

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

Item Number: **5 f**

SUBJECT: Adoption of Contribution Rates and Interest Rates for Fiscal Year 2019-20

CONSENT:

ATTACHMENT(S): 7

ACTION: X

DATE OF MEETING: May 9, 2019 / 10 mins

INFORMATION:

PRESENTER(S): Jordan Fassler and David Lamoureux

PURPOSE

The purpose of this item is to adopt the following interest and contribution rates:

1. Regular Interest Rate – Defined Benefit Program
2. Credited Interest Rate – Defined Benefit Program
3. Minimum Interest Rate – Cash Balance Benefit Program
4. Minimum Interest Rate – Defined Benefit Supplement Program
5. Employer Contribution Rate for Elected Officials of Employee Organizations
6. Employer Contribution Rate for Reduced Workload Program
7. Permissive Service Contribution Rates – Defined Benefit Program

DISCUSSION/SUMMARY

Each year, the Teachers' Retirement Board (board) is required to adopt interest rates and contribution rates that are used for the administration of the various programs. As per current board policies, the various crediting interest rates are tied either to the investment return assumption adopted by the board or interest rates on U.S. treasury notes.

The interest rates tied to U.S. treasuries will be increasing effective July 1, 2019, reflecting higher interest rates that have occurred in the U.S. over the past 12 months. Note that a review of the DB Program Credited Interest Rate policy was performed by the board in September 2018. At that time, the board elected to retain the existing practice of basing the DB Credited Interest rate on 2-year Treasuries.

The following table shows a 10-year history of the interest rates adopted by the board and the US treasuries rates that were used as the basis to set the various interest rates. Note that 2-year Treasuries are used as the basis for the Credited Interest Rate in the DB Program, and 30-year Treasuries are used as the basis for the Minimum Interest Rates in the DBS and CB programs. As can be seen below, the yields on 2-year Treasuries have gradually increased since 2013.

FY	Regular Interest	Credited Interest DB	Minimum Interest CB	Minimum Interest DBS	2 Year Treasuries	30 Year Treasuries
2019-20	7.00%	2.60%	3.12%	3.12%	2.5940%	3.1170%
2018-19	7.00%	1.54%	2.89%	2.89%	1.5360%	2.8900%
2017-18	7.00%	0.90%	2.64%	2.64%	0.8910%	2.6400%
2016-17	7.50%	0.72%	2.88%	2.88%	0.7130%	2.8770%
2015-16	7.50%	0.49%	3.15%	3.15%	0.4840%	3.1440%
2014-15	7.50%	0.32%	3.55%	3.55%	0.3130%	3.5440%
2013-14	7.50%	0.50%	3.00%	3.00%	0.2709%	2.9284%
2012-13	7.50%	0.50%	3.75%	3.75%	0.3680%	3.6590%
2011-12	7.75%	0.75%	4.25%	4.25%	0.6550%	4.2450%
2010-11	8.00%	1.00%	4.50%	4.50%	0.9390%	4.2750%

The employer contribution rate for both elected officials of employee organizations and for employees in the reduced workload program is expected to increase, consistent with the increases set in statute for the employer contribution rate to the Defined Benefit Program.

However, this year the situation is slightly more complicated due to the fact Governor Newsom’s 2019–20 Budget proposes to provide supplemental payments to CalSTRS to reduce the unfunded actuarial obligation of the system and reduce contribution rates for employers and the state.

Since the governor’s budget has yet to be adopted by the Legislature, staff is recommending that the Employer Contribution Rate for the Elected Officials of Employee Organizations and for the Reduced Workload Program be set equal to the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds the threshold set by board policy.

As per board policy, the Employer Contribution Rate for Elected Officials of Employee Organizations and for the Reduced Workload Program must be equal or greater than the normal cost of the member’s benefit structure less the member contribution rate. The minimum thresholds for fiscal year 2019-20 are 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

Finally, an analysis of the permissive service contribution rates suggests that no changes to the rates currently in effect are necessary.

RECOMMENDATION

Staff recommends the board adopt the following interest rates:

RECOMMENDED RATES	Recommended Rate for 2019-20	Prior Year Rate for 2018-19
Regular Interest Rate – Defined Benefit Program	7.00%	7.00%
Credited Interest Rate – Defined Benefit Program	2.60%	1.54%
Minimum Interest Rate – Cash Balance Benefit Program	3.12%	2.89%
Minimum Interest Rate – Defined Benefit Supplement Program	3.12%	2.89%

Staff is recommending that the Employer Contribution Rate for the Elected Officials of Employee Organizations and for the Reduced Workload Program be set equal to the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

Staff also recommends the board maintain, for fiscal year 2019-20, the permissive service credit rates that are in effect for fiscal year 2018-19.

