



Regular Meeting

Item Number 13e – Open Session

Subject: Adoption of Contribution Rates and Interest Rates for Fiscal Year 2021-22

Presenter(s): David Lamoureux

Item Type: Consent Action

Date & Time: June 9, 2021 – 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 2021-22:

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 various 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 decreasing effective July 1, 2021, reflecting the decrease in interest rates over the past 12 months. Please refer to attachments 1 through 4 for more details on the various board policies and how each rate is determined.

To see how the various interests have changed in recent years, the following table shows a 10-year history of the U.S. Treasuries used as the basis to set the various interest rates. Note that 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. Treasuries bonds are used as the basis for the Minimum Interest Rates in the Defined Benefit Supplement and Cash Balance Benefit programs. The table also includes the interest rates recommended for adoption for fiscal year 2021-22 and those adopted by the board the previous nine years.

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

Fiscal Year	Regular Interest	Credited Interest DB	Minimum Interest CBB	Minimum Interest DBS	2-Year Treasury Notes	30-Year Treasury Bonds
2012-13	7.50%	0.50%	3.75%	3.75%	0.3680%	3.6590%

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 2021-22, 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 results of the June 30, 2020 actuarial valuation for the Defined Benefit Program, the board will be asked to adopt an employer supplemental contribution rate that will result in a net employer contribution rate of 16.92% of payroll for fiscal year 2021-22. 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.

The board must also set the contribution rates that are used when members elect to purchase additional service credit. For fiscal year 2020-21, 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 not changes to the underlying assumptions. As a result, no changes are being recommend to the permissive service contribution rates for fiscal year 2021-22. 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 7/1/21)	Current Rate
Regular Interest Rate – Defined Benefit Program	7.00%	7.00%
Credited Interest Rate – Defined Benefit Program	0.19%	1.80%
Minimum Interest Rate – Cash Balance Benefit Program	1.53%	2.44%
Minimum Interest Rate – Defined Benefit Supplement Program	1.53%	2.44%
Employer Contribution Rate for Elected Officials of Employee Organizations	16.92%	16.15%

RECOMMENDED RATES	Recommended Rate (effective 7/1/21)	Current Rate
Employer Contribution Rate for the Reduced Workload Program	16.92%	16.15%

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

Regular Interest Rate - Defined Benefit Program

SUBJECT

Adoption of Fiscal Year 2021-22 Regular Interest Rate for the Defined Benefit Program

SUMMARY

The "Regular Interest Rate" is used by the Defined Benefit Program to charge interest among other items 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 payment of a retirement allowance for a CalSTRS retired member or beneficiary, CalSTRS pays the benefit recipient interest on the allowance payment at the Regular Interest Rate.

Section 22162 of the Education Code specifies that "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. As per board policy, the "Regular Interest Rate" is adopted annually by the board before July of the fiscal year in which the rate applies. Consistent with the investment return assumption for the Defined Benefit program adopted by the board in January 2020, the Regular Interest Rate should remain at 7.00%.

RECOMMENDATION

Staff recommends the board adopt the Regular Interest Rate of 7.00% for the Defined Benefit Program, which is the current actuarially assumed investment return, for the 2021-22 fiscal year.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of the Regular Interest Rate for the Defined Benefit Program for the 2021-22 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, the Teachers' Retirement Law requires the Teachers' Retirement Board to adopt the Regular Interest Rate; and

WHEREAS, Section 22162 of the Education Code specifies that “Regular Interest” means interest that is equal to the actuarially assumed rate of return on investments on assets of the Defined Benefit Program. The regular interest rate shall be adopted annually by the board as a plan amendment with respect to the Defined Benefit Program; and

WHEREAS, on January 31, 2020 the Teachers' Retirement Board adopted 7.00% as the actuarially assumed investment rate of return for all administrative purposes; therefore, be it

RESOLVED, that the Teachers' Retirement Board adopts the Regular Interest Rate for the Defined Benefit Program of 7.00% per annum for the 2021-22 fiscal year.

Adopted by:
Teachers' Retirement Board
On June 10, 2021

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Credited Interest Rate - Defined Benefit Program

SUBJECT

Adoption of Fiscal Year 2021-22 Credited Interest Rate for the Defined Benefit Program

SUMMARY

Credited interest, as defined by Section 22120 of the Education Code, is interest that is credited to members' accounts at a rate set annually by the board. Members who terminate membership in the Defined Benefit Program and withdraw their funds receive a refund of their contributions along with the interest credited to their account. Credited interest generally does not affect a member who receives a monthly allowance under the Defined Benefit program.

