

June 30, 2014

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

FROM: Jack Ehnes  
Chief Executive Officer

SUBJECT: Employer Directive 2014-06  
***Supersedes Employer Directive 2014-02***  
Interest and Contribution Rates and Present Value Factor for Fiscal Year 2014-15  
Updated for the Defined Benefit Program Contribution Rate Increases as set forth  
in Chapter 47, Statutes of 2014 (Assembly Bill 1469)

## **PURPOSE**

The purpose of this directive is to communicate the following rates and present value factors for the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Program, as set forth by the legislature and as adopted by the Teachers' Retirement Board:

- Member and Employer Contribution Rates – DB Program and CB Program
- Contribution Rate – DBS Program
- Regular Interest Rate – DB Program
- Credited Interest Rate – DB Program
- Minimum Interest Rate – CB Program and DBS Program
- Penalties and Interest Rate – DB Program and CB Program
- Permissive Service Credit Contribution Rate – DB Program
- Employer Contribution Rate for Reduced Workload Program
- Employer Contribution Rate for Elected Officials of Employee Organizations
- Present Value Factor for Unused Excess Sick Leave Service Credit

This directive supersedes [Employer Directive 2014-02](#) to notify employers of changes to contribution rates for the DB Program only as result of Chapter 47, Statutes of 2014 (Assembly Bill 1469).

## **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 DB Program, DBS Program and CB Program.

**DISCUSSION****Member and Employer Contribution Rates - DB Program and CB Program**

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 Program.

Member and employer contribution rates are set in Education Code sections 22901, 22950 and 22951 for the DB Program. Effective July 1, 2014, Chapter 47, Statutes of 2014 added Sections 22901.7 and 22950.5 to the Education Code. Section 22901.7 outlines the member contribution rate increases for creditable compensation for service performed on or after July 1, 2014 by CalSTRS 2% at 60 and CalSTRS 2% at 62 members; and Section 22950.5 outlines the employer contribution rate increases.

For the CalSTRS 2% at 62 Benefit Structure, employer contribution rates are set in statute for the DB Program and will increase pursuant to Education Code section 22950.5. However, members are required to pay one half of the normal cost of pension benefits. The normal cost of the pension benefits is determined each fiscal year, and the CalSTRS 2% at 62 member contribution rate will be adjusted if the normal cost has changed by more than one percent since the last adjustment in the member contribution rate. The percentage increase as set forth in Education Code section 22901.7 will then be applied to the new normal cost.

Please refer to [Employer Directive 2014-05](#) (ED14-05) for additional information on Chapter 47, Statutes of 2014, including the schedule of member and employer contribution rate percentage increases.

The DB Program member and employer contribution rates are as follows:

<b>Defined Benefit Program:</b>	<b>Contribution Rate for Service Performed in FY 2014-15</b>	<b>Contribution Rate for Service Performed Prior to 7/1/2014</b>	<b>Education Code Sections</b>
Member Contribution Rate - CalSTRS 2% at 60:	8.15%	8.00%	22901 and 22901.7
Member Contribution Rate - CalSTRS 2% at 62:	8.15%	8.00%	22901 and 22901.7
Employer Contribution Rate:	8.88%	8.25%	22950, 22950.5 and 22951

Pursuant to Education Code section 26504, the member and employer contribution rates for the CB Benefit Program may be negotiated through the collective bargaining process and may vary by employer, provided all of the statutory minimum contribution rates for the CB Benefit Program are met.

Chapter 559, Statutes of 2013 (AB 1381) amended Education Code section 26504 to allow CB contribution rates that were bargained for prior to January 1, 2014 to remain in effect as outlined in the collective bargaining agreement, for CB participants whose bargaining agreements are still in effect as of January 1, 2014. However, employers cannot negotiate new collective bargaining agreements, or extend, renew or amend current bargaining agreements, in which the employee contribution rate is less than the employer contribution rate.

### **Contribution Rates - DBS Program**

Employer and member contribution rates are set in statute for the DBS Program. Effective July 1, 2014, Chapter 47, Statutes of 2014 specifies the amount of required member contributions creditable to the DBS Program for CalSTRS 2% at 60 members remains 8 percent, and remains half of the normal cost rate, as adopted by the board, for CalSTRS 2% at 62 members pursuant to Education Code section 22901.

The employer contribution rate for compensation that is creditable to the DBS Program for all CalSTRS members remains 8.25 percent, pursuant to Education Code sections 22950 and 22951. Of this amount, 8 percent is credited to the member's DBS Program account and 0.25 percent goes to the DB Program to pay for the cost of service credit for unused sick leave.

Therefore, if CalSTRS collects contributions in excess of the rates established in Education Code sections 22901, 22950 and 22951 on compensation creditable to the member's DBS account, Chapter 47, Statutes of 2014 requires that CalSTRS return the excess member and employer contribution amounts to the employer, and the employer will return the excess member contributions to the employee.

<b>Defined Benefit Supplement Program:</b>	<b>Contribution Rate</b>	<b>Education Code Section</b>
Employer Contribution Rate:	8.25%	22905, 22950, 22951
Member Contribution Rate:	8.00%	22905, 22901

### **Interest Rates**

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.

The 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.

The 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 on 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.