Specific information on each recommendation is attached.

ATTACHMENTS

- Attachment 1 – Regular Interest Rate – Defined Benefit Program
- Attachment 2 – Credited Interest Rate – Defined Benefit Program
- Attachment 3 – Minimum Interest Rate – Cash Balance Benefit Program
- Attachment 4 – Minimum Interest Rate – Defined Benefit Supplement Program
- Attachment 5 – Employer Contribution Rate for Elected Officials of Employee Organizations
- Attachment 6 – Employer Contribution Rate for Reduced Workload Program
- Attachment 7 – Permissive Service Contribution Rates – Defined Benefit Program

NO POWERPOINT

SUBJECT

Adoption of Fiscal Year 2019-20 Regular Interest Rate for the Defined Benefit (DB) Program

SUMMARY

The "Regular Interest Rate" is used by the Defined Benefit Program to charge interest among other items 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 payment of a retirement allowance for a CalSTRS retired members or beneficiary, CalSTRS pays the benefit recipient interest on the allowance payment at the Regular Interest Rate.

Section 22162 of the Education Code specifies that "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. As per board policy, the "Regular Interest Rate" is adopted annually by the board before July of the fiscal year in which the rate applies. Consistent with the investment return assumption for the DB program adopted by the board in February 2017, the Regular Interest Rate should remain at 7.00 percent.

RECOMMENDATION

Staff recommends the board adopt the Regular Interest Rate of 7.00 percent, which is the current actuarially assumed rate of investment rate, for the 2019-20 fiscal year.

**PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD**

SUBJECT: Adoption of the Regular Interest Rate for the Defined Benefit Program for the
2019-20 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires the Teachers' Retirement Board to adopt the Regular Interest Rate; and

WHEREAS, Section 22162 of the Education Code specifies that “Regular Interest” means interest that is equal to the actuarially assumed rate of return on investments on assets of the Defined Benefit Program. The regular interest rate shall be adopted annually by the board as a plan amendment with respect to the Defined Benefit Program; and

WHEREAS, on February 1, 2017 the Teachers’ Retirement Board adopted 7.00 percent actuarially assumed investment rate of return for all administrative purposes; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the Regular Interest Rate of 7.00 percent per annum for the 2019-20 fiscal year.

Adopted by:
Teachers’ Retirement Board
On May 9, 2019

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

SUBJECT

Adoption of Fiscal Year 2019-20 Credited Interest Rate for Defined Benefit (DB) Program

SUMMARY

Credited interest, as defined by Section 22120 of the Education Code, is interest that is credited to members' accounts at a rate set annually by the board. Members who terminate membership in the DB Program and withdraw their funds receive a refund of his or her contributions along with the interest credited to his or her account. Credited interest generally does not affect a member who receives a monthly allowance under the program.

According to board policy, the credited interest rate adopted is equal to the average amount paid on two-year U.S. Treasury notes for the previous twelve months, rounded to the next highest basis point. The board policy also states that the credited interest rate cannot exceed the assumed investment return and cannot be lower than a passbook rate calculated as the average one-year annual percentage yield a person would earn in a savings account for a representative sample of banks and credit unions.

Note that a review of the DB Program Credited Interest Rate policy was performed by the board in September 2018. At that time, the board elected to retain the existing practice of basing the DB Credited Interest rate on 2-year Treasuries.

The average rate paid on two-year Treasury notes during the period March 1, 2018 through February 28, 2019 was 2.594 percent. This would result in a rate of 2.60 percent when rounded up to the next highest basis point. This is more than the rate of 1.54 percent adopted for the 2018-19 fiscal year. This rate is less than the actuarial assumed rate of 7.00 percent and more than the current passbook rate of 0.07 percent.

RECOMMENDATION

Staff recommends the board adopt the Credited Interest Rate of 2.60 percent for the DB Program for the 2019-20 fiscal year.

**PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD**

SUBJECT: Adoption of the Credited Interest Rate for the Defined Benefit Program for the
2019-20 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires the Teachers' Retirement Board to adopt the Credited Interest Rate; and

WHEREAS, the Teachers' Retirement Board adopted a policy of basing the Credited Interest Rate on the rate paid on two-year Treasury notes for the previous twelve months, and rounded it up to the next highest basis point; and

WHEREAS, the average rate paid on two-year Treasury notes during the period March 1, 2018 through February 28, 2019 was 2.594 percent, resulting in a rate of 2.60 percent when rounded up to the next highest basis point; and

WHEREAS, the average rate for two-year Treasury notes during the past twelve months was greater than the current passbook account rate of 0.07 percent and less than the actuarial assumed interest rate of 7.00 percent; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the Credited Interest Rate of 2.60 percent per annum for the Defined Benefit Program for the 2019-20 fiscal year.

Adopted by:
Teachers' Retirement Board
On May 9, 2019

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

SUBJECT

Adoption of 2019-20 Minimum Interest Rate for Cash Balance Benefit (CBB) Program

SUMMARY

The “Minimum Interest Rate”, as defined by Section 26131 and applied by Section 26604 of the Education Code, with respect to the CBB Program “... means the annual rate determined for the plan year by the board by means of an amendment to the plan...” This rate is used to credit interest to employee and employer account balances.

As per board policy, the Minimum Interest Rate for the CBB Program is based on the average rate for 30-year U.S. Treasury notes during the 12-month period ending in the February immediately preceding the plan year, rounded to the next highest basis point.

The average interest rate paid on 30-year Treasury obligations during the period March 1, 2018 through February 28, 2019 was 3.117 percent. This would result in a rate of 3.12 percent when rounded up to the next highest basis point. This is higher than the rate of 2.89 percent adopted for the 2018-19 fiscal year. This rate represents the Minimum Interest Rate that would be credited to a participant’s account. If the actual investment return is higher, the board may declare an additional earnings credit to increase the interest earnings provided to a participant.

RECOMMENDATION

Staff recommends the board adopt the Minimum Interest Rate of 3.12 percent for the 2019-20 fiscal year for employee and employer account balances in the CBB Program.

**PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD**

SUBJECT: Adoption of the Minimum Interest Rate for the Cash Balance Benefit Program for the 2019-20 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law delegates to the Teachers' Retirement Board the authority to declare, by plan amendment, the Minimum Interest Rate to be used to credit employee and employer account balances for the plan year for the Cash Balance Benefit Program; and

WHEREAS, the Teachers' Retirement Board adopted the policy to calculate the Minimum Interest Rate as the average interest rate on 30-year U.S. Treasury obligations for the 12 months ending in the February immediately preceding the applicable plan year, rounded up to the next highest basis point; and

WHEREAS, the average rate for 30-year Treasury notes during the 12 months period ending February 28, 2019 was 3.117 percent, resulting in a rate of 3.12 percent when rounded up to the next highest basis point; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts, as a plan amendment, the Minimum Interest Rate of 3.12 percent per annum for the Cash Balance Benefit Program for the 2019-20 fiscal year.

Adopted by:
Teachers' Retirement Board
On May 9, 2019

Jack Ehnes
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

SUBJECT

Adoption of Fiscal Year 2019-20 Minimum Interest Rate for Defined Benefit Supplement (DBS) Program

SUMMARY

The “Minimum Interest Rate”, as defined by Section 22146.7 of the Education Code, with respect to the DBS Program “... means the annual interest rate determined by the board by plan amendment at which interest shall be credited to the DBS accounts for a plan year.” In addition, Section 25005(b) states that “The minimum interest rate...shall not be less than the rate at which interest is credited under the Defined Benefit (DB) Program.”

According to board policy, the Minimum Interest Rate for the DBS Program is based on the average rate for 30-year U.S. Treasury notes during the 12-month period ending in the February immediately preceding the plan year, rounded to the next highest basis point. The rate cannot be less than the credited interest rate credited to the DB Program.

The average interest rate paid on 30-year Treasury obligations during the period March 1, 2018 through February 28, 2019 was 3.117 percent. This would result in a rate of 3.12 percent when rounded up to the next highest basis point. This is higher than the rate of 2.89 percent adopted for the 2018-19 fiscal year. This rate represents the Minimum Interest Rate that would be credited to a member’s DBS account. If the actual investment return is higher, the board may declare an additional earnings credit to increase the interest earnings provided to a member. Note that this rate is more than the recommended credited interest rate for the DB Program of 2.60 percent.