According to board policy, the credited interest rate adopted is equal to the average amount paid on 2-year U.S. Treasury notes for the previous twelve months, rounded to the next highest basis point. The board policy also states that the credited interest rate cannot exceed the assumed investment return and cannot be lower than a passbook rate calculated as the average one-year annual percentage yield a person would earn in a savings account for a representative sample of banks and credit unions.

Note that a review of the Defined Benefit Program Credited Interest Rate policy was performed by the board in September 2018. At that time, the board elected to retain the existing practice of basing the Defined Benefit Credited Interest rate on 2-year U.S. Treasury notes.

The average rate paid on 2-year U.S. Treasury notes during the period March 1, 2020 through February 28, 2021 was 0.181%. It results in a rate of 0.19% when rounded up to the next highest basis point. This is less than the rate of 1.80% adopted for the 2020-21 fiscal year. This rate is less than the actuarial assumed rate of 7.00% and more than the current passbook rate of 0.03%.

RECOMMENDATION

Staff recommends the board adopt the Credited Interest Rate of 0.19% for the Defined Benefit Program for the 2021-22 fiscal year.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of the Credited Interest Rate for the Defined Benefit Program for the 2021-22 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, the Teachers' Retirement Law requires the Teachers' Retirement Board to adopt the Credited Interest Rate; and

WHEREAS, the Teachers' Retirement Board adopted a policy of basing the Credited Interest Rate on the average rate paid on 2-year U.S. Treasury notes for the previous twelve months, rounded up to the next highest basis point; and

WHEREAS, the average rate paid on 2-year U.S. Treasury notes during the period March 1, 2020 through February 28, 2021 was 0.181%, resulting in a rate of 0.19% when rounded up to the next highest basis point; and

WHEREAS, the average rate for 2-year U.S. Treasury notes during the past twelve months was greater than the current passbook account rate of 0.03% and less than the actuarial assumed interest rate of 7.00%; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the Credited Interest Rate of 0.19% per annum for the Defined Benefit Program for the 2021-22 fiscal year.

Adopted by:
Teachers' Retirement Board
On June 10, 2021

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Minimum Interest Rate - Cash Balance Benefit Program

SUBJECT

Adoption of the Minimum Interest Rate for the Cash Balance Benefit Program for fiscal year 2021-22.

SUMMARY

The “Minimum Interest Rate”, as defined by Section 26131 and applied by Section 26604 of the Education Code, with respect to the Cash Balance Benefit Program “... means the annual rate determined for the plan year by the board by means of an amendment to the plan...” This rate is used to credit interest to employee and employer account balances.

As per board policy, the Minimum Interest Rate for the Cash Balance Benefit Program is based on the average rate for 30-year U.S. Treasury bonds during the 12-month period ending in the February immediately preceding the plan year, rounded to the next highest basis point.

The average interest rate paid on 30-year U.S. Treasury bonds during the period March 1, 2020 through February 28, 2021 was 1.525%. It results in a rate of 1.53% when rounded up to the next highest basis point. This is lower than the rate of 2.44% adopted for the 2020-21 fiscal year. This rate represents the Minimum Interest Rate that would be credited to a participant’s account. If the actual investment return is higher, the board may declare an additional earnings credit to increase the interest earnings provided to a participant.

RECOMMENDATION

Staff recommends the board adopt the Minimum Interest Rate of 1.53% for the 2021-22 fiscal year for employee and employer account balances in the Cash Balance Benefit Program.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of the Minimum Interest Rate for the Cash Balance Benefit Program for the 2021-22 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, the Teachers' Retirement Law delegates to the Teachers' Retirement Board the authority to declare, by plan amendment, the Minimum Interest Rate to be used to credit employee and employer account balances for the plan year for the Cash Balance Benefit Program; and

WHEREAS, the Teachers' Retirement Board adopted a policy to calculate the Minimum Interest Rate as the average interest rate on 30-year U.S. Treasury bonds for the 12 months ending in the February immediately preceding the applicable plan year, rounded up to the next highest basis point; and

WHEREAS, the average rate for 30-year U.S. Treasury bonds during the 12-month period ending February 28, 2021 was 1.525%, resulting in a rate of 1.53% when rounded up to the next highest basis point; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts, as a plan amendment, the Minimum Interest Rate of 1.53% per annum for the Cash Balance Benefit Program for the 2021-22 fiscal year.

Adopted by:
Teachers' Retirement Board
On June 10, 2021

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Minimum Interest Rate - Defined Benefit Supplement Program

SUBJECT

Adoption of the Minimum Interest Rate for the Defined Benefit Supplement Program for the 2021-22 fiscal year.

