

ECONOMIC AND FISCAL IMPACT STATEMENT

(REGULATIONS AND ORDERS)

STD. 399 (REV. 12/2008)

See SAM Section 6601 - 6616 for Instructions and Code Citations

DEPARTMENT NAME California State Teachers' Retirement System	CONTACT PERSON Ellen Maurizio	TELEPHONE NUMBER 916-414-1995
DESCRIPTIVE TITLE FROM NOTICE REGISTER OR FORM 400 Creditable Compensation		NOTICE FILE NUMBER Z

ECONOMIC IMPACT STATEMENT

A. ESTIMATED PRIVATE SECTOR COST IMPACTS (Include calculations and assumptions in the rulemaking record.)

1. Check the appropriate box(es) below to indicate whether this regulation:

- a. Impacts businesses and/or employees
- b. Impacts small businesses
- c. Impacts jobs or occupations
- d. Impacts California competitiveness
- e. Imposes reporting requirements
- f. Imposes prescriptive instead of performance
- g. Impacts individuals
- h. None of the above (Explain below. Complete the Fiscal Impact Statement as appropriate.)

h. (cont.) This affects only the public pension plan administered by CalSTRS, and its employers and members.

(If any box in Items 1 a through g is checked, complete this Economic Impact Statement.)

2. Enter the total number of businesses impacted: _____ Describe the types of businesses (Include nonprofits.): _____

Enter the number or percentage of total businesses impacted that are small businesses: _____

3. Enter the number of businesses that will be created: _____ eliminated: _____

Explain: _____

4. Indicate the geographic extent of impacts: Statewide Local or regional (List areas.): _____

5. Enter the number of jobs created: _____ or eliminated: _____ Describe the types of jobs or occupations impacted: _____

6. Will the regulation affect the ability of California businesses to compete with other states by making it more costly to produce goods or services here?

Yes No If yes, explain briefly: _____

B. ESTIMATED COSTS (Include calculations and assumptions in the rulemaking record.)

1. What are the total statewide dollar costs that businesses and individuals may incur to comply with this regulation over its lifetime? \$ _____

a. Initial costs for a small business: \$ _____ Annual ongoing costs: \$ _____ Years: _____

b. Initial costs for a typical business: \$ _____ Annual ongoing costs: \$ _____ Years: _____

c. Initial costs for an individual: \$ _____ Annual ongoing costs: \$ _____ Years: _____

d. Describe other economic costs that may occur: _____

ECONOMIC AND FISCAL IMPACT STATEMENT cont. (STD. 399, Rev. 12/2008)

2. If multiple industries are impacted, enter the share of total costs for each industry: _____

3. If the regulation imposes reporting requirements, enter the annual costs a typical business may incur to comply with these requirements. (Include the dollar costs to do programming, record keeping, reporting, and other paperwork, whether or not the paperwork must be submitted.): \$ _____

4. Will this regulation directly impact housing costs? Yes No If yes, enter the annual dollar cost per housing unit: _____ and the number of units: _____

5. Are there comparable Federal regulations? Yes No Explain the need for State regulation given the existence or absence of Federal regulations: _____

Enter any additional costs to businesses and/or individuals that may be due to State - Federal differences: \$ _____

C. ESTIMATED BENEFITS (Estimation of the dollar value of benefits is not specifically required by rulemaking law, but encouraged.)

1. Briefly summarize the benefits that may result from this regulation and who will benefit: _____

2. Are the benefits the result of : specific statutory requirements, or goals developed by the agency based on broad statutory authority?

Explain: _____

3. What are the total statewide benefits from this regulation over its lifetime? \$ _____

D. ALTERNATIVES TO THE REGULATION (Include calculations and assumptions in the rulemaking record. Estimation of the dollar value of benefits is not specifically required by rulemaking law, but encouraged.)