RECOMMENDATION

Staff recommends the board adopt the Minimum Interest Rate of 3.12 percent for the 2019-20 fiscal year for member accounts in the DBS Program.

**PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD**

SUBJECT: Adoption of the Minimum Interest Rate for the Defined Benefit Supplement Program
for the 2019-20 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law delegates to the Teachers' Retirement Board the authority to declare, by plan amendment, the Minimum Interest Rate to be used to credit member accounts for the plan year for the Defined Benefit Supplement Program; and

WHEREAS, the Teachers' Retirement Board adopted a policy to base the Minimum Interest Rate on the greater of the average interest rate on 30-year U.S. Treasury obligations during the 12-month period ending in the February immediately preceding the plan year and the credited interest rate for the Defined Benefit program; and

WHEREAS, the average rate for 30-year Treasury notes during the 12 months period ending February 28, 2019 was 3.117 percent, resulting in a rate of 3.12 percent when rounded up to the next highest basis point; and

WHEREAS, the recommended credited interest rate for the Defined Benefit Program in 2019-20 is 2.60 percent; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts, as a plan amendment, the Minimum Interest Rate of 3.12 percent per annum for the Defined Benefit Supplement Program for the 2019-20 fiscal year.

Adopted by:
Teachers' Retirement Board
On May 9, 2019

Reviewed by:

Jack Ehnes
Chief Executive Officer

Brian J. Bartow
General Counsel

SUBJECT

Adoption of Fiscal Year 2019-20 Employer Contribution Rate for Elected Officials of Employee Organizations

SUMMARY

The "Employer Contribution Rate for Elected Officials" is used to charge the employer for service credit granted to a member for an approved leave of absence to serve as an elected official of an employee organization. The maximum amount of service credit that may be granted for service as an elected official of an employee organization is 12 years.

During the leave of absence, the member contributes the amount that would have been contributed if he or she had continued to perform service in the position on a full-time basis. The employer contributes an amount based upon the salary that the member would have been paid if employed full-time. During the leave of absence, the employer contributes at the Employer Contribution Rate for Elected Officials, as specified by the board pursuant to Section 22711 of the Education Code. In fiscal year 2017-18, 37 members were credited with service under this section.

Under board policy, the employer contribution rate for elected officials of employee organizations is the greater of (1) the Normal Cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit.

Members whose benefits are defined by AB 340 (Furutani), enacted as Chapter 296, Statutes of 2012, the California Public Employees' Pension Reform Act of 2013 (PEPRA), have a lower benefit and Normal Cost than previous members. Their benefit is based on the 2% at 62 formula. Therefore, it is appropriate to use the normal cost specific to the CalSTRS 2% at 62 members.

The Actuarial Valuation of the Defined Benefit (DB) Program as of June 30, 2018, which will be presented to the board at the May 2019 Regular Meeting, determined the Normal Cost Rate, as of June 30, 2018, to be equal to 20.557 percent of member payroll for CalSTRS 2% at 60 members and 17.863 percent of member payroll for CalSTRS 2% at 62 members.

As per the schedule of employer contribution rates set in the CalSTRS funding plan, the employer contribution rate is set to increase to 18.13 percent of payroll for fiscal year 2019-20. Note that Governor Newsom's 2019-20 Budget proposes to provide supplemental payments to CalSTRS to reduce the unfunded actuarial obligation of the system and reduce contribution rates for employers and the state. Under the current proposal, the state would pay one percent of the 18.13 percent employer contribution rate in 2019-20, requiring employers to contribute the difference. If the proposal is adopted by the Legislature, employers will be contributing 17.13 percent of payroll to CalSTRS for members covered under the DB program.

As per board policy, the Employer Contribution Rate for the Elected Officials of Employee Organizations for fiscal year 2019-20 should be set equal to the employer contribution to the DB

program in effect for fiscal year 2019-20 to the extent that rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members. The table below was prepared based on the employer contribution rate schedule set in the CalSTRS funding plan. Based on this rate, the Employer Contribution Rate for the Elected Officials of Employee Organizations for fiscal year 2019-20 should be 18.13 percent for both the CalSTRS 2% at 60 and the CalSTRS 2% at 62 members.