SUMMARY

The “Minimum Interest Rate”, as defined by Section 22146.7 of the Education Code, with respect to the Defined Benefit Supplement Program “... means the annual interest rate determined by the board by plan amendment at which interest shall be credited to the Defined Benefit Supplement accounts for a plan year.” In addition, Section 25005(b) states that “The minimum interest rate...shall not be less than the rate at which interest is credited under the Defined Benefit Program.”

According to board policy, the Minimum Interest Rate for the Defined Benefit Supplement Program is based on the average rate for 30-year U.S. Treasury bonds during the 12-month period ending in the February immediately preceding the plan year, rounded to the next highest basis point. The rate cannot be less than the credited interest rate credited to the Defined Benefit Program.

The average interest rate paid on 30-year U.S. Treasury bonds during the period March 1, 2020 through February 28, 2021 was 1.525%. It results in a rate of 1.53% when rounded up to the next highest basis point. This is lower than the rate of 2.44% adopted for the 2020-21 fiscal year. This rate represents the Minimum Interest Rate that would be credited to a member’s Defined Benefit Supplement account. If the actual investment return is higher, the board may declare an additional earnings credit to increase the interest earnings provided to a member. Note that this rate is more than the recommended credited interest rate for the Defined Benefit Program of 0.19%.

RECOMMENDATION

Staff recommends the board adopt the Minimum Interest Rate of 1.53% for the 2021-22 fiscal year for member account balances in the Defined Benefit Supplement Program.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of the Minimum Interest Rate for the Defined Benefit Supplement Program for the 2021-22 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, the Teachers' Retirement Law delegates to the Teachers' Retirement Board the authority to declare, by plan amendment, the Minimum Interest Rate to be used to credit member accounts for the plan year for the Defined Benefit Supplement Program; and

WHEREAS, the Teachers' Retirement Board adopted a policy to base the Minimum Interest Rate on the greater of the average interest rate on 30-year U.S. Treasury bonds during the 12-month period ending in the February immediately preceding the plan year and the credited interest rate for the Defined Benefit program; and

WHEREAS, the average rate for 30-year U.S. Treasury bonds during the 12-month period ending February 28, 2021 was 1.525%, resulting in a rate of 1.53% when rounded up to the next highest basis point; and

WHEREAS, the recommended credited interest rate for the Defined Benefit Program in 2021-22 is 0.19%; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts, as a plan amendment, the Minimum Interest Rate of 1.53% per annum for the Defined Benefit Supplement Program for the 2021-22 fiscal year.

Adopted by:
Teachers' Retirement Board
On June 10, 2021

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Employer Contribution Rate for Elected Officials of Employee Organizations

SUBJECT

Adoption of the Employer Contribution Rate for Elected Officials of Employee Organizations for Fiscal Year 2021-22.

SUMMARY

The "Employer Contribution Rate for Elected Officials" is used to charge the employer for service credit granted to a member for an approved leave of absence to serve as an elected official of an employee organization. The maximum amount of service credit that may be granted for service as an elected official of an employee organization is 12 years.

During the leave of absence, the member contributes the amount that would have been contributed if he or she had continued to perform service in the position on a full-time basis. The employer contributes an amount based upon the salary that the member would have been paid if employed full-time. During the leave of absence, the employer contributes at the Employer Contribution Rate for Elected Officials, as specified by the board pursuant to Section 22711 of the Education Code. In fiscal year 2019-20, 40 members were credited with service under this section.

Under board policy, the employer contribution rate for elected officials of employee organizations is the greater of (1) the normal cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit.

Members whose benefit is based on the 2% at 62 formula, those hired after January 1, 2013, have a lower benefit and normal cost than previous members. Therefore, it is appropriate to use the normal cost specific to the CalSTRS 2% at 62 members when determining the contribution rate for these members.

The actuarial valuation of the Defined Benefit Program as of June 30, 2020, which will be presented to the board at the June 2021 Regular Meeting, determined the normal cost rate, as of June 30, 2020, to be equal to 20.833% of member payroll for CalSTRS 2% at 60 members and 18.086% of member payroll for CalSTRS 2% at 62 members.

In July 2019, CalSTRS received a supplemental contribution from the state to reduce the employers' contribution rate for fiscal years 2019-20 and 2020-21. In response to economic concerns resulting from the COVID-19 pandemic, the state 2020 Budget Act redirected the supplemental payments that were already contributed to CalSTRS in 2019 away from reducing the employers' share of CalSTRS unfunded liability to instead provide short-term contribution rate relief to employers. The supplemental payment is now solely being used to reduce the employer contribution rate by 1.03%, 2.95%, and 2.18% for fiscal years 2019-20, 2020-21 and 2021- 22, respectively. As part of a separate item discussing the results of the June 30, 2020 actuarial valuation of the Defined Benefit Program, staff is recommending the adoption of an employer supplemental contribution rate that will result in a net employer contribution rate of

16.92% of payroll for fiscal year 2021-22 (which reflects the supplemental payment reduction). The net employer rate is currently 16.15% of payroll in fiscal year 2020-21.