1. List alternatives considered and describe them below. If no alternatives were considered, explain why not: _____

2. Summarize the total statewide costs and benefits from this regulation and each alternative considered:

Regulation:	Benefit: \$ _____	Cost: \$ _____
Alternative 1:	Benefit: \$ _____	Cost: \$ _____
Alternative 2:	Benefit: \$ _____	Cost: \$ _____

3. Briefly discuss any quantification issues that are relevant to a comparison of estimated costs and benefits for this regulation or alternatives: _____

4. Rulemaking law requires agencies to consider performance standards as an alternative, if a regulation mandates the use of specific technologies or equipment, or prescribes specific actions or procedures. Were performance standards considered to lower compliance costs? Yes No

Explain: _____

E. MAJOR REGULATIONS (Include calculations and assumptions in the rulemaking record.) Cal/EPA boards, offices, and departments are subject to the following additional requirements per Health and Safety Code section 57005.

ECONOMIC AND FISCAL IMPACT STATEMENT cont. (STD. 399, Rev. 12/2008)

1. Will the estimated costs of this regulation to California business enterprises exceed \$10 million ? Yes No (If No, skip the rest of this section.)

2. Briefly describe each equally as an effective alternative, or combination of alternatives, for which a cost-effectiveness analysis was performed:

Alternative 1: _____

Alternative 2: _____

3. For the regulation, and each alternative just described, enter the estimated total cost and overall cost-effectiveness ratio:

Regulation:	\$ _____	Cost-effectiveness ratio: \$ _____
Alternative 1:	\$ _____	Cost-effectiveness ratio: \$ _____
Alternative 2:	\$ _____	Cost-effectiveness ratio: \$ _____

FISCAL IMPACT STATEMENT

A. FISCAL EFFECT ON LOCAL GOVERNMENT (Indicate appropriate boxes 1 through 6 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.)

1. Additional expenditures of approximately \$ _____ in the current State Fiscal Year which are reimbursable by the State pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code. Funding for this reimbursement:

a. is provided in _____, Budget Act of _____ or Chapter _____, Statutes of _____

b. will be requested in the _____ Governor's Budget for appropriation in Budget Act of _____
(FISCAL YEAR)

2. Additional expenditures of approximately \$ _____ in the current State Fiscal Year which are not reimbursable by the State pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code because this regulation:

a. implements the Federal mandate contained in _____

b. implements the court mandate set forth by the _____
court in the case of _____ vs. _____

c. implements a mandate of the people of this State expressed in their approval of Proposition No. _____ at the _____
election; (DATE)

d. is issued only in response to a specific request from the _____
_____, which is/are the only local entity(s) affected;

e. will be fully financed from the _____ authorized by Section _____
(FEES, REVENUE, ETC.)
_____ of the _____ Code;

f. provides for savings to each affected unit of local government which will, at a minimum, offset any additional costs to each such unit;

g. creates, eliminates, or changes the penalty for a new crime or infraction contained in _____

3. Savings of approximately \$ See attached annually.

4. No additional costs or savings because this regulation makes only technical, non-substantive or clarifying changes to current law regulations.

ECONOMIC AND FISCAL IMPACT STATEMENT cont. (STD. 399, Rev. 12/2008)

5. No fiscal impact exists because this regulation does not affect any local entity or program.

6. Other.

B. FISCAL EFFECT ON STATE GOVERNMENT (Indicate appropriate boxes 1 through 4 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.)

1. Additional expenditures of approximately \$ _____ in the current State Fiscal Year. It is anticipated that State agencies will:

a. be able to absorb these additional costs within their existing budgets and resources.

b. request an increase in the currently authorized budget level for the _____ fiscal year.

2. Savings of approximately \$ _____ in the current State Fiscal Year.

3. No fiscal impact exists because this regulation does not affect any State agency or program.

4. Other. **An estimated reduction to the unfunded actuarial obligation of CalSTRS of \$66 million over a 30 year period. See attached for annual savings beginning 2016-17.**

C. FISCAL EFFECT ON FEDERAL FUNDING OF STATE PROGRAMS (Indicate appropriate boxes 1 through 4 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.)

