



California State Teachers'
Retirement System
Executive Office
PO Box 15275
Sacramento, CA 95851-0275
www.CalSTRS.com

June 26, 2014

TO: All County Superintendents of Schools
District Superintendents of Schools
Community College Districts and
Other Employing Agencies

FROM: Jack Ehnes
Chief Executive Officer

SUBJECT: Employer Directive 2014-05
CalSTRS Long-Term Funding: Legislative Changes to Education Code that
Affect Defined Benefit Contribution Rates Starting July 1, 2014

PURPOSE

The purpose of this directive is to notify employers of changes to Education Code sections contained in Chapter 47, Statutes of 2014 (Assembly Bill 1469-Bonta), which become effective July 1, 2014.

SCOPE

This directive applies to all county superintendents of schools, school districts, community college districts, and other employing agencies that employ persons to perform creditable service under the CalSTRS Defined Benefit (DB) Program and the Defined Benefit Supplement (DBS) Program.

DISCUSSION

Under previous law, the current and projected assets of the DB Program were insufficient to meet the obligations already accrued or projected to be accrued in the future with respect to service credited to members of the DB Program. Therefore, in order to address CalSTRS funding gap, Chapter 47 makes various substantive changes to the Teachers' Retirement Law to provide for full funding of the DB Program within 32 years through gradual, shared contribution rate increases by CalSTRS members, employers and the State of California.

Member contribution rate increases are set in statute to increase each year through the 2016-17 fiscal year. Employer and state contribution rate increases are set in statute to increase through the 2020-21 fiscal year and the 2016-17 fiscal year, respectively; but can be adjusted by the CalSTRS board on a limited basis after those years until June 30, 2046, when the contribution increases will be repealed.

Increases in member and employer contribution rates are only for creditable compensation under the DB Program paid to CalSTRS members for service performed after July 1, 2014.

DB Program Member Contribution Rate Increases

Chapter 47 adds Section 22901.7 to the Education Code. This section outlines the member contribution rate increases for CalSTRS 2% at 60 and CalSTRS 2% at 62 members.

CalSTRS 2% at 60 Members:

The contribution rate for compensation creditable to the DB Program for service performed after July 1, 2014 by CalSTRS members who are not subject to the Public Employees' Pension Reform Act of 2013 (PEPRA) increases as follows:

Date of Increase	Base Member Contribution Rate	Percentage Increase on Base Rate	Total Member Contribution Rate
July 1, 2014	8.00%	0.15% increase	8.15%
July 1, 2015	8.00%	1.20% increase	9.20%
July 1, 2016	8.00%	2.25% increase	10.25%

CalSTRS 2% at 62 Members:

The contribution rate for compensation creditable to the DB Program for service performed after July 1, 2014 by CalSTRS members who are subject to PEPRA increases as follows:

Date of Increase	Base Member Contribution Rate	Percentage Increase on Base Rate	Total Member Contribution Rate
July 1, 2014	8.00%	0.15% increase	8.15%
July 1, 2015	TBD	0.56% increase	8.56%*
July 1, 2016	TBD	1.205% increase	9.205%*

*As set forth in Education Code section 22901, the normal cost of the pension benefits are determined each fiscal year, and the contribution base rate for CalSTRS 2% at 62 members will be adjusted if the normal cost has changed by more than one percent since the last adjustment in the member contribution base rate. The percentage increase set forth in Education Code section 22901.7 will apply to the new member contribution base rate. The contribution rates shown in the above table for 2015-16 and 2016-17 are based on the current normal cost of the program, and are subject to change based on an annual actuarial valuation.

Once the 2015-16 and 2016-17 CalSTRS 2% at 62 member contribution rates for the DB Program are determined, CalSTRS will publish them in the annual Interest and Contribution Rates and Present Value Factor for Fiscal Year Employer Directive.

ACTION

Starting July 1, 2014, employers must remit 8.15 percent of the member's creditable compensation for service performed after July 1, 2014 by CalSTRS 2% at 60 and CalSTRS 2% at 62 members.

Improvement Factor Vesting

Member contribution rates are a constitutionally protected contract right that can only be increased if the members receive a comparable offsetting advantage. The DB Program provides for an annual 2 percent benefit adjustment, known as an improvement factor, to be applied to monthly allowances of CalSTRS members and beneficiaries. Under previous law, Education Code sections 22140 and 22141 reserved the Legislature's right to adjust the amount of the improvement factor for all members, as long as the adjustment did not reduce the monthly allowance, annuity or benefit below what would have been payable to the recipient.

Chapter 47 adds Section 22901.7 to the Education Code, and amends Education Code sections 22140 and 22141 to stipulate that the improvement factor is a vested right which cannot be taken away for any CalSTRS member who is an active member of the DB Program on or after January 1, 2014. For any CalSTRS member who retired prior to January 1, 2014, the Legislature retains the right to adjust the improvement actor.

