

EXPECTED 1 PERCENT INCREASE IN THE CALSTRS 2% AT 62 MEMBER CONTRIBUTION RATE

The provisions of the California Public Employees' Pension Reform Act of 2013 require CalSTRS 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.

The normal cost is the rate (as a percentage of creditable compensation) for each year of service necessary to adequately fund the benefit over time. The normal cost does not include costs associated with amortizing, or paying down, any unfunded liabilities.

In February 2017, the Teachers' Retirement Board ("board") made an important decision to ensure the long-term sustainability of CalSTRS by adopting new actuarial assumptions that reflected increased life expectancies and lower future expected earnings on investments. To minimize the anticipated impact of this change on the CalSTRS 2% at 62 members' contribution rate, the board delayed the full implementation of all assumption changes until 2018.

In May 2018, the board is expected to adopt a revised normal cost for CalSTRS 2% at 62 members, fully reflecting all of the new assumptions adopted in 2017. The new normal cost is expected to result in an increase of 1 percent of creditable compensation in the contribution rate for CalSTRS 2% at 62 members, adjusting that rate from 9.205 percent to 10.205 percent. The new contribution rate would be effective on July 1, 2018.

In accordance with the CalSTRS Funding Plan, effective July 1, 2016, the member contribution rate for CalSTRS 2% at 60 Defined Benefit members is 10.25 percent of creditable compensation. The Defined Benefit member contribution rate for CalSTRS 2% at 60 members is set in statute and will not be subject to any additional increases.

Next Steps

The board will meet in May 2018, to discuss the result of the most recent actuarial valuation for the Defined Benefit Program. Based on the result of the valuation, the board will be asked to exercise its authority granted under the CalSTRS Funding Plan and adopt a higher contribution rate for the state in order for the system to reach full funding by 2046. In addition, the board will be asked to adopt a revised normal cost for CalSTRS 2% at 62 members. The revised normal cost is expected to result in an increase of 1 percent of creditable compensation in the contribution rate for CalSTRS 2% at 62 Defined Benefit members.

The employer contribution rate will continue to increase as per the schedule set in statute. For fiscal year 2018–19, the employer contribution rate to the Defined Benefit Program is 16.28 percent of creditable compensation.

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The May board meeting will be broadcast online at CalSTRS.com/teachers-retirement-board. After the May meeting, CalSTRS will issue an Employer Directive to announce the actual contribution rates in effect for the 2018–19 fiscal year.

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