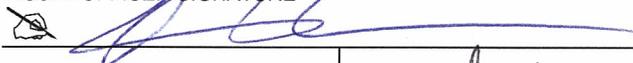
1. Additional expenditures of approximately \$ _____ in the current State Fiscal Year.

2. Savings of of approximately \$ _____ in the current State Fiscal Year.

3. No fiscal impact exists because this regulation does not affect any federally funded State agency or program.

4. Other.

FISCAL OFFICER SIGNATURE



DATE

12/4/13

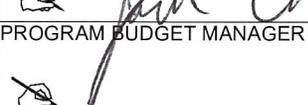
AGENCY SECRETARY ¹
APPROVAL/CONCURRENCE



DATE

12/5/13

DEPARTMENT OF FINANCE ²
APPROVAL/CONCURRENCE

PROGRAM BUDGET MANAGER


DATE

1. The signature attests that the agency has completed the STD.399 according to the instructions in SAM sections 6601-6616, and understands the impacts of the proposed rulemaking. State boards, offices, or department not under an Agency Secretary must have the form signed by the highest ranking official in the organization.

2. Finance approval and signature is required when SAM sections 6601-6616 require completion of Fiscal Impact Statement in the STD.399.

Economic and Fiscal Impact Statement – Attachment 1
 Department: California State Teachers’ Retirement System
 Contact Person: Ellen Maurizio
 Telephone Number: (916) 414-1994

Fiscal Impact Statement

Section A: Fiscal Effect on Local Government

3. Savings of approximately \$ _____ annually.

Savings to employers:

<i>Fiscal year</i>	<i>Estimated savings</i>
2013-14	\$0
2014-15	\$1.6 million
2015-16	\$1.7 million

An attached letter from CalSTRS consulting actuary Milliman, Inc. describes assumptions used in detail. The data provided to Milliman was from the California Department of Education’s annual report *Salary and Benefits Schedule for the Certificated Bargaining Unit* (Form J-90) for 2011-12. The CDE conducts a voluntary survey of K-12 employers each year. For 2011-12, they attained an 85 percent response rate, representing 98.3 percent of the state's K-12 average daily attendance. This dataset includes a field for benefits offered, including a freeform field for health benefits (generally filled in with the name of the insurance carrier), the number of participants and the cost to the employer per participant. The data was filtered for insurance carrier fields labeled with “Cash in lieu” or similar text. This allowed staff to determine the scope of cash in lieu offered by California K-12 school employers. However, it does not include data for any community college employers, and there is no way to determine how many of these employers have been reporting the cash in lieu as creditable compensation to CalSTRS. However, assuming that they have been reporting that compensation as creditable, a minimum savings estimate was deduced. With the inclusion of community college employers and other allowance types, savings will be greater.

Section B: Fiscal Effect on State Government

4. Other.

Savings to the state:

<i>Fiscal year</i>	<i>Estimated savings</i>
2013-14	\$0
2014-15	\$0
2015-16	\$0

The state's annual contribution to CalSTRS is based on payroll from two years prior. The earliest these regulations would be effective is July 1, 2014. Therefore, there are no anticipated annual savings to the state during the current or the next two fiscal years.

Savings to the state would begin in 2016-17, with an estimated reduction to the state's contribution of \$700,000 that year.

An estimated reduction to the CalSTRS unfunded actuarial obligation of \$66 million over a 30-year period represents the long-term savings to the state.

See attached letter from Milliman for detailed assumptions.



1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
USA

Tel +1 206 624 7940
Fax +1 206 623 3485

milliman.com

December 2, 2013

Mr. Ed Derman
California State Teachers' Retirement System

Re: Estimated Cost of Cash in Lieu of Benefits

Dear Ed:

As requested, we have estimated the potential impact to the California State Teachers' Retirement System (CalSTRS) if cash in lieu of benefits was no longer included as creditable compensation. This potential change is assumed to apply to all current and future members.