As per board policy, the Employer Contribution Rate for the Elected Officials of Employee Organizations for fiscal year 2021-22 should be set equal to the employer contribution to the Defined Benefit program in effect for fiscal year 2021-22 to the extent that rate exceeds the normal cost of the member’s benefit structure, less the member contribution rate. The table below was prepared based on the employer supplemental contribution rate for fiscal year 2021-22 recommended as part of a separate agenda item discussing the actuarial valuation of the Defined Benefit Program.

Fiscal Year 2021-22 Contribution Rates	CalSTRS 2% at 60	CalSTRS 2% at 62
1. Normal Cost Rate for FY 2021-22	20.833%	18.086%
2. Member Contribution Rate for FY 2021-22	10.250%	10.205%
3. Normal Cost Rate less Member Contribution Rate (1 - 2)	10.583%	7.881%
4. Employer Contribution Rates for FY 2021-22	16.920%	16.920%
Employer Contribution Rate for Elected Officials of Employee Organizations (greater of 3 and 4)	16.920%	16.920%

As shown above, the Employer Contribution Rate for the Elected Officials of Employee Organizations for fiscal year 2021-22 should be 16.920% for both the CalSTRS 2% at 60 and the CalSTRS 2% at 62 members.

RECOMMENDATION

Staff recommends that the Employer Contribution Rate for Elected Officials of Employee Organizations be set equal to 16.920% of payroll, which is the proposed employer contribution rate for the Defined Benefit Program for fiscal year 2021-22.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of Employer Contribution Rate for Elected Officials of Employee Organizations for the 2021-22 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, Section 22711 of the Education Code requires that the Teachers' Retirement Board adopt the Employer Contribution Rate for Elected Officials of Employee Organizations; and

WHEREAS, the Teachers' Retirement Board adopted a policy to base the rate on the greater of (1) the normal cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit; and

WHEREAS, based on the June 30, 2020 actuarial valuation of the Defined Benefit Program, the normal cost rate equals to 20.833% for the 2% at 60 members and 18.086% for the 2% at 62 members; and

WHEREAS, for fiscal year 2021-22 the 2% at 60 member contribution rate is 10.250% and the 2% at 62 member contribution rate is 10.205%; and

WHEREAS, the proposed employer contribution rate of 16.920% in the 2021-22 fiscal year is greater than the normal cost rate less the member contribution rate for both the 2% at 60 and 2% at 62 members; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the Employer Contribution Rate of 16.920% for the CalSTRS 2% at 60 and the CalSTRS 2% at 62 members for compensated leaves of absence for service as Elected Officials of Employee Organizations during the 2021-22 fiscal year.

Adopted by:
Teachers' Retirement Board
On June 10, 2021

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Employer Contribution Rate for the Reduced Workload Program

SUBJECT

Adoption of the Employer Contribution Rate for the Reduced Workload Program for Fiscal Year 2021-22.

SUMMARY

The "Employer Contribution Rate for the Reduced Workload Program" is used to charge the employer for the service credit granted to a member who is a participant in the Reduced Workload Program.

Under this program, the member receives a full year of service credit, even though the member has reduced his or her workload from full-time to part-time. Eligibility for the program is limited to Defined Benefit Program members with at least 10 years of credited service, and at least five years of full-time employment with a CalSTRS employer immediately preceding participation in the Reduced Workload Program. In fiscal year 2019-20, 1,079 members were credited with service under this program.

The member contributes the amount that he or she would have contributed if employed full-time. The employer contributes an amount based upon the salary the member would have been paid if employed full-time in the position during that year. For the period during which the member is not required to work to receive service credit, the employer is required to contribute at the Employer Contribution Rate for the Reduced Workload Program as specified by the board under the provisions of Section 22713 of the Education Code.

Under board policy, the Employer Contribution Rate for the Reduced Workload Program is the greater of (1) the normal cost of the member's benefit structure, less the member's contribution rate, and (2) the employer contribution rate in effect for all other service credit.

Members whose benefit is based on the 2% at 62 formula, those hired after January 1, 2013, have a lower benefit and normal cost than previous members. Therefore, it is appropriate to use the normal cost specific to the CalSTRS 2% at 62 members when determining the contribution rate for these members.

