

May 10, 2017

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

FROM: Jack Ehnes
EXECUTIVE OFFICE

SUBJECT: Employer Directive 2017-04
Supersedes Employer Directives 2016-07
Interest and Contribution Rates and Present Value Factor for Fiscal Year 2017-18

PURPOSE:

The purpose of this directive is to communicate the following rates and present value factors for the Defined Benefit (DB), Defined Benefit Supplement (DBS), and Cash Balance (CB) Benefit programs, as set forth by the Legislature and as adopted by the Teachers' Retirement Board:

- Member and Employer Contribution Rates – DB Program and CB Benefit Program
- Contribution Rate – DBS Program
- Regular Interest Rate – DB Program
- Credited Interest Rate – DB Program
- Minimum Interest Rate – CB Benefit Program and DBS Program
- Penalties and Interest Rate – DB Program and CB Benefit Program
- Permissive Service Credit Contribution Rate – DB Program
- Employer Contribution Rates for Elected Officials of Employee Organizations and Reduced Workload Program
- Present Value Factor for Unused Excess Sick Leave Service Credit

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 DB, DBS and CB Benefit programs.

DISCUSSION:**Member and Employer Contribution Rates - DB Program:**

Each employer must contribute to CalSTRS a specified percentage of the total creditable compensation earned by the employees who are members of the DB Program or participants of the CB Benefit Program.

Member and employer contribution rates are set in Education Code sections 22901, 22950 and 22951 for the DB Program. Effective July 1, 2014, Chapter 47, Statutes of 2014 (AB 1469–Bonta), added Sections 22901.7 and 22950.5 to the Education Code, which mandate additional member and employer contributions for creditable compensation for service performed on or after July 1, 2014. As a result, the employer contribution rate will increase by a statutorily defined amount annually through 2020-21, after which time the board may make additional annual adjustments not to exceed a maximum amount of 20.25 percent. As of July 1, 2016, no additional member contribution amounts are required pursuant to these provisions for 2% at 60 and 2% at 62 members.

Although 2% at 60 member contributions will no longer increase, 2% at 62 members are required to pay one half of the normal cost of their benefits as a result of the Public Employees' Pension Reform Act of 2013, and CalSTRS is required to adjust the contribution rate accordingly. The 2% at 62 member contribution rate will remain 9.205 percent for 2017-18. However, as a result of recent changes to the actuarial assumptions adopted by the Teachers' Retirement Board that change the normal cost for these members, this rate is expected to increase in the 2018-19 fiscal year.

Please refer to Employer Directive 2014-05 (ED14-05) for additional information on Chapter 47, Statutes of 2014 (AB 1469–Bonta).

The DB Program member and employer contribution rates are as follows:

| Fiscal Year Creditable Service Performed In | DB Member Contribution Rate CalSTRS 2% at 60 | DB Member Contribution Rate CalSTRS 2% at 62 | DB Employer Contribution Rate |
|--|---|---|--|
| Prior to 7/1/2014 | 8.00% | 8.00% | 8.25% |
| 2014-15 | 8.15% | 8.15% | 8.88% |
| 2015-16 | 9.20% | 8.56% | 10.73% |
| 2016-17 | 10.25% | 9.205% | 12.58% |
| 2017-18 | 10.25% | 9.205% | 14.43% |
| 2018-19 | 10.25% | *10.205% | 16.28% |
| 2019-20 | 10.25% | *10.205% | 18.13% |
| 2020-21 | 10.25% | *10.205% | 19.10% |

* Estimated based on June 30, 2016, valuation using 7 percent investment return.

Member and Employer Contribution Rates - CB Benefit Program:

Pursuant to Education Code section 26504, the member and employer contribution rates for the CB Benefit Program may be negotiated through the collective bargaining process and may vary by employer, provided all of the statutory minimum contribution rates for the CB Benefit Program are met.

Chapter 559, Statutes of 2013 (AB 1381–PER&SS), amended Education Code section 26504 to allow CB contribution rates that were bargained for prior to January 1, 2014, to remain in effect as outlined in the collective bargaining agreement for CB participants whose bargaining agreements were still in effect as of January 1, 2014. However, employers cannot negotiate new collective bargaining agreements, or extend, renew or amend current bargaining agreements, in which the employee contribution rate is less than the employer contribution rate.

Contribution Rates - DBS Program:

Employer and member contribution rates are set in statute for the DBS Program. Effective July 1, 2014, Chapter 47, Statutes of 2014 (AB 1469–Bonta), specifies that the amount of required member contributions creditable to the DBS Program remains 8 percent for CalSTRS 2% at 60 members and remains half of the normal cost rate, as adopted by the board, 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 account, and 0.25 percent is credited to the DB Program to pay for the cost of service credit for unused sick leave.