Cash in Lieu of Benefits

Currently, if members elect to receive cash in lieu of certain benefits, the cash received is counted as creditable compensation under the Defined Benefit (DB) Program. Under the current proposal, such compensation would no longer be considered creditable compensation. Therefore, the cash-in-lieu payments would not be included in the final compensation used to determine annuity benefits. Members and employers would not make contributions on this compensation, meaning fewer dollars would go to the DB Program.

This change is assumed to apply to all current and future members. For purposes of this study, we have calculated the impact to CalSTRS if the change were made as of the most recent valuation date (June 30, 2012).

The calculations in this letter are based on data provided to us regarding total cash in lieu of benefits paid in the 2011-2012 year, and assume that this year is representative of typical annual cash-in-lieu payments.

Estimated Savings of Eliminating Cash in Lieu

We have calculated the cost/(savings) to CalSTRS if cash in lieu of benefits was no longer considered as creditable compensation. Total cash in lieu of benefits paid in 2011-2012 was approximately \$17 million. This represents a relatively small fraction (0.07%) of the overall payroll for active CalSTRS members.

If cash in lieu of benefits was eliminated from creditable compensation, the Actuarial Obligation (AO), and consequently the Unfunded AO (UAO), of the DB Program would decrease slightly, since the pay on which benefits is calculated would be lower. CalSTRS would also have a smaller payroll on which to collect contributions and would therefore receive slightly less in contributions as a result of this change. As shown in the following table, the change in the UAO is small enough that the rounded Funded Ratio as of June 30, 2012 is unchanged. The

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contribution rate expressed as a percentage of payroll needed to fund the UAO over a 30-year period has decreased by about 0.002% of pay.

Impact to CalSTRS of Removing Cash in Lieu of Benefits from Creditable Compensation
(\$ in millions)

	Funded Ratio	Unfunded Actuarial Obligation (UAO)	Additional Revenue Needed
June 30, 2012 DB Program Actuarial Valuation	67.0%	\$ 70,957	14.620%
2012 Valuation Reflecting Change to Cash in Lieu of Benefits	67.0%	\$ 70,891	14.618%
Increase / (Decrease)	0.0%	\$ (66)	-0.002%

Potential for Variability due to Adverse Selection

The data available for this study was limited to the aggregate amount of cash in lieu of benefits paid in the 2011-2012 year; information for specific individuals receiving cash in lieu of benefits was not available. Treatment of cash in lieu of benefits as creditable compensation is likely to benefit members closer to retirement more than other members, since the additional compensation will have a direct impact on the calculated retirement benefit payable. Therefore, it may be possible that members near retirement age are more likely to elect to receive cash in lieu of benefits.

Our study has assumed an even distribution of cash in lieu of benefits among the membership of CalSTRS. Specifically, we have reduced each member's creditable compensation amount used in the valuation by 0.07% to account for the potential impact of excluding cash in lieu. If in fact this cash in lieu of benefits is more heavily concentrated among members who are about to retire, the estimated cost impact to CalSTRS of eliminating cash in lieu of benefits from creditable compensation would likely change. In particular, there would likely be a greater savings in the AO and UAO; however, any impact would likely still be very minimal given the level of total cash in lieu of benefits reported in the data.

On the other hand, if it is only younger members who are not eligible for retirement who are currently receiving cash-in-lieu compensation, the change would have a negative financial impact on CalSTRS. This is because there would be basically no savings on the UAO since the cash-in-lieu compensation is not affecting retirement benefits, but there would be a reduction of about \$3 million in contributions received. This is essentially the worst case scenario for this potential change from the perspective of CalSTRS funding.



Reduced Contributions

Due to the lower creditable compensation, the employers and state are expected to make slightly lower dollar contributions in the short term. Note that the long-term impact will depend on what, if any, changes are made to CalSTRS' current funding to address the UAO. This reduction in contributions can be estimated by multiplying the applicable contribution rate by the reduction in credited payroll. Per your request, we have provided this analysis for the next three fiscal years.