The actuarial valuation of the Defined Benefit Program as of June 30, 2020, which will be presented to the board at June 2021 Regular Meeting, determined the normal cost rate, as of June 30, 2020, to be equal to 20.833% of member payroll for CalSTRS 2% at 60 members and 18.086% of member payroll for CalSTRS 2% at 62 members.

In July 2019, CalSTRS received a supplemental contribution from the state to reduce the employers' contribution rate for fiscal years 2019-20 and 2020-21. In response to economic concerns resulting from the COVID-19 pandemic, the state 2020 Budget Act redirected the supplemental payments that were already contributed to CalSTRS in 2019 away from reducing the employers' share of CalSTRS unfunded liability to instead provide short-term contribution rate relief to employers. The supplemental payment is now solely being used to reduce the

employer contribution rate by 1.03%, 2.95%, and 2.18% for fiscal years 2019-20, 2020-21 and 2021- 22, respectively. As part of a separate item discussing the results of the June 30, 2020 actuarial valuation of the Defined Benefit Program, staff is recommending the adoption of an employer supplemental contribution rate that will result in a net employer contribution rate of 16.92% of payroll for fiscal year 2021-22 (which reflects the supplemental payment reduction). The net employer rate is currently 16.15% of payroll in fiscal year 2020-21.

As per board policy, the Employer Contribution Rate for the Reduced Workload Program for fiscal year 2021-22 should be set equal to the employer contribution to the Defined Benefit program in effect for fiscal year 2021-22 to the extent that rate exceeds the Normal Cost of the member’s benefit structure, less the member contribution rate. The table below was prepared based on the employer supplemental contribution rate for fiscal year 2021-22 recommended as part of a separate agenda item discussing the actuarial valuation of the Defined Benefit Program.

Fiscal Year 2021-22 Contribution Rates	CalSTRS 2% at 60	CalSTRS 2% at 62
1. Normal Cost Rate for FY 2021-22	20.833%	18.086%
2. Member Contribution Rate for FY 2021-22	10.250%	10.205%
3. Normal Cost Rate less Member Contribution Rate (1 - 2)	10.583%	7.881%
4. Employer Contribution Rates for FY 2021-22	16.920%	16.920%
Employer Contribution Rate for the Reduced Workload Program (greater of 3 and 4)	16.920%	16.920%

Based on this rate, the Employer Contribution Rate for the Reduced Workload Program for fiscal year 2021-22 should be 16.920% for both the CalSTRS 2% at 60 and the CalSTRS 2% at 62 members.

RECOMMENDATION

Staff recommends that the Employer Contribution Rate for the Reduced Workload Program be set equal to 16.920% of payroll, which is the proposed employer contribution rate for the Defined Benefit Program for fiscal year 2021-22.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of Employer Contribution Rate for the Reduced Workload Program for the 2021-22 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, the Teachers' Retirement Law requires that the Teachers' Retirement Board adopt the Employer Contribution Rate for the Reduced Workload Program; and

WHEREAS, the Teachers' Retirement Board adopted a policy to base the rate on the greater of (1) the normal cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit; and

WHEREAS, based on the June 30, 2020 actuarial valuation of the Defined Benefit Program, the normal cost rate equals to 20.833% for the 2% at 60 members and 18.086% for the 2% at 62 members; and

WHEREAS, for fiscal year 2021-22 the 2% at 60 member contribution rate is 10.250% and the 2% at 62 member contribution rate is 10.205%; and

WHEREAS, the proposed employer contribution rate of 16.920% in the 2021-22 fiscal year is greater than the normal cost rate less the member contribution rate for both the 2% at 60 and 2% at 62 members; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the Employer Contribution Rate of 16.920% for the CalSTRS 2% at 60 and the CalSTRS 2% at 62 members for participation in the Reduced Workload Program during the 2021-22 fiscal year.

Adopted by:
Teachers' Retirement Board
On June 10, 2021

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Permissive Service Contribution Rates - Defined Benefit Program

SUBJECT

Adoption of the Permissive Service Contribution Rates for the Defined Benefit Program for Fiscal Year 2021-22.

