

FINAL STATEMENT OF REASONS

Update of Initial Statement of Reasons

The proposed regulations were made available to the public from December 11, 2015, through January 25, 2016. A public hearing was held on February 4, 2016. CalSTRS did not receive any comments, orally or in writing.

There were no substantive changes to the proposed regulations as originally noticed to the public. There was only one non-substantive change made to the proposed regulations originally noticed to the public. The only change made to the proposed regulations noticed to the public was: The member contribution rates described in CalSTRS' F496 File Specification (Field Positions 53–56 and 91–94) as originally noticed contained contribution rates through June 30, 2016. Subsequent to the 45 day comment period and public hearing, the document was updated with the following language to include contribution rates that are effective July 1, 2016:

- Use 10.25% (i.e. 1025) for post-tax contributions, for DB service from 07/01/2016 for only CalSTRS 2% at 60 members.
- Use 9.205% (i.e. 9205) for post-tax contributions, for DB service from 07/01/2016 for only CalSTRS 2% at 62 members.

The rates described above are established in law pursuant to Education Code sections 22901 and 22901.7. The rates do not materially alter any requirement, right, responsibility, condition, prescription or other regulatory element of any California Code of Regulations provision.

There are two benefit structures under the CalSTRS Defined Benefit Program. “CalSTRS 2% at 60” members are those first hired to perform creditable service prior to January 1, 2013. Members first hired to perform creditable service on or after that date are subject to the California Public Employees’ Pension Reform Act of 2013 (Chapter 296, Statutes of 2013), as defined in Education Code section 22146.2, and are known as “CalSTRS 2% at 62” members. The file specifications show the total contribution rates beginning July 1, 2016, for each benefit structure.

Both benefit structures have a base contribution rate specified in Education Code section 22901, plus an additional contribution rate specified in Education Code section 22901.7. Each is described in detail in the two sections that follow.

Base Contribution Rate under Education Code section 22901

Each benefit structure has its own base contribution rate, specified in Education Code section 22901. For CalSTRS 2% at 60 members, the rate is set by statute at 8 percent pursuant to Education Code section 22901(a) and cannot be changed.

For CalSTRS 2% at 62 members, the rate is self-adjusting and is based on the normal cost of benefits for the benefit structure pursuant to Education Code section 22901(b). The “normal cost” is an actuarially determined percentage describing the actuarial present value of future projected benefits allocated to the current year. CalSTRS consulting actuary, Milliman, calculated an initial normal cost rate of 15.90 percent of pay for CalSTRS 2% at 62 members, which was the basis of the initial contribution rate of 8 percent for that benefit structure. This rate was effective January 1, 2013. Pursuant to Education Code section 22901, an initial percentage equal to 50 percent of the normal cost rate of benefits ($15.9\% \div 2 = 7.95\%$), rounded to the nearest quarter of 1 percent, results in an 8 percent contribution rate.

Once established, pursuant to Education Code section 22901(b)(2), that contribution rate is not adjusted on account of a change to the normal cost rate unless the normal cost rate increases or decreases by more than 1 percent of payroll above or below the normal cost rate in effect at the time the percentage is first established. The normal cost rate has not met that threshold during the years since implementation of the initial 8 percent contribution rate:

- Based on the June 30, 2013, valuation, the normal cost rate for 2% at 62 was adjusted up to 16.059 percent of pay.
- Based on the June 30, 2014 valuation, the normal cost rate for 2% at 62 was adjusted down to 15.672 percent of pay.
- Based on the June 30, 2015 valuation, the normal cost rate for 2% at 62 was adjusted down to 15.614 percent of pay.

Because the threshold for adjustment of the member contribution rate has not been met, the 2% at 62 member contribution rate has not been adjusted to date. The 2% at 62 member base contribution rate of 8% was a component of the calculation of the total contribution rate included in the CalSTRS F496 File Specification document that was originally noticed to the public for the duration of the 45-day public comment period. That rate was not changed subsequent to the comment period.

Additional Contribution Rate Under Education Code Section 22901.7

Education Code section 22901.7 describes a phased schedule of contribution rate increases beginning July 1, 2014. The rate increases are prescribed by the statute and cannot be changed.