Impact on Employers and State of Removing Cash in Lieu of Benefits from Creditable Compensation
(\$ in millions)

	Contribution Rate	Estimated Reduction in Creditable Compensation	Estimated Savings
Employers			
Fiscal Year 2013-14	8.25%	\$ -	\$ -
Fiscal Year 2014-15	8.25%	19.4	1.6
Fiscal Year 2015-16	8.25%	20.1	1.7
State			
Fiscal Year 2013-14	3.041%	\$ -	\$ -
Fiscal Year 2014-15	3.291%	-	-
Fiscal Year 2015-16	3.522%	-	-

Note that for the employers there is no estimated savings in the first fiscal year, as it is our understanding that this potential change would not take place until at least July 1, 2014. For the state, we estimate no savings for each of the next three years. This is because the state contribution for the fiscal year 2015-16 would be on the payroll for fiscal year 2013-14 which is before the proposed change would have taken effect. There would be expected to be some reduction in state contributions in fiscal year 2016-2017 which is when the change is expected to be reflected in the applicable payroll. We estimate the impact for that year would be an approximate \$700,000 reduction in contributions.

Additional Assumptions

For most CalSTRS members hired on or after January 1, 2013, the provisions of PEPRA will apply. This will result in lower benefits for these members and a lower normal cost. See our letter dated October 23, 2012 for an analysis of the impact of PEPRA on such members.

For the purposes of this study, we have assumed that the removal of cash-in-lieu benefits from creditable compensation would also impact members subject to PEPRA, i.e., that prior to the change described in this study, cash in lieu of benefits would be countable as creditable compensation for members subject to PEPRA. Note that if there was no impact on PEPRA members of the potential change to cash in lieu of benefits, this would not impact the estimated change in the UAO. It would have a minor impact on the additional revenue needed, reducing it by about 0.005% of payroll.



Per discussions with CalSTRS staff, we have assumed that the effect of the proposed change would be to immediately remove all cash in lieu of benefits from the creditable compensation of all active members.

Actuarial Certification

All data, methods and assumptions are the same as those used in our June 30, 2012 actuarial valuation of the DB Program, except where noted. Please refer to that report for further details. It should be noted that member behavior may change if cash-in-lieu compensation was no longer included in creditable compensation. We have not anticipated any changes in member behavior in the assumptions used in our analysis.

The cost estimates presented in this letter reflect possible changes in the benefits provided to DB Program members, as described in this letter. These cost estimates are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable.

In preparing the valuation upon which this letter was based, we relied without audit, on information (some oral and some in writing) supplied by CalSTRS staff. This information includes, but is not limited to, statutory provisions, employee data and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. It should be noted that if any data or other information is materially inaccurate or incomplete, our calculations may need to be revised.

All costs, liabilities, rates of interest, and other factors for CalSTRS have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of CalSTRS and reasonable expectations); and which, in combination, offer a reasonable estimate of anticipated experience affecting CalSTRS.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The Retirement Board has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in Appendix B of the June 30, 2012 valuation report.

Actuarial computations presented in this letter are for purposes of determining the estimated impact of potential changes to the DB Program. The calculations in this letter have been made on a basis consistent with our understanding of CalSTRS current funding requirements. Determinations for purposes other than meeting these requirements may be significantly



Mr. Ed Derman
December 2, 2013
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different from the results contained in this letter. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of CalSTRS. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

- (a) CalSTRS may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) CalSTRS may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. These possible changes should be reviewed by counsel. Note that we have not explored these or any other legal issues with respect to the potential plan changes. We are not attorneys and cannot give legal advice on such issues.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this cost study letter is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

We respectfully submit this analysis and we look forward to discussing it with you. We are also members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.



Mr. Ed Derman
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If you have any questions, please contact us.

Sincerely,

A handwritten signature in black ink that reads "Nick Collier".

Nick J. Collier, ASA, EA, MAAA
Principal and Consulting Actuary
NJC/nlo

cc: Mr. Rick Reed
Ms. Ellen Maurezio
Mr. Mark Olleman
Ms. Jennifer Senta