CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Fact Sheet

CalSTRS Funding Considerations

CalSTRS current shortfall of approximately $74 billion is based on an actuarial valuation of the fund's assets and liabilities as of June 30, 2013, which shows the CalSTRS Defined Benefit Program is about 67 percent funded. The $74 billion unfunded liability represents the difference between the actuarial value of assets and actuarial liabilities; the market value of $74.4 billion, (referenced in the Governor's Budget Proposal) represents the difference between the market value of assets and actuarial liabilities. Both values correctly reflect the difference between CalSTRS assets and liabilities.

Absent any changes in contribution rates or liabilities, current calculations show the program will deplete its assets by as early as 2046. What is needed to fund the existing benefit plan is an increase in contribution rates which can be gradual and predictable. Unlike most other pension plans in California, the CalSTRS board lacks the authority to raise contribution rates–only the Legislature and the Governor can do that. The state must act to adopt a responsible funding strategy that upholds the state's promise to teachers while protecting the state General Fund. For every day that goes by without a funding strategy in place, the costs rise by $15 million.

CalSTRS Contribution Rates Have Not Increased in Decades

- All CalSTRS contribution rates are set by statute.
- As stated in CalSTRS' report pursuant to Senate Concurrent Resolution 105, the definitive approach to addressing the long-term funding needs of the Defined Benefit Program is to fully fund the program within 30 years.
- Based on the June 30, 2013, actuarial valuation, acting to increase contributions in 2015 in order to fully fund the program over the following 30 years would translate to an additional 14.3 percent of payroll or a projected $4.1 billion in the first year. The cost would rise the later the contribution increase begins. For example, waiting until 2018 translates to an additional 15.7 percent of payroll or $5.0 billion initially.
- The contributions by employers and the state have been less than the contributions required for the Annual Required Contribution to fully fund the program since 2002. In 2002 the ARC was 90 percent paid. In 2012-13 44 percent of the ARC was paid.
- Employer contributions of 8.25 percent have not increased since 1986; & employee rates of 8 percent since 1972.
- The state contribution amount of 5.541 percent includes the state contribution to the Defined Benefit Program of 3.041 percent for the 2013-14 fiscal year, and 2.5 percent to the Supplemental Benefit Maintenance Account.
- The State's contribution to the Defined Benefit Program has fluctuated significantly throughout CalSTRS' 100-year history, peaking at 4.607 percent in 1991 and is now 3.041 percent.
- CalSTRS members and employers do not contribute to Social Security as CalSTRS members do not earn Social Security benefits for their CalSTRS-covered employment.

Other Considerations

- Contributions paid by Defined Benefit Program members cannot be increased once they are hired to perform service subject to coverage in the program, unless the members receive a corresponding, offsetting advantage.
- Included in the 2014-15 Budget Proposal is language that commits the Administration to work with legislators, school districts, teachers and the pension system on a plan of shared responsibility to achieve a fully funded, sustainable pension system within 30 years, with adoption of a funding plan as part of the 2015-16 Budget.

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