The rates for fiscal year 2014-15 are as follows:

	<b>Rate for FY 2014-15</b>	<b>Rate for FY 2013-14</b>	<b>Education Code Section</b>
Regular Interest Rate	7.50%	7.50%	22162
Credited Interest Rate: Defined Benefit Program	0.32%	0.50%	22216
Minimum Interest Rate: Cash Balance Benefit Program	3.55%	3.00%	26604
Minimum Interest Rate: Defined Benefit Supplement Program	3.55%	3.00%	25005
Interest Rate for Late Remittance Contributions	7.50%	7.50%	23003, 26303
Penalty Rate for Late or Unacceptable Monthly Reports	7.50%	7.50%	23006, 23008, 26301, 26302

### **Permissive Service Credit Contribution Rate – DB Program**

Members may purchase permissive service credit, which is service credit related to activities that were previously undertaken by the member. Examples of permissive service credit include, but are not limited to, teaching at a state college or university in California; employment in a public school in another state; maternity/paternity leave; and military leave. Prior to January 2013, eligible DB Program members could purchase nonqualified service credit, also known as air-time. Authorization to purchase nonqualified service credit was eliminated on January 1, 2013, under Chapter 296, Statutes of 2012 (AB 340).

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The board adopted the following contribution rates for fiscal year 2014-15 for the purchase of permissive service credit for the DB Program based upon the age of member at the time of purchase.

Age	CalSTRS 2% at 60		CalSTRS 2% at 62	
	Rates for FY 2014-15	Rates effective 1/1/2014-6/30/2014	Rates for FY 2014-15	Rates effective 1/1/2014-6/30/2014
Below 28	15.5%	15.8%	13.4%	13.7%
28	16.0%	16.1%	13.8%	13.9%
29	16.3%	16.2%	14.1%	14.0%
30	16.3%	16.4%	14.4%	14.0%
31	16.4%	16.5%	14.5%	14.1%
32	16.7%	16.7%	14.4%	14.4%
33	16.8%	16.8%	14.6%	14.6%
34	17.2%	17.2%	14.7%	14.9%
35	17.2%	17.2%	14.8%	14.9%
36	17.6%	17.6%	15.3%	15.2%
37	17.6%	17.6%	15.3%	15.2%
38	17.9%	17.8%	15.6%	15.5%
39	18.2%	18.1%	15.9%	15.8%
40	18.9%	18.6%	16.5%	16.2%
41	19.2%	19.0%	16.8%	16.6%
42	19.5%	19.4%	17.1%	16.9%
43	20.0%	19.8%	17.4%	17.3%
44	20.2%	20.1%	17.6%	17.5%
45	20.6%	20.5%	18.0%	17.9%
46	21.0%	20.7%	18.3%	18.1%
47	21.4%	21.2%	18.7%	18.5%
48	22.0%	21.8%	19.2%	19.1%
49	22.5%	22.3%	19.6%	19.4%
50	23.1%	22.8%	20.1%	19.9%
51	23.6%	23.4%	20.6%	20.4%
52	24.3%	24.0%	21.2%	20.9%
53	24.9%	24.7%	21.7%	21.5%
54	25.7%	25.5%	22.4%	22.2%
55	26.3%	25.9%	22.9%	22.6%
56	27.0%	26.7%	23.5%	23.2%
57	27.7%	27.3%	24.1%	23.8%
58	28.5%	28.1%	24.8%	24.5%
59	29.3%	28.9%	25.5%	25.2%
60	30.0%	29.6%	26.2%	25.8%

(FY 2014-15 permissive service credit contribution rates continued on next page...)

Fiscal Year 2014-15 permissive service credit contribution rates for the DB Program, continued:

Age	CalSTRS 2% at 60		CalSTRS 2% at 62	
	Rates for FY 2014-15	Rates effective 1/1/2014-6/30/2014	Rates for FY 2014-15	Rates effective 1/1/2014-6/30/2014
61	30.8%	30.4%	26.9%	26.6%
62	31.3%	30.8%	27.5%	27.0%
63	30.9%	30.9%	28.0%	28.0%
64	30.3%	30.3%	29.2%	29.2%
65	29.5%	29.6%	29.5%	29.6%
66	29.0%	29.0%	29.0%	29.0%
67	28.1%	28.1%	28.1%	28.1%
68	27.5%	27.5%	27.5%	27.5%
69	26.6%	26.7%	26.6%	26.7%
70	25.8%	25.8%	25.8%	25.8%
71	25.2%	25.3%	25.2%	25.3%
72	24.2%	24.2%	24.2%	24.2%
73 and above	22.1%	22.1%	22.1%	22.1%

### Employer Contribution Rates for RWP and Elected Officers

Each year, the board adopts employer contribution rates for members who participate in the Reduced Workload Program (RWP) 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 employer contribution rates for RWP and Elected Officers are as follows:

	Rate for FY 2014-15	Rate for FY 2013-14	Education Code Section
Reduced Workload Program Employer Contribution Rate - CalSTRS 2% at 60:	10.259%	10.276%	22713
Reduced Workload Program Employer Contribution Rate - CalSTRS 2% at 62:	Not Eligible Until 2018	N/A	22713
Elected Officer of Employee Organization Employer Contribution Rate - CalSTRS 2% at 60:	10.259%	10.276%	22711
Elected Officer of Employee Organization Employer Contribution Rate - CalSTRS 2% at 62:	8.25%	8.25%	22711

Effective July 1, 2014, Chapter 47, Statutes of 2014 added Section 22950.5 to the Education Code which outlines the employer contribution rate increases. Any change in the employer contribution rates for RWP or elected officials for 2014-15 depends on future board action. Until such action has taken place, the above employer contribution rates for RWP and elected officials continue to be in effect.

**Unused Sick Leave Service Credit**

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 July 1, 2012 through June 30, 2015 is:

	<b>Rate for 7/1/2012 – 6/30/2015</b>	<b>Education Code Sections</b>
Present Value Factor for Unused Excess Sick Leave Service Credit	0.301	22311.7, 22718

**ACTION**

This employer directive does not take precedence over the law. Please refer questions regarding this directive to your CalSTRS Member Account Services Representative.