For CalSTRS 2% at 60 members, the rate increases over and above the base contribution rate are as follows, pursuant to Education Code section 22901.7(a):

- July 1, 2014, the rate increased by 0.15 percent.
- July 1, 2015, the rate increased by 1.20 percent.
- July 1, 2016, the rate increased by 2.25 percent.

For CalSTRS 2% at 62 members, the rate increases over and above the base contribution rate are as follows, pursuant to Education Code section 22901.7(b):

- July 1, 2014, the rate increased by 0.15 percent.
- July 1, 2015, the rate increased by 0.56 percent.
- July 1, 2016, the rate increased by 1.205 percent.

The rate increases are permanent.

Total contribution rate

For 2% at 60 members, the total contribution rate is the sum of the statutory base contribution rate of 8 percent plus the statutory rate increases described above:

- 8% base contribution rate + 0.15% rate increase=8.15% total contribution rate in 2014–15
- 8% base contribution rate + 1.20% rate increase= 9.20% total contribution rate in 2015–16
- 8% base contribution rate + 2.25% rate increase=10.25% total contribution rate beginning in 2016

For 2% at 62 members, the total contribution rate is the sum of the base contribution rate, which is set by statute and is unchanged since the regulations were originally noticed, based on the normal cost rate not exceeding statutory thresholds for an increase or decrease above 8 percent, plus the statutory rate increases described above:

- 8% base contribution rate + 0.15% rate increase=8.15% total contribution rate in 2014–15
- 8% base contribution rate + 0.56% rate increase=8.56% total contribution rate in 2015–16
- 8% base contribution rate + 1.205% rate increase=9.205% total contribution rate beginning in 2016

Therefore, the addition of the July 1, 2016, contribution rates are nonsubstantive changes.

Alternatives Determination

CalSTRS has determined that no reasonable alternative considered by the agency or that has otherwise been identified and brought to the attention of the agency would be more effective in carrying out the purpose for which the action is proposed, would be as effective and less burdensome to affected private persons than the proposed action, or would be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law. No alternatives were raised during the regulatory process beyond the one discussed in the Initial Statement of Reasons.

Local Mandate Determination

CalSTRS has determined that the regulations proposed do not constitute a mandate on school districts or other local agencies. The regulations do not mandate a new program or require a higher level of service in an existing program. These amendments affect school employers (including school districts, community college districts and county offices of education). These regulations are expected to result in some time savings; however, no monetary savings are likely to result because the slight time savings is so widely distributed to school districts, community college districts, county offices of education and other employing agencies statewide.

Statement Regarding Incorporation by Reference

It would be cumbersome, unduly expensive and otherwise impractical to publish CalSTRS' F496 File Specification, as revised on February 24, 2016, and CalSTRS' Voluntary Deduction File (VDF) Specification, as revised on July 1, 2015, in the California Code of Regulations for the following reasons:

1. **The documents are lengthy.** The F496 File Specification is more than 160 pages and the VDF Specification is more than 50 pages.
2. **The documents use table formatting, hyperlinks and other unsupported text.** The usefulness of the documents to employers would be compromised by the removal of these elements that improve the readability of the file specification documents.
3. **Each document is most easily searched and referred to as a single contiguous document.** To reasonably include the documents in regulation, each document would need to be compartmentalized into dozens of separate sections. However, each file specification document contains multiple cross references highlighting related error codes and other elements that would be cumbersome to navigate within the formatting constraints of the California Code of Regulations online.

As specified on the Notice of Proposed Rulemaking, the documents incorporated by reference were available for public inspection and copying throughout the rulemaking process at CalSTRS at 100 Waterfront Place, West Sacramento, CA 95605. In addition, the documents were available to the public on CalSTRS website at CalSTRS.com/regulations.

The Informative Digest in the Notice of Proposed Rulemaking clearly identified each document to be incorporated by title and the most current revision date at that time.

Section 27000 of the proposed regulation identifies both file specification documents by title and the most current revision dates and states that each of the documents is incorporated by reference. Each document is incorporated in its entirety.

CalSTRS is not providing six duplicate copies of the document with the rulemaking file to be submitted pursuant to Government Code section 11343. Each of the documents is a CalSTRS publication and is available to employers via the Secure Employer Website, which is the portal employers use to report to CalSTRS. The documents exclusively relate to the mechanics of reporting, and, therefore, the documents are reasonably available. A link to the documents will also remain accessible via CalSTRS.com/approved-regulations for at least six months following the effective date of the regulation.