SUMMARY

Permissive Service Contribution Rates are used to charge members for the purchase of additional service credit. Current law allows members of the Defined Benefit Program to purchase service credit for the following specific activities that were previously undertaken by the member:

- Certificated employment in a childcare center operated by a school district or county office of education;
- Teaching at a state college or university in California;
- Teaching at either the California School for the Deaf or the California School for the Blind;
- Up to two years of certificated employment in California for the federal Job Corps;
- Certificated employment in a Native American School;
- Previous certificated service subject to coverage in the Defined Benefit Program but prior to Defined Benefit Program membership;
- Employment in a public school in another state;
- Service in the American Red Cross prior to 1957;
- Approved leave to participate in the federal Mutual Educational Cultural Exchange Program;
- Maternity/paternity leave;
- Military leave;
- Family care and/or medical leave; and
- Approved sabbatical leave

Under board policy, separate contribution rates are adopted for members under the 2% at 60 and the 2% at 62 benefit structures. The contribution rates are individual rates for each year of age, with a single rate for the ages below age 28 and a single rate for age 73 and above. The contribution rates are rounded to the nearest tenth of a percentage point. Finally, the rates are based on a recommendation from staff after an actuarial study of permissive credit service purchases has been completed. These rates are reviewed for appropriateness and adopted by the board on an annual basis.

For each year, or portion of a year of purchased service, the appropriate contribution rate is multiplied by the member's compensation. The specific compensation used depends on the member's status at the time of the purchase of the permissive service credit.

If the member is employed to perform creditable service subject to coverage by the Defined

Benefit Program at the time of the election to purchase, the earnings are based on the greater of the compensation earnable in the current school year or either of the two immediately preceding school years.

If the member is not employed to perform creditable service subject to coverage by the Defined Benefit Program at the time of the election to purchase permissive service credit, the earnings are based on the greater of the compensation earnable in the last school year of credited service or either of the two immediately preceding school years.

Members may purchase permissive service credit either in a lump sum, or in up to 120 monthly installments. If permitted by the member’s employer, the installment may be deducted from a member’s paycheck on a tax-deferred basis. Regular interest is charged on any monthly unpaid balance for an installment purchase.

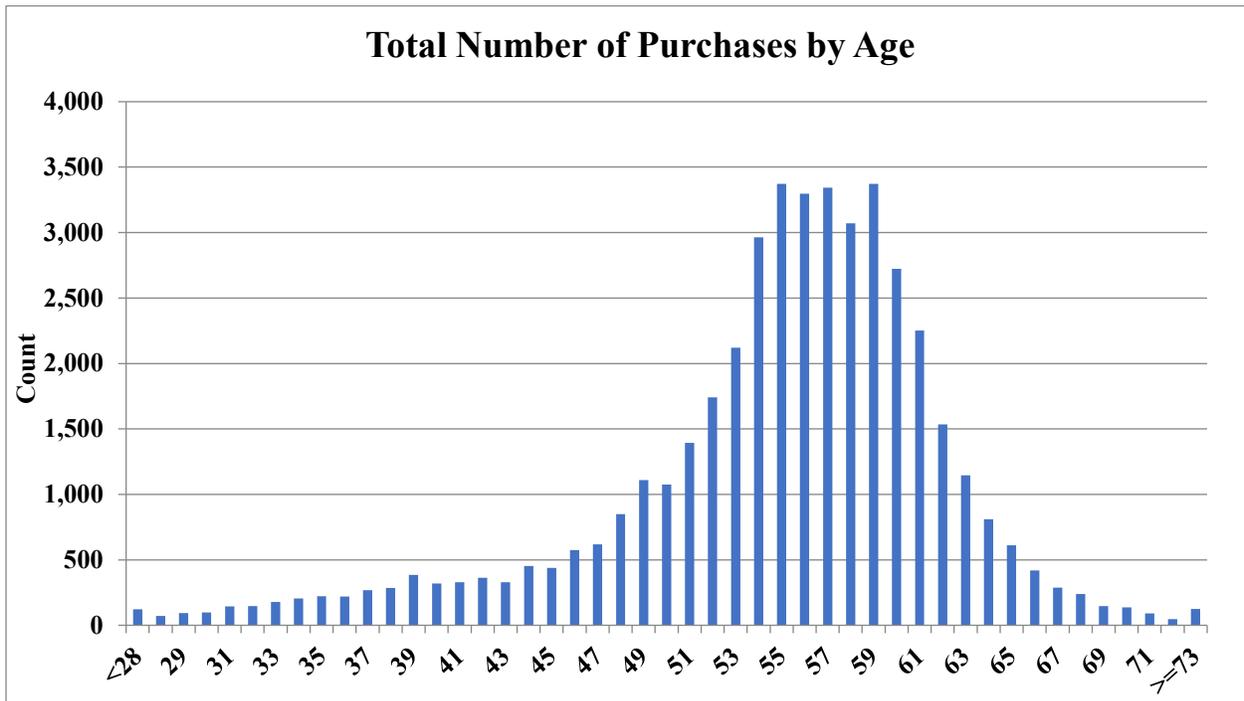
Actuarial Study of Permissive Service Credit Purchases

To determine the contribution rates for permissive service credit purchases, staff analyzed past purchases of permissive service credit stored in the CalSTRS database since 2001. In total, there were 44,133 separate purchases of service credit by 30,532 different members, with some members purchasing service credit for more than one type of permissive service during this time period. There were 656 purchases in fiscal year 2019-20. The following table shows the breakdown of purchases by permissive service type, and the average amount of service purchased since 2001. Note that the ability to purchase nonqualified service (also known as “airtime”) was eliminated by AB 340 in 2012. As such, past nonqualified service credit purchases were excluded from this analysis.