Fiscal Year 2019-20 Contribution Rates	CalSTRS 2% at 60	CalSTRS 2% at 62
1. Normal Cost Rate for FY 2019-20	20.557%	17.863%
2. Member Contribution Rate for FY 2019-20	10.250%	10.205%
3. Normal Cost Rate less Member Contribution Rate (1 - 2)	10.307%	7.658%
4. Employer Contribution Rates for FY 2019-20*	18.130%*	18.130%*
Employer Contribution Rate for Elected Officials of Employee Organizations (greater of 3 and 4):*	18.130%*	18.130%*

*(Ignores the impact of Governor Newsom’s 2019–20 Proposed Budget)

Note that if the state were to make an additional contribution to reduce the employer contribution rate to the DB Program for fiscal year 2019-20, the Employer Contribution Rate for the Elected Officials of Employee Organizations for fiscal year 2019-20 would be impacted and would be adjusted to be equal to that adjusted rate as long as the rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members. Under the current proposed budget, the state would pay one percent on behalf of employers, resulting in an employer contribution rate of 17.13 percent for fiscal 2019-20.

Since the governor’s budget has yet to be adopted by the Legislature, staff is recommending that the Employer Contribution Rate for the Elected Officials of Employee Organizations be set equal to the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

RECOMMENDATION

Staff recommends that the Employer Contribution Rate for the Elected Officials of Employee Organizations be set equal to the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

**PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD**

SUBJECT: Adoption of Employer Contribution Rate for Elected Officials of Employee Organizations for the 2019-20 Fiscal Year

RESOLUTION NO. _____

WHEREAS, Section 22711 of the Education Code requires that the Teachers' Retirement Board adopt the Employer Contribution Rate for Elected Officials of Employee Organizations; and

WHEREAS, under current board policy, this rate is equal to the greater of (1) the normal cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit; and

WHEREAS, based on the June 30, 2018 Actuarial Valuation of the Defined Benefit Program, the Normal Cost Rate equals to 20.557 percent for the 2% at 60 members and 17.863 percent for the 2% at 62 members; and

WHEREAS, for fiscal year 2019-20 the 2% at 60 member contribution rate is 10.25 percent and the 2% at 62 member contribution rate is 10.205 percent; and

WHEREAS, Governor Newsom's 2019–20 Budget proposes that the state pays, on behalf of employers, an amount to reduce the employer contribution rate by one percent of payroll for fiscal year 2019-20; therefore, be it

RESOLVED that the Teachers' Retirement Board sets the Employer Contribution Rate for the Elected Officials of Employee Organizations during the 2019-20 fiscal year equal the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

Adopted by:
Teachers' Retirement Board
On May 9, 2019

Reviewed by:

Jack Ehnes
Chief Executive Officer

Brian J. Bartow
General Counsel

SUBJECT

Adoption of Fiscal Year 2019-20 Employer Contribution Rate for Reduced Workload Program

SUMMARY

The "Employer Contribution Rate for Reduced Workload Program" is used to charge the employer for the service credit granted to a member who is a participant in the Reduced Workload Program.

Under this program, the member receives a full year of service credit, even though the member has reduced his or her workload from full-time to part-time. Eligibility for the program is limited to Defined Benefit (DB) Program members with at least 10 years of credited service, and at least five years of full-time employment with a CalSTRS employer immediately preceding participation in the Reduced Workload Program. In fiscal year 2017-18, approximately 1,028 members were credited with service under this program.

The member contributes the amount that he or she would have contributed if employed full-time. The employer contributes an amount based upon the salary the member would have been paid if employed full-time in the position during that year. For the period during which the member is not required to work to receive service credit, the employer is required to contribute at the Employer Contribution Rate for Reduced Workload Program as specified by the board under the provisions of Section 22713 of the Education Code.

Under board policy, the employer contribution rate for Reduced Workload Program is the greater of (1) the normal cost of the member's benefit structure, less the member's contribution rate, and (2) the employer contribution rate in effect for all other service credit.

Members whose benefits are defined by AB 340 (Furutani), enacted as Chapter 296, Statutes of 2012, the California Public Employees' Pension Reform Act of 2013 (PEPRA), have a lower benefit and Normal Cost than previous members. Their benefit is based on the 2% at 62 formula. Therefore, it is appropriate to use the normal cost specific to the CalSTRS 2% at 62 members.

The Actuarial Valuation of the Defined Benefit (DB) Program as of June 30, 2018, which will be presented to the board at May 2019 Regular Meeting, determined the Normal Cost Rate, as of June 30, 2018, to be equal to 20.557 percent of member payroll for CalSTRS 2% at 60 members and 17.863 percent of member payroll for CalSTRS 2% at 62 members.