Therefore, if CalSTRS collects contributions in excess of the rates established in Education Code sections 22901, 22950 and 22951 on compensation creditable to the member's DBS account, CalSTRS returns the excess member and employer contribution amounts to the employer, and the employer is required to return the excess member contributions to the employee.

The DBS Program member and employer contribution rates are as follows:

| | Contribution Rate | Education Code Section |
|---------------------------------|--------------------------|-------------------------------|
| DBS Employer Contribution Rate: | 8.25% | 22905, 22950, 22951 |
| DBS Member Contribution Rate: | 8.00% | 22901, 22905 |

Interest Rates:

Regular Interest Rate means an interest rate that is equal to the actuarially assumed rate of return on investments on assets of the DB Program and is adopted annually by the board as a plan amendment with respect to the DB Program. The Regular Interest Rate is used by the DB

Program to charge interest on (1) previously refunded retirement contributions when a member elects to redeposit those contributions, and (2) installment payments for the (a) redeposit of contributions or (b) purchase of additional service credit. This rate is also used to charge employers interest on delinquent contributions and for reporting penalties. Finally, if there is a delay in the initial allowance payment, CalSTRS pays the benefit recipient interest on the allowance payment at the Regular Interest Rate.

The **Credited Interest Rate** is the interest that is credited to members' DB accumulated retirement contributions for service performed after June 30, 1935, excluding all contributions that accumulate while being paid an allowance. For the CB Benefit and DBS programs, the board adopts a minimum interest rate that is used to credit employee and employer accounts during the year.

The **Minimum Interest Rate** with respect to the CB Benefit and DBS programs is the rate used to credit interest to participant and member account balances respectively. The Minimum Interest Rate for both the CB Benefit and DBS programs is adopted annually by the board as a plan amendment.

CalSTRS shall assess penalties and interest on employers for late reports and late or insufficient contributions to both the DB and CB Benefit programs. The interest is assessed at the regular interest rate.

The rates for fiscal year 2017-18 are as follows:

| | Rate for FY 2017-18 | Rate for FY 2016-17 | Education Code Section |
|--|--------------------------------|--------------------------------|-----------------------------------|
| Regular Interest Rate | 7.00% | 7.50% | 22162 |
| Credited Interest Rate: Defined Benefit Program | 0.90% | 0.72% | 22216 |
| Minimum Interest Rate: Cash Balance Benefit Program | 2.64% | 2.88% | 26604 |
| Minimum Interest Rate: Defined Benefit Supplement Program | 2.64% | 2.88% | 25005 |
| Interest Rate for Late Remittance Contributions | 7.00% | 7.50% | 23003, 26303 |
| Penalty Rate for Late or Unacceptable Monthly Reports | 7.00% | 7.50% | 23006, 23008, 26301, 26302 |

Permissive Service Credit Contribution Rate – DB Program:

Members may purchase permissive service credit, which is service credit related to activities that were previously undertaken by the member. Examples of permissive service credit include, but are not limited to, teaching at a state college or university in California, employment in a public

school in another state, maternity or paternity leave, and military leave. The board adopted the following contribution rates for fiscal year 2017-18 for the purchase of permissive service credit for the DB Program based upon the age of member at the time of purchase.

FY 2017-18 permissive service credit contribution rates:

| Age | CalSTRS 2% at 60 | | CalSTRS 2% at 62 | |
|----------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Rates for FY 2017-18 | Rates for FY 2016-17 | Rates for FY 2017-18 | Rates for FY 2016-17 |
| Below 28 | 21.0% | 17.4% | 18.1% | 15.0% |
| 28 | 21.3% | 17.8% | 18.5% | 15.2% |
| 29 | 21.4% | 17.9% | 18.6% | 15.3% |
| 30 | 21.5% | 18.0% | 18.7% | 15.4% |
| 31 | 21.6% | 18.1% | 18.8% | 15.5% |
| 32 | 21.7% | 18.2% | 18.9% | 15.6% |
| 33 | 21.8% | 18.3% | 19.0% | 15.7% |
| 34 | 21.9% | 18.4% | 19.1% | 15.8% |
| 35 | 22.0% | 18.5% | 19.2% | 15.9% |
| 36 | 22.1% | 18.6% | 19.3% | 16.0% |
| 37 | 22.2% | 18.7% | 19.4% | 16.1% |
| 38 | 22.3% | 18.8% | 19.5% | 16.2% |
| 39 | 22.4% | 18.9% | 19.6% | 16.3% |
| 40 | 22.5% | 19.0% | 19.7% | 16.4% |
| 41 | 22.7% | 19.2% | 19.8% | 16.6% |
| 42 | 22.8% | 19.5% | 19.9% | 16.8% |
| 43 | 23.0% | 20.0% | 20.0% | 17.3% |
| 44 | 23.2% | 20.3% | 20.2% | 17.7% |
| 45 | 23.5% | 20.6% | 20.4% | 17.8% |
| 46 | 23.9% | 21.0% | 20.7% | 18.2% |
| 47 | 24.3% | 21.4% | 21.0% | 18.4% |
| 48 | 24.7% | 21.8% | 21.3% | 18.8% |
| 49 | 25.2% | 22.3% | 21.7% | 19.3% |
| 50 | 25.6% | 22.7% | 22.1% | 19.6% |
| 51 | 26.0% | 23.2% | 22.6% | 20.0% |
| 52 | 26.7% | 23.8% | 23.1% | 20.6% |
| 53 | 27.2% | 24.4% | 23.6% | 21.1% |
| 54 | 27.8% | 25.0% | 24.1% | 21.6% |
| 55 | 28.3% | 25.6% | 24.5% | 22.0% |
| 56 | 29.0% | 26.2% | 25.1% | 22.7% |
| 57 | 29.7% | 26.9% | 25.8% | 23.3% |
| 58 | 30.4% | 27.6% | 26.4% | 23.9% |
| 59 | 31.1% | 28.4% | 26.9% | 24.5% |