ACTION

No action needs to be taken by employers.

DB Program Employer Contribution Rate Increases

Chapter 47 also adds Section 22950.5 to the Education Code, which outlines the employer contribution rate increases. The employer contribution rate for compensation creditable to the DB Program for service performed after July 1, 2014 by all CalSTRS members will increase as follows:

Date of Increase	Base Employer Contribution Rate	Percentage Increase on Base Rate	Total Employer Contribution Rate
July 1, 2014	8.25%	0.63% increase	8.88%
July 1, 2015	8.25%	2.48% increase	10.73%
July 1, 2016	8.25%	4.33% increase	12.58%
July 1, 2017	8.25%	6.18% increase	14.43%
July 1, 2018	8.25%	8.03% increase	16.28%
July 1, 2019	8.25%	9.88% increase	18.13%
July 1, 2020	8.25%	10.85% increase	19.10%

For fiscal year 2021-22 and each fiscal year thereafter, Education Code section 22950.5 gives authority to the CalSTRS board to increase or decrease the percentage paid by employers as necessary to eliminate the unfunded actuarial obligation attributed to service credited to members

prior to July 1, 2014, by 2046. If an employer contribution rate adjustment is required, the percentages can adjust by no more than 1 percentage point per year, and the total increase to the base contribution rate cannot exceed 12.00 percentage points.

Employer Contribution Rate for Reduced Workload Program and Elected Officers:

Each year, the board adopts employer contribution rates for members who participate in the Reduced Workload Program (RWP) and for members who are on a compensated leave of absence to serve as an elected officer of an employee organization during the new fiscal year. Any change in the employer contribution rate for this service for 2014-15 depends on future board action. Until such action has taken place, the current employer contribution rates for RWP and elected officers, as set forth in Employer Directive 2014-02, continue to be in effect.

CalSTRS will develop future publications to inform employers if there is a change in the employer contribution rates for RWP or elected officials.

ACTION

Starting July 1, 2014, employers must remit 8.88 percent of a member's creditable compensation for service performed after July 1, 2014 by CalSTRS 2% at 60 and CalSTRS 2% at 62 members.

Continue remitting contributions for the RWP and elected officers as set forth in Employer Directive 2014-02.

DBS Program Member and Employer Contribution Rates

The contribution increases provided for under Chapter 47 apply specifically to compensation paid for service performed after July 1, 2014, that is creditable to the DB Program. As a result, the member contribution rates for compensation that is creditable to the DBS Program remains 8 percent for CalSTRS 2% at 60 members, and one half of the normal cost rate, as adopted by the board (currently 8 percent), for CalSTRS 2% at 62 members pursuant to Education Code section 22901. The employer contribution rate for compensation that is creditable to the DBS Program for all CalSTRS members remains 8.25 percent, pursuant to Education Code sections 22950 and 22951. Of this amount, 8 percent is credited to the member's DBS Program account and 0.25 percent goes to the DB Program to pay for the cost of service credit for unused sick leave.

If compensation is creditable to a member's DBS account, the contributions due are not affected by Education Code sections 22901.7 or 22950.5. The types of compensation creditable to CalSTRS 2% at 60 member's DBS account are:

- Compensation determined by the system to have been paid to enhance a member's benefit;
- Compensation that is paid for a limited number of times as specified by law, a collective bargaining agreement, or employment agreement; and
- Compensation for creditable service that exceeds one year in a school year.

EMPLOYER DIRECTIVE 2014-05

June 26, 2014

Page 5 of 5

The types of compensation creditable to CalSTRS 2% at 62 member's DBS account are:

- Compensation for creditable service that exceeds one year in a school year.

Currently, if any member earns more than one year of service credit in any given school year, the contributions associated with the excess service credit are transferred from the member's DB account into the member's DBS account at the end of the fiscal year.

Chapter 47 amends Education Code section 22905 to specify that because the amount of required member and employer contributions creditable to the DBS Program remains pursuant to Education Code sections 22901, 22950 and 22951, if CalSTRS collects contributions in excess of these rates on compensation creditable to the member's DBS account, CalSTRS will return that excess member and employer contribution amounts to the employer, and the employer will return the excess member contribution to the employee.

ACTION

For service performed on or after July 1, 2014 by CalSTRS 2% at 60 and CalSTRS 2% at 62 members, employers must remit 8.15 percent of a member's creditable compensation; and 8.88 percent of all members' creditable compensation as the employer contribution to the member's DB account.

CalSTRS is currently evaluating various options for returning the excess contributions. CalSTRS will send out subsequent communications if any changes in employer procedures are required to implement this provision.

This employer directive does not take precedence over the law. To view Chapter 47, Statutes of 2014 (Assembly Bill 1469) in its entirety, please go to <http://leginfo.legislature.ca.gov>.

If you have any questions regarding this employer directive, please contact your CalSTRS Member Account Services Representative.