution Rate for Elected Officials of Employee Organizations
- Employer Contribution Rate for Reduced Workload Program
- Present Value Factor for Unused Excess Sick Leave Service Credit

## **SCOPE**

This directive applies to all county superintendents of schools, school districts, community college districts, and other employing agencies that employ persons to perform creditable service under the CalSTRS Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program and Cash Balance (CB) Benefit programs.

**DISCUSSION**

Each employer must contribute to CalSTRS a specified percentage of the total creditable compensation earned by the employees who are members of the DB Program or participants of the CB Benefit Program. The employer and member contribution rates for the CB Benefit Program may be negotiated through the collective bargaining process and may vary by employer. There are, however, statutory minimum contribution rates for the CB Benefit Program. The following member and employer contribution rates are set in statute for the DB Program and do not vary by fiscal year:

<b>Defined Benefit Program Contribution Rates</b>	<b>Rate</b>	<b>Education Code Section</b>
Member Contribution Rate	8.00%	22901
Employer Contribution Rate	8.25%	22950 and 22951

Regular Interest Rate means an interest rate that is equal to the actuarially assumed rate of return on investments on assets of the DB Program and is adopted annually by the board as a plan amendment with respect to the DB Program.

The Regular Interest Rate is used by the DB Program to charge interest on (1) previously refunded retirement contributions when a member elects to redeposit those contributions, and (2) installment payments for the (a) redeposit of contributions or (b) purchase of additional service credit. This rate is also used to charge employers interest on delinquent contributions and for reporting penalties. Finally, if there is a delay in the initial allowance payment, CalSTRS pays the benefit recipient interest on the allowance payment at the Regular Interest Rate.

Credited Interest Rate is the interest that is credited to members' DB accumulated retirement contributions for service performed after June 30, 1935, excluding all contributions that accumulate while being paid an allowance. For the CB Benefit and DBS Programs, the Board adopts a minimum interest rate that is used to credit employee and employer accounts during the year.

Minimum Interest Rate with respect to the CB Benefit and DBS Programs is the rate used to credit interest to participant and member account balances respectively. The Minimum Interest Rate for both the CB Benefit and DBS Programs is adopted annually by the board as a plan amendment.

CalSTRS shall assess penalties and interest from employers for late reports and late or insufficient contributions to both the DB and CB Benefit Programs. The interest is assessed at the regular interest rate.

EMPLOYER DIRECTIVE 2012-02

June 25, 2012

Page 3 of 4

Members may purchase two types of service credit: (1) Permissive Service Credit, which is service credit related to activities that were previously undertaken by the member and; (2) Nonqualified Service Credit (sometimes referred to as air-time), which is service credit not based on the activities of the member.

The board adopted the following contribution rates for the purchase of permissive service credit and nonqualified service credit based upon the age of member at the time of purchase effective July 1, 2011.

The rates for 2012-13 are as follows:

	<b>New Rate for 2012-13</b>	<b>Old Rate for 2011-12</b>	<b>Education Code Section</b>																												
Regular Interest Rate	7.50%	7.75%	22162																												
Credited Interest Rate: Defined Benefit Program	0.50%	0.75%	22216																												
Minimum Interest Rate: Cash Balance Benefit Program	3.75%	4.25%	26604																												
Minimum Interest Rate: Defined Benefit Supplement Program	3.75%	4.25%	25005																												
Interest Rate for Late Remittance Contributions	7.50%	7.75%	23003																												
Penalty Rate for Late or Unacceptable Monthly Reports	7.50%	7.75%	23006, 26301																												
Permissive Service Credit and Nonqualified Service Credit Contribution Rate: Defined Benefit Program	<table border="0"> <thead> <tr> <th><u>Age</u></th> <th><u>Rate</u></th> <th><u>Age</u></th> <th><u>Rate</u></th> </tr> </thead> <tbody> <tr> <td>20-29</td> <td>15.5%</td> <td>20-29</td> <td>15.5%</td> </tr> <tr> <td>30-39</td> <td>17.0%</td> <td>30-40</td> <td>17.0%</td> </tr> <tr> <td>40-49</td> <td>20.5%</td> <td>40-50</td> <td>20.3%</td> </tr> <tr> <td>50-59</td> <td>25.8%</td> <td>50-60</td> <td>25.4%</td> </tr> <tr> <td>60-69</td> <td>29.7%</td> <td>60-69</td> <td>29.2%</td> </tr> <tr> <td>70 +</td> <td>24.7%</td> <td>70 +</td> <td>24.2%</td> </tr> </tbody> </table>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	20-29	15.5%	20-29	15.5%	30-39	17.0%	30-40	17.0%	40-49	20.5%	40-50	20.3%	50-59	25.8%	50-60	25.4%	60-69	29.7%	60-69	29.2%	70 +	24.7%	70 +	24.2%		22801, 22117, 22836
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EMPLOYER DIRECTIVE 2012-02

June 25, 2012

Page 4 of 4

Each year, the board adopts employer contribution rates for members who participate in the Reduced Workload Program and for members who are on a compensated leave of absence to serve as an elected officer of an employee organization during the new fiscal year. The rates are as follows:

	<b>New Rate for 2012-13</b>	<b>Old Rate for 2011-12</b>	<b>Education Code Section</b>
Employer Contribution Rate: Reduced Workload Program	10.299%	9.713%	22713
Employer Contribution Rate: Elected Officer of Employee Organization	10.299%	9.713%	22711

The board also adopts the present value factor used to calculate the cost of the member's allowance attributable to unused excess sick leave days. The cost of unused excess sick leave service credit must be paid to CalSTRS by the employer before the member can receive the benefit. The present value factor for unused excess sick leave service credit for 2012-13 is:

	<b>New Rate for 2012-13</b>	<b>Old Rate for 2011-12</b>	<b>Education Code Section</b>
Present Value Factor for Unused Excess Sick Leave Service Credit	0.301	0.282	22718 and 22311.7

**ACTION**

Please refer questions concerning this directive to your CalSTRS Member Account Services Representative.