As per the schedule of employer contribution rates set in the CalSTRS funding plan, the employer contribution rate is set to increase to 18.13 percent of payroll for fiscal year 2019-20. Note that Governor Newsom's 2019-20 Budget proposes to provide supplemental payments to CalSTRS to reduce the unfunded actuarial obligation of the system and reduce contribution rates for employers and the state. Under the current proposal, the state would pay one percent of the

18.13 percent employer contribution rate in 2019-20, requiring employers to contribute the difference. If the proposal is adopted by the Legislature, employers will be contributing 17.13 percent of payroll to CalSTRS for members covered under the DB program.

As per board policy, the Employer Contribution Rate for the Reduced Workload Program for fiscal year 2019-20 should be set equal to the employer contribution to the DB program in effect for fiscal year 2019-20 to the extent that rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members. The table below was prepared based on the employer contribution rate schedule set in the CalSTRS funding plan. Based on this rate, the Employer Contribution Rate for the Reduced Workload Program for fiscal year 2019-20 should be 18.13 percent for both the CalSTRS 2% at 60 and the CalSTRS 2% at 62 members.

Fiscal Year 2019-20 Contribution Rates	CalSTRS 2% at 60	CalSTRS 2% at 62
1. Normal Cost Rate for FY 2019-20	20.557%	17.863%
2. Member Contribution Rate for FY 2019-20	10.250%	10.205%
3. Normal Cost Rate less Member Contribution Rate (1 - 2)	10.307%	7.658%
4. Employer Contribution Rates for FY 2019-20*	18.130%*	18.130%*
Employer Contribution Rate for the Reduced Workload Program (greater of 3 and 4)*:	18.130%*	18.130%*

*(Ignores the impact of Governor Newsom’s 2019–20 Proposed Budget)

Note that if the state were to make an additional contribution to reduce the employer contribution rate to the DB Program for fiscal year 2019-20, the Employer Contribution Rate for the Reduced Workload Program for fiscal year 2019-20 would be impacted and would be adjusted to be equal to that adjusted rate as long as the rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members. Under the current proposal, the state would pay one percent on behalf of employers, resulting in an employer contribution rate of 17.13 percent for fiscal 2019-20.

Since the governor’s budget has yet to be adopted by the Legislature, staff is recommending that the Employer Contribution Rate for the Reduced Workload Program be set equal to the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

RECOMMENDATION

Staff recommends that the Employer Contribution Rate for the Reduced Workload Program be set equal to the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

**PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD**

SUBJECT: Adoption of Employer Contribution Rate for the Reduced Workload Program for the 2019-20 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law requires that the Teachers' Retirement Board adopt the Employer Contribution Rate for the Reduced Workload Program; and

WHEREAS, under current board policy, this rate is equal to the greater of (1) the normal cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit; and

WHEREAS, based on the June 30, 2018 Actuarial Valuation of the Defined Benefit Program, the Normal Cost Rate equals to 20.557 percent for the 2% at 60 members and 17.863 percent for the 2% at 62 members; and

WHEREAS, for fiscal year 2019-20 the 2% at 60 member contribution rate is 10.25 percent and the 2% at 62 member contribution rate is 10.205 percent; and

WHEREAS, Governor Newsom's 2019–20 Budget proposes that the state pays, on behalf of employers, an amount to reduce the employer contribution rate by one percent of payroll for fiscal year 2019-20; therefore, be it

RESOLVED that the Teachers' Retirement Board sets the Employer Contribution Rate for participation in the Reduced Workload Program during the 2019-20 fiscal year equal the employer contribution rate to the DB Program in effect for fiscal year 2019-20, to the extent such rate exceeds 10.307 percent of payroll for 2% at 60 members and 7.658 percent of payroll for 2% at 62 members.

Adopted by:
Teachers' Retirement Board
on May 9, 2019

Reviewed by:

Jack Ehnes
Chief Executive Officer

Brian J. Bartow
General Counsel

SUBJECT

Adoption of Fiscal Year 2019-20 Permissive Service Contribution Rates for the Defined Benefit (DB) Program

SUMMARY

Permissive Service Contribution Rates are used to charge members for the purchase of additional service credit. Current law allows members of the DB Program to purchase service credit for the following specific activities that were previously undertaken by the member:

- Certificated employment in a child care center operated by a school district or county office of education;
- Teaching at a state college or university in California;
- Teaching at either the California School for the Deaf or the California School for the Blind;
- Up to two years of certificated employment in California for the federal Job Corps;
- Certificated employment in a Native American School;
- Previous certificated service subject to coverage in the DB Program but prior to DB Program membership;
- Employment in a public school in another state;
- Service in the American Red Cross prior to 1957;
- Approved leave to participate in the federal Mutual Educational Cultural Exchange Program;
- Maternity/paternity leave;
- Military leave;
- Family care and/or medical leave; and
- Approved sabbatical leave

Under board policy, separate contribution rates are adopted for members under the 2% at 60 and the 2% at 62 benefit structures. The contribution rates are individual rates for each year of age, with a single rate for the ages below age 28 and a single rate for age 73 and above. The contribution rates are rounded to the nearest tenth of a percentage point. Finally, the rates are based on a recommendation from staff after an actuarial study of permissive credit service purchases has been completed and are adopted at least annually.

For each year, or portion of a year of purchased service, the appropriate contribution rate is multiplied by the member's compensation. The specific compensation used depends on the member's status at the time of the purchase of the permissive service credit. If the member is employed to perform creditable service subject to coverage by the DB Program at the time of the election to purchase, the earnings are based on the compensation earnable in the current school year or either of the two immediately preceding school years, whichever is highest.

If the member is not employed to perform creditable service subject to coverage by the DB Program at the time of the election to purchase permissive service credit, the earnings are based on the compensation earnable in the last school year of credited service or either of the two immediately preceding school years, whichever is highest.

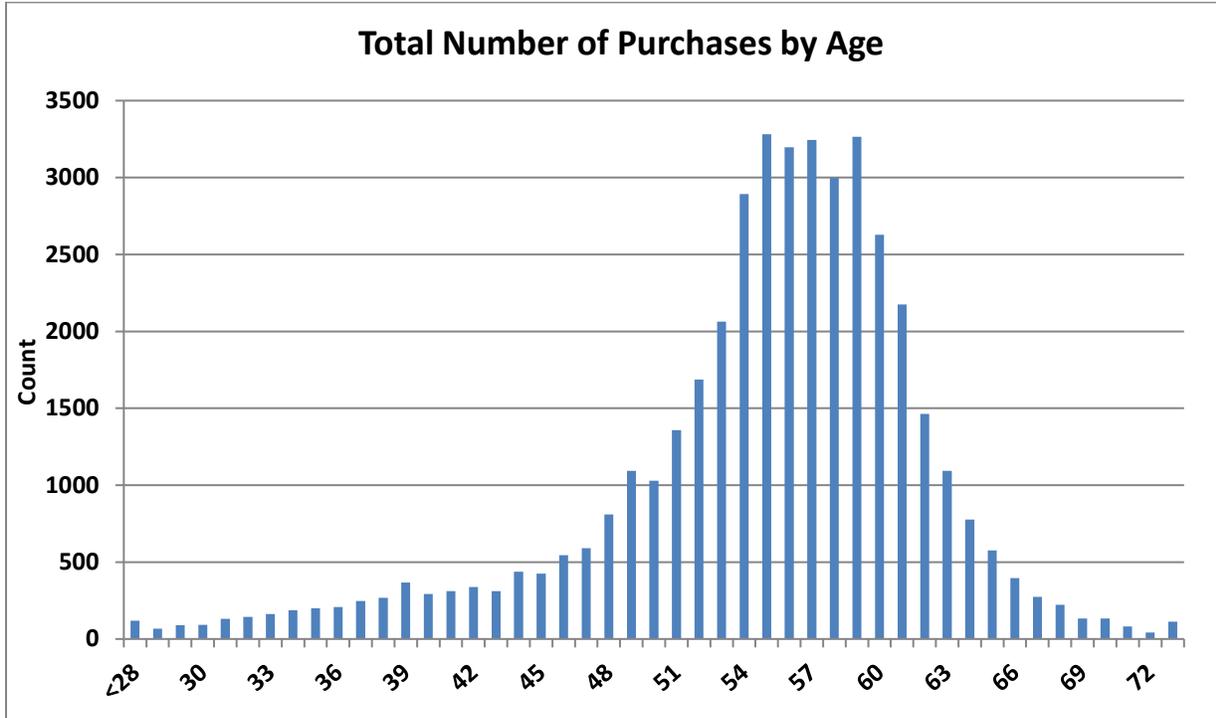
Members may purchase permissive service credit either in a lump sum, or in up to 120 monthly installments. If permitted by the member’s employer, the installment may be deducted from a member’s paycheck on a tax-deferred basis. Regular interest is charged on any monthly unpaid balance for an installment purchase.

