

CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

# CalSTRS 2014 Funding Plan

Overview of AB 1469

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## Benefit Funding Sources Prior to 2014

**Member** Contribution | **8** percent of pay unchanged since 1972.

**Employer** Contribution | **8.25** percent of pay unchanged since 1986.

**State** Contribution | **3.041** percent of pay – higher in 1998 at 4.607 percent.

**Benefit funding sources** from contributions provide 42 percent of resources needed to fund benefits.

**Investment Returns** provide 58 percent of those resources.

## Limitations on Member Contribution Increases

- Education Code set member contribution rate at 8 percent in 1972.
  - Member's contribution rate is component of a **vested right**.
- Core benefits (retirement, disability & survivor benefits) are also a vested right **– a contract**.
- Core benefits and member contributions are constitutionally guaranteed as contracts.
- Member contribution increases cannot occur unless a comparable, offsetting advantage is received.

## Annual Benefit Adjustment Not a Guaranteed Benefit

- 2 percent of initial pension amount added annually to benefit payment.
- Law permits reduction or elimination of annual increase in response to economic conditions.
- No suggestion had been made to reduce or eliminate annual benefit adjustment.
- Guaranteeing annual benefit adjustment provided an example of a comparable offsetting advantage.

## Funding Legislation Enacted – Assembly Bill 1469

- AB 1469 approved June 24, 2014.
- Fully funds the Defined Benefit Program in 32 years.
- Calls for shared contribution increases by state, schools, and members beginning on July 1, 2014 – phased in over the next several years.
- Guarantees the 2 percent Annual Benefit Adjustment which provides a comparable, offsetting advantage in exchange for member contribution increases.

## Member Contribution Increases

- Member contributions increase by an additional 2.25 percent for 2% at 60 members and an additional 1.205 percent for 2% at 62 (PEPRA) members phased in over the next three years, beginning July 1, 2014.

Effective Date	Prior Rate			AB 1469 Rates		
	All members	2% at 60 Members	2% at 62 Members	All members	2% at 60 Members	2% at 62 Members
July 1, 2014	8%	8.15%	8.15%	8%	8.15%	8.15%
July 1, 2015	8%	9.20%	9.20%	8%	9.20%	8.56%*
July 1, 2016	8%	10.25%	10.25%	8%	10.25%	9.205%*

\* 2% at 62 member rates assume no change in normal cost.

## Guarantee of 2 Percent Annual Benefit Adjustment

- For members who retired **before January 1, 2014,** the Legislature reserves the right to reduce improvement factor should economic conditions dictate. No change in retired member benefits.
- For members who retire **on or after January 1, 2014,** the improvement factor cannot be reduced.



## Employer Contribution Increases

- Employer contributions of 8.25 percent increase by an additional 10.85 percent phased in over seven years, and continue through 2046 (unless adjusted according to the parameters of the bill). Total of 19.1 percent.

Effective Date	Prior Rate	AB 1469	
		Increase	Total
July 1, 2014	8.25%	0.63%	8.88%
July 1, 2015	8.25%	2.48%	10.73%
July 1, 2016	8.25%	4.33%	12.58%
July 1, 2017	8.25%	6.18%	14.43%
July 1, 2018	8.25%	8.03%	16.28%
July 1, 2019	8.25%	9.88%	18.13%
July 1, 2020	8.25%	10.85%	19.1%
July 1, 2046	8.25%	Increase from prior rate ceases in 2046-47	



## State Contribution Increases

- The state contribution increases by 4.311 percent above the Base Rate, in addition to 2.5 percent for the Supplemental Benefit Maintenance Account.

Effective Date	Base Rate	Prior Rate		AB 1469		
		1990 Benefit Rate	Total	1990 Benefit Rate	Total	Increase from prior rate
July 1, 2014	2.017%	1.024%	3.041%	1.437%	3.454%	0.413%
July 1, 2015	2.017%	1.274%	3.291%	2.874%	4.891%	1.600%
July 1, 2016	2.017%	1.505%	3.522%	4.311%	6.328%	2.806%
July 1, 2046	2.017%	Prior rate is reinstated in 2046-47				

## AB 1469 Provisions

- Gives the Teachers' Retirement Board limited rate setting authority to adjust up or down employer and state contribution rates.
  - Requires the Teachers' Retirement Board to adjust the employer contribution rate beginning in 2021–22 by no more than 1 percent per year up to a maximum employer contribution rate of 20.25 percent to eliminate shortfall for service credit prior to July 1, 2014.
  - Requires the board to adjust the 1990 benefit rate beginning in 2017–18 to reflect the contribution required to eliminate the unfunded actuarial obligation attributable to benefits in effect as of July 1, 1990. If a rate increase is required, the increase cannot be more than 0.5 percent annually.

## AB 1469 Provisions

- Member rates are still set in statute.
- Increases only apply to the Defined Benefit Program. Increased contributions on Defined Benefit Supplement service will be returned to employers, who will in turn return member contributions to employees (CalSTRS members). No tax consequence to members.
- Statutory funding is based on the financial assumption that CalSTRS will earn 7.5 percent on investment returns over the 32-year period.
- CalSTRS must submit a funding status report to the Legislature every five years.

## CalSTRS & CalPERS Contribution Rate Comparison

Employer contribution rate	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>CalPERS school</b>	11.44%	11.77%	12.60%	15.00%	16.60%	18.20%	19.90%	20.40%
<b>Social Security</b>	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
<b>Total for CalPERS school employers</b>	17.64%	17.97%	18.80%	21.20%	22.80%	24.40%	26.10%	26.60%
<b>CalSTRS</b>	8.25%	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
<b>Difference in employer contribution rate</b>	<b>9.39%</b>	<b>9.09%</b>	<b>8.07%</b>	<b>8.62%</b>	<b>8.37%</b>	<b>8.12%</b>	<b>7.97%</b>	<b>7.50%</b>

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