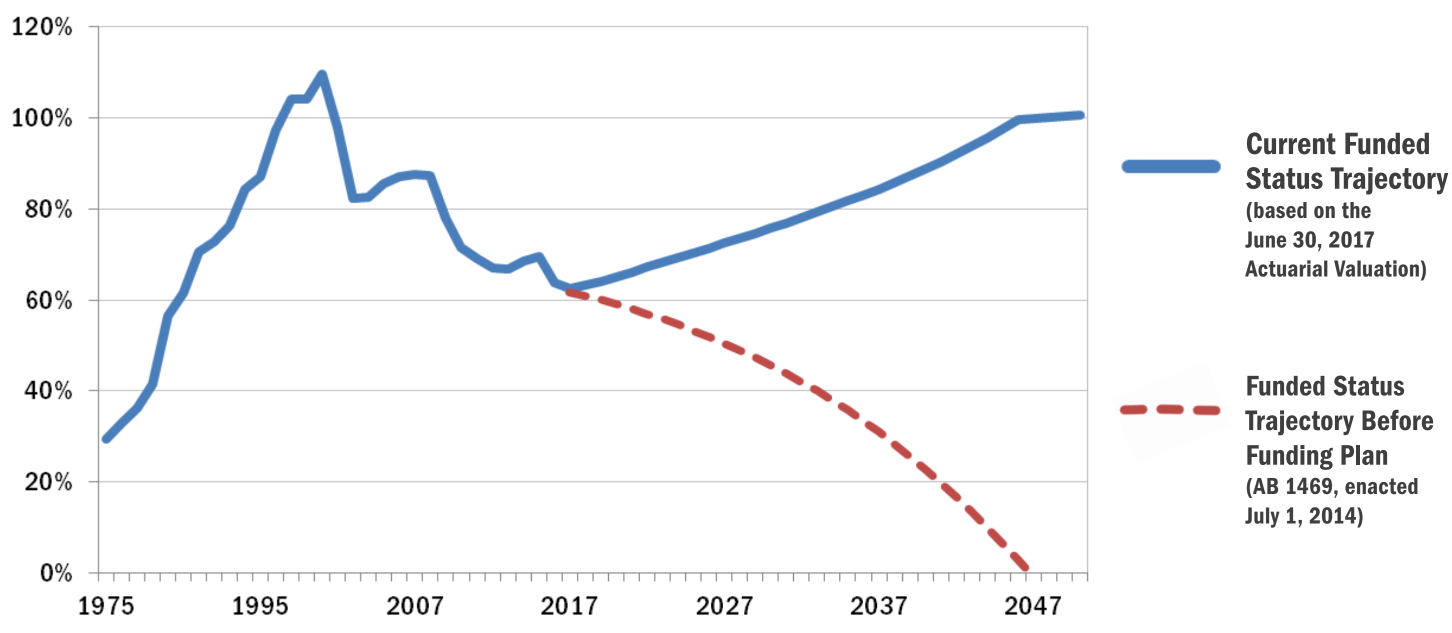
CalSTRS Actuarial Valuation 2017

The actuarial valuation of the CalSTRS Defined Benefit Program is a fiscal year snapshot of the DB Program's financial ability to meet its long-term obligations. The valuation that will be presented on May 10, 2018, by CalSTRS' actuarial staff and actuarial consultant, Milliman, measures the fund on June 30, 2017. It is based on the latest investment portfolio asset allocation study, adopted in November 2015, which aligns with the CalSTRS Funding Plan (AB 1469, enacted July 1, 2014) to maintain the DB Program on a trajectory toward full funding. The top points in the 2017 valuation are:

- CalSTRS continues to make progress, according to the CalSTRS Funding Plan, toward fully funding the system by 2046.
- The funding ratio declined from 63.7 percent in 2016 ($96.7 billion unfunded actuarial obligation), to 62.6 percent in 2017 ($107.3 billion UAO).
- A decline over the past year was anticipated after the Teachers' Retirement Board adopted new actuarial assumptions at its February 1, 2017, meeting that:
  - » Reduced the investment return assumption from an annual 7.50 percent in the 2015 valuation, to 7.25 percent in the 2016 valuation, and then to 7.0 percent for the 2017 valuation.
  - » Increased expected life spans of CalSTRS members.
- As a result of the normal cost of the plan increasing, CalSTRS members who first began employment on or after January 1, 2013 (under the 2% at 62 benefit formula) will see a 1.0 percent increase in their contribution rate effective July 1, 2018. This brings their contribution rate to 10.205 percent.
- Employers will continue to contribute as per the predictable schedule set in statute after the passage of the funding plan.
- Employers will not see an additional rate increase this year due to the assumption changes.
- The state's rate, currently set at 9.328 percent of payroll, will increase by 0.5 percent of payroll this fiscal year to 9.828 percent. This includes the 2.5 percent of payroll the state contributes to the Supplemental Benefit Maintenance Account.

While the funding status was expected to decline now that the return assumption has been lowered to 7.0 percent, an upswing is projected as contributions increase, with a steady ascent toward full funding by 2046.

CalSTRS Funded Status (Historical and Projected):



Funding Plan Facts

In 2014, the Legislature and Governor passed and signed AB 1469, establishing a 32-year funding plan designed to bring the system toward full funding by 2046. The plan gave the Teachers' Retirement Board limited rate-setting authority with regular, periodic, consultations with the Legislature. Prior to that, the board lacked any rate-setting authority. Under the CalSTRS Funding Plan:

- Members first hired before January 1, 2013, saw their annual contribution rate increase to 10.25 percent of payroll as of July 1, 2016.
- Members first hired on or after January 1, 2013, saw their rates rise from 8 percent to 9.205 percent in 2016.
- Employer rates increased from 8.25 percent in 2014, with steady, gradual annual increases required to reach 19.10 percent by 2020. Employer rates are anticipated to revert to 8.25 percent in 2046.
- The state rate grew from 3.041 percent of payroll in 2014 to 7.328 percent, effective July 1, 2018. To eliminate the state's share of the unfunded actuarial obligation, additional increases of 0.5 percent will be needed for the next five years. The state also pays an additional 2.5 percent of payroll to the Supplemental Benefit Maintenance Account, an inflation-protection program for retirees.

Prior to the CalSTRS Funding Plan, contributions had not increased for CalSTRS members since 1972 and for employers since 1986.

Responsible, Predictable Rate Adjustments

As they regularly do, the Teachers' Retirement Board undertook a rigorous review of the assumptions used to measure the system's funding. The board adopted more conservative assumptions than those recommended by actuarial and investment experts. After decades without contribution rate increases, combined with several market downturns since the 2001 dot-com bust, the Legislature and Governor acted in 2014 to adopt rate increases that are shared and predictable, and that put the CalSTRS Defined Benefit Program on a solid path toward full funding by 2046. As expected, CalSTRS continues to make steady progress on that path.