

POTENTIAL CHANGES IN CALSTRS ACTUARIAL ASSUMPTIONS MAY INCREASE 2% AT 62 MEMBER AND STATE CONTRIBUTION RATES; EMPLOYER RATE NOT AFFECTED AT THIS TIME

As fiduciaries, the Teachers' Retirement Board ("board") and CalSTRS staff are committed to ensuring a financially sound retirement system. In support of this goal, CalSTRS periodically reviews the actuarial assumptions used to measure the funding status of the State Teachers' Retirement Plan. The purpose of this circular is to inform employers and other stakeholders of the decision-making process involved in determining the actuarial assumptions and to provide information regarding the impact and timing of any potential contribution rate increases for certain CalSTRS members and the state that may result from changes to these assumptions.

In February 2017, the board will be presented with a new actuarial experience study completed by an independent actuarial firm and validated by a second independent actuarial firm. An actuarial experience study is a periodic review of the demographic and economic assumptions used to determine the assets and liabilities of the system. In April 2017, the board will be presented with an independent actuarial valuation to measure assets and liabilities to determine the funding progress of the retirement system based upon the assumptions adopted in February.

Depending on the decisions the board makes with respect to the actuarial assumptions, the CalSTRS 2% at 62 Defined Benefit member contribution rate and the state contribution rate *could* increase beginning July 1, 2017. Previously established increases to the employer contribution rate will not be affected at this time. Under all of the options being considered, CalSTRS continues to anticipate that the unfunded liability will be eliminated by 2046 as provided by the 2014 funding plan.

Employer Contribution Rate

The employer contribution rate will continue to increase each year in accordance with the 2014 funding plan until it reaches 19.1 percent of Defined Benefit Program payroll beginning July 1, 2020. Employers will not be subject to any additional rate increases as a result of the actuarial valuation the board will adopt in April. However, based on the expected changes to the actuarial assumptions, as provided under the 2014 funding plan, employer contributions may be subject to additional increases beginning in fiscal year 2021–22 (not to exceed 1 percent annually and not to exceed a total of 20.25 percent) in order to eliminate the unfunded liability by 2046.

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Member Contribution Rates

2% at 62 Members: For CalSTRS 2% at 62 members, in accordance with the 2014 funding plan, the 2016-17 fiscal year Defined Benefit member contribution rate is 9.205 percent of creditable compensation. The provisions of California Public Employees' Pension Reform Act of 2013 require 2% at 62 members' contribution rates to be increased or decreased if the normal cost of the benefit changes by more than 1 percent of payroll from the originally established normal cost rate.

What this means is, depending on the decisions the board makes with respect to the actuarial assumptions, CalSTRS 2% at 62 Defined Benefit members' contribution rate *could* increase beginning July 1, 2017. Any increase in 2% at 62 members' contribution rate due to an increase in the normal cost is expected to be no more than 1 percent of creditable compensation for a total of no more than 10.205 percent.

2% at 60 Members: In accordance with the 2014 funding plan, effective July 1, 2016, the Defined Benefit member contribution rate for 2% at 60 members is 10.25 percent of creditable compensation. The Defined Benefit member contribution rate for CalSTRS 2% at 60 members will not be subject to any additional increases as a result of changes to the actuarial assumptions.

State of California Contribution Rate

Currently, the state contribution rate is 8.828 percent of Defined Benefit Program payroll. Under the 2014 funding plan, the state contribution rate could be increased or decreased beginning July 1, 2017, and each year thereafter to eliminate the unfunded liability by 2046. The state rate cannot be increased by more than 0.5 percent above the rate in effect the previous fiscal year.

What this means is that the state contribution rate *could* increase to 9.328 percent of Defined Benefit Program payroll beginning July 1, 2017, and could continue to increase annually by up to 0.5 percent in subsequent years, depending upon the funding status of the plan.

Next Steps

The board will meet February 1, 2017, to discuss the actuarial experience study and consider revisions to the actuarial assumptions. Live audio of the meeting will be broadcast online at CalSTRS.com.

Until the board adopts the actuarial valuation in April, it is unknown whether CalSTRS 2% at 62 member or state contribution rates will increase. After the April meeting, CalSTRS will issue an Employer Directive to announce the contribution rates in effect for the 2017–18 fiscal year.

If you would like additional information, please contact your Member Account Services employer representative.