All Permissive Service Purchase Types	Count	Average Amount of Service Purchased
CB Non-Member Service	534	1.753
Child Care Center	18	1.636
State College or University Service	362	1.166
CB Consolidation of Benefits	961	3.002
Deaf and Blind School	2	1.265
Family Care and/or Medical Leave	1750	0.286
Federal Mutual Educational Culture Exchange Program	23	0.792
California Job Corps	16	1.284

All Permissive Service Purchase Types	Count	Average Amount of Service Purchased
Maternity/Paternity	7,245	0.668
Military	16	2.051
Native American School	7	2.871
Non-Member Service	18,446	0.712
Out of State	11,517	2.649
Peace Corps	19	1.426
Sabbatical	3,026	0.360
Uniformed Service Credit	161	0.988
Workers Compensation	30	0.242
Total	44,133	1.238

The chart below shows the total number of purchases by age since fiscal year end 2001, excluding past nonqualified service credit purchases.



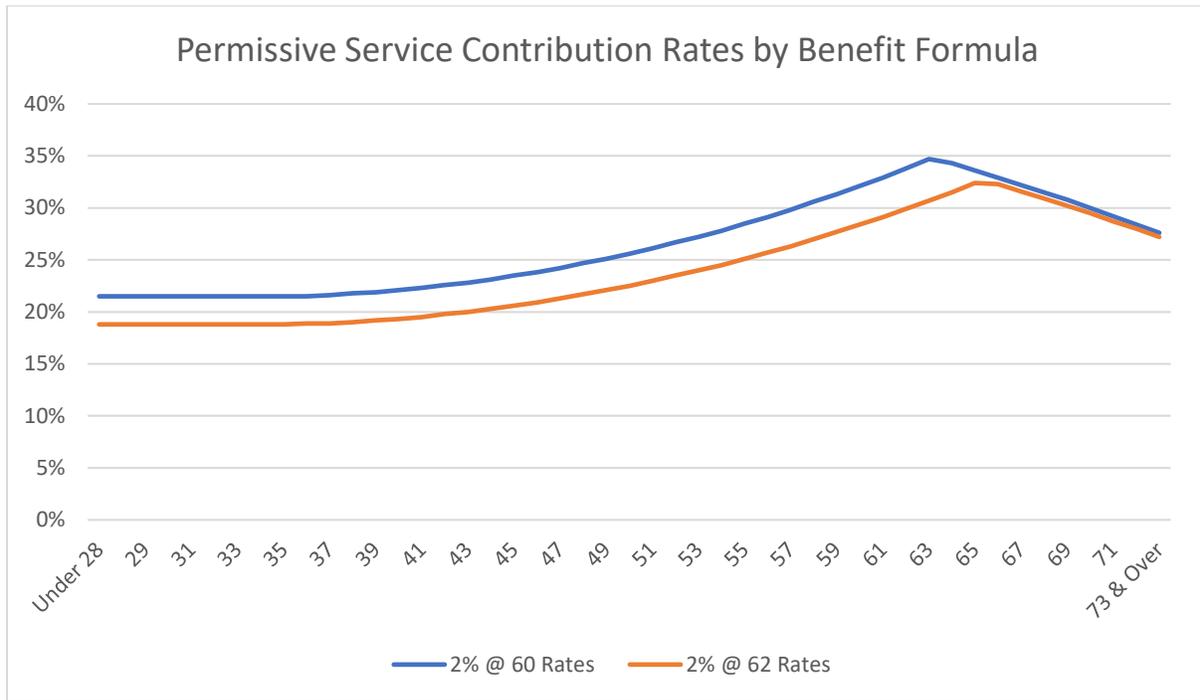
Of the 44,133 purchases, only 222 were by members under the CalSTRS 2% at 62 benefit structure, which is an insufficient number to credibly determine rates for this group. Therefore, to determine recommended service credit purchase rates for the 2% at 62 benefit structure, it was assumed that this group will have the same overall demographic makeup and purchasing patterns as the members purchasing permissive service credit under the CalSTRS 2% at 60 (with eligibility prior to January 1, 2013) benefit structure.