(FY 2017-18 permissive service credit contribution rates continued on next page...)

Fiscal Year 2017-18 permissive service credit contribution rates for the DB Program, continued:

| Age | CalSTRS 2% at 60 | | CalSTRS 2% at 62 | |
|--------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Rates for FY 2017-18 | Rates for FY 2016-17 | Rates for FY 2017-18 | Rates for FY 2016-17 |
| 60 | 31.8% | 29.1% | 27.6% | 25.2% |
| 61 | 32.5% | 29.8% | 28.3% | 25.8% |
| 62 | 33.1% | 30.5% | 29.0% | 26.5% |
| 63 | 33.5% | 30.8% | 29.8% | 27.4% |
| 64 | 32.9% | 30.2% | 31.1% | 28.5% |
| 65 | 32.3% | 29.5% | 31.6% | 28.8% |
| 66 | 31.7% | 28.9% | 31.0% | 28.2% |
| 67 | 30.9% | 28.1% | 30.3% | 27.5% |
| 68 | 30.3% | 27.4% | 29.7% | 26.8% |
| 69 | 29.5% | 26.6% | 29.0% | 26.1% |
| 70 | 28.7% | 25.7% | 28.3% | 25.4% |
| 71 | 28.0% | 25.1% | 27.5% | 24.6% |
| 72 | 27.2% | 24.2% | 26.8% | 23.8% |
| 73 and above | 25.2% | 22.3% | 24.8% | 21.9% |

Employer Contribution Rates for Elected Officers and RWP:

Each year, the board adopts employer contribution rates for members who are on a compensated leave of absence to serve as an elected officer of an employee organization and for members who participate in the Reduced Workload Program (RWP) during the new fiscal year.

Please note that because a DB Program member who wishes to participate in RWP must have been employed on a full-time basis to perform creditable service for at least 10 years prior to participation in the program, CalSTRS 2% at 62 members are not eligible to participate in RWP until at least 2023. Therefore, the board has not established a separate employer contribution rate at this time for such members.

The employer contribution rates for Elected Officers and RWP are as follows:

| Employer Contribution Rate for: | Rate for FY 2017-18 | | Rate for FY 2016-17 | | Education Code Section |
|---|------------------------|---------------------|------------------------|---------------------|---------------------------|
| | CalSTRS 2% at 60 | CalSTRS 2% at 62 | CalSTRS 2% at 60 | CalSTRS 2% at 62 | |
| Elected Officer of Employee Organization | 14.43% | 14.43% | 12.58% | 12.58% | 22711 |
| Reduced Workload Program | 14.43% | n/a | 12.58% | n/a | 22713 |

Unused Sick Leave Service Credit:

The board also adopted the present value factor used to calculate the cost of the member's allowance attributable to unused excess sick leave days. The cost of unused excess sick leave service credit must be paid to CalSTRS by the employer before the member can receive the benefit. The present value factor for unused excess sick leave service credit for July 1, 2012 through June 30, 2018 is:

| | Rate for 7/01/2017 – 6/30/2018 | Rate for 7/1/2012 – 6/30/2017 | Education Code Sections |
|--|---|--|------------------------------------|
| Present Value Factor for Unused Excess Sick Leave Service Credit | 0.333 | 0.301 | 22311.7, 22718 |

ACTION:

This employer directive does not take precedence over the law. A copy of the current Teachers' Retirement Law is available on SEW under reference items or online at calstrs.com/information-about-calstrs.

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