The primary drivers of the cost to purchase permissive service credit are the actuarial assumptions used. In particular, the mortality assumptions, the investment return assumption, the assumed increases in salary, and the expected retirement age have the largest impact to the Permissive Service Contribution Rates.

In addition, several of the assumptions used for setting the Permissive Service Contribution Rates are based on the demographics of members electing to purchase service. One example is the average retirement age of those who have purchased service credit. Since there are now over forty thousand historical purchases in the analysis, the relatively small number of new purchases each year have a minor impact on the key assumptions. Furthermore, recent purchases have been consistent with historical experience.

Finally, for the 2020-21 fiscal year, the model used to determine Permissive Service Contribution Rates was enhanced to streamline the calculation of rates. This change had minimal impact on the resulting contribution rates and results in rates that are more stable from year-to-year, reacting less to slight changes in demographic data. As a consequence, staff recommends no changes to the Permissive Service contribution rates for fiscal year 2021-22.

The following chart compares the Permissive Service contribution rates for both the 2% at 60 members and 2% at 62 members.



It is anticipated that the Permissive Service contribution rates will remain the same until the board revisits the actuarial assumptions. The next review of actuarial assumptions is currently scheduled to take place in three years. Staff will continue to perform an annual review of the Permissive Service Contribution Rates and report the results to the board.

RECOMMENDATION

Staff recommends that the board adopt the Permissive Service Contribution Rates provided in the resolution below to be used for the purchase of additional service credit for the fiscal year 2021-22 under the CalSTRS 2% at 60 and CalSTRS 2% at 62 benefit structures.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Permissive Service Contribution Rates

RESOLUTION NO. XX-XX

WHEREAS, the Teachers' Retirement Law, Section 22801 specifies the use of the contribution rate for purchases of additional service credit in the Defined Benefit Program; and

WHEREAS, the Teachers' Retirement Law, Section 22117 defines the development of the contribution rate for purchases of additional service credit, and gives the Teachers' Retirement Board the authority to determine the contribution rate; and

WHEREAS, the Teachers' Retirement Board adopted a policy that the Permissive Service Contribution Rates used for the purchase of additional service credit be determined based on the actuarial cost of the permissive service credit purchased and set based on single-year rates for each age, and separated into two sets, based on the two distinct benefit structures; and

WHEREAS, members who are first hired on or after January 1, 2013 are subject to a lower benefit structure than those hired before January 1, 2013; and

WHEREAS, an actuarial study has been performed by staff to develop Permissive Service Contribution Rates for use in the purchase of additional service credit based on single-year rates based on age and benefit structure; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the attached Permissive Service Contribution Rates by age ranges effective July 1, 2021 for the 2% at 60 and the 2% at 62 benefit structures.

Adopted by:
Teachers' Retirement Board
On June 10, 2021

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Permissive Service Contribution Rates for Fiscal Year 2021-22

<u>Age</u>	<u>2% at 60</u>	<u>2% at 62</u>	<u>Age</u>	<u>2% at 60</u>	<u>2% at 62</u>
Under 28	21.5%	18.8%	51	26.1%	23.0%
28	21.5%	18.8%	52	26.7%	23.5%
29	21.5%	18.8%	53	27.2%	24.0%
30	21.5%	18.8%	54	27.8%	24.5%
31	21.5%	18.8%	55	28.5%	25.1%
32	21.5%	18.8%	56	29.1%	25.7%
33	21.5%	18.8%	57	29.8%	26.3%
34	21.5%	18.8%	58	30.6%	27.0%
35	21.5%	18.8%	59	31.3%	27.7%
36	21.5%	18.9%	60	32.1%	28.4%
37	21.6%	18.9%	61	32.9%	29.1%
38	21.8%	19.0%	62	33.8%	29.9%
39	21.9%	19.2%	63	34.7%	30.7%
40	22.1%	19.3%	64	34.3%	31.5%
41	22.3%	19.5%	65	33.6%	32.4%
42	22.6%	19.8%	66	32.9%	32.3%
43	22.8%	20.0%	67	32.2%	31.6%
44	23.1%	20.3%	68	31.5%	30.9%
45	23.5%	20.6%	69	30.8%	30.2%
46	23.8%	20.9%	70	30.0%	29.5%
47	24.2%	21.3%	71	29.2%	28.7%
48	24.7%	21.7%	72	28.4%	28.0%
49	25.1%	22.1%	73 and above	27.6%	27.2%
50	25.6%	22.5%			