Actuarial Study of Permissive Service Credit Purchases

To determine the contribution rates for permissive service credit purchases, staff analyzed past purchases of permissive service credit stored in the CalSTRS database since 2001. In total, there were 42,560 separate purchases of service credit by 29,447 different members, with some members purchasing service credit for more than one type of permissive service during this time period. There were 869 purchases in fiscal year 2017-18. The following table shows the breakdown of purchases by permissive service type, and the average amount of service purchased. Note that the ability to purchase nonqualified service (also known as “airtime”) was eliminated by AB 340 in 2012. As such, past nonqualified service credit purchases were excluded from this analysis.

All Permissive Service Purchase Types	Count	Average Amount of Service Purchased
CB Non-Member Service	478	1.682
Child Care Center	18	1.636
State College or University Service	350	1.185
CB Consolidation of Benefits	866	2.850
Deaf And Blind School	2	1.265
Family Care and/or Medical Leave	1,623	0.296
Federal Mutual Educational Culture Exchange Program	21	0.832
California Job Corps	16	1.284
Maternity/Paternity	7,030	0.677
Military	16	2.051
Native American School	7	2.871
Non-Member Service	17,701	0.716
Out of State	11,268	2.659
Peace Corps	17	1.457
Sabbatical	2,966	0.359
Uniformed Service Credit	151	0.945
Workers Compensation	30	0.242
Total	42,560	1.243

The chart below shows the total number of purchases by age since fiscal year end 2001, excluding past nonqualified service credit purchases.



Of the 42,560 purchases, only 119 were by members under the CalSTRS 2% at 62 benefit structure, which is an insufficient number to credibly determine rates for this group. Therefore, to determine recommended service credit purchase rates for the 2% at 62 benefit structure, it was assumed that this group will have the same overall demographic makeup and purchasing patterns as the members purchasing permissive service credit under the CalSTRS 2% at 60 (with eligibility prior to January 1, 2013) benefit structure.

The primary drivers of the cost to purchase permissive service credit are the actuarial assumptions used. In particular the mortality assumptions, the assumed rate of investment return, the assumed increases in salary, and the average or expected retirement age will have the largest impact to the rates we determine.

Many of the assumptions used for setting the permissive service credit contribution rates are based on the demographics of the members electing to purchase service. One example is the average retirement age of those who have purchased service credit. As a result, year-to-year change due to demographic differences in the new purchases relative to past purchases could have a minor impact on the rates if it resulted in a need to adjust any of the assumptions. Recent purchases have been consistent with historical experience and had no material impact on the permissive service credit contribution rates.

There have been no changes to the relevant assumptions used to derive the permissive service credit contribution rates. As a result, staff recommends the board maintain, for fiscal year 2019-20, the permissive service credit contribution rates, based on age and benefit formula, currently in effect for fiscal year 2018-19.

Unless a drastic change occurs in the pattern of service credit purchases, it is expected that permissive service credit contribution rates will remain the same until the completion of the next review of actuarial assumptions (i.e. experience study) that is scheduled to be completed and presented to the board in February 2020.

RECOMMENDATION

Staff recommends that the Board makes no changes to the permissive service credit purchase rate and maintain the rates in effect for fiscal year 2018-19.

**PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD**

SUBJECT: 2019-20 Contribution Rates for Permissive Service Credit

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law, Section 22801 specifies use of the Contribution Rate for Additional Service Credit be used to purchase permissive service credit in the Defined Benefit Program; and

WHEREAS, the Teachers' Retirement Law, Section 22117 defines the development of the contribution rate for additional service credit, and gives the Teachers' Retirement Board the authority to determine the Contribution Rate for Additional Service credit; and

WHEREAS, in November 2013 the Teachers' Retirement Board adopted the current policy that the Contribution Rate for Additional Service Credit be determined based on the actuarial cost of the permissive service credit purchased and set based on single-year rates for each age, and separated into two sets, based on the two distinct benefit structures; and

WHEREAS, members who are first hired on or after January 1, 2013 are subject to a lower benefit structure than those hired before January 1, 2013; and

WHEREAS, an actuarial study has been performed by staff to develop a recommended contribution rate for additional service credit based on single-year rates based on age and benefit structure; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the attached Contribution Rates for Additional Service Credit by age ranges effective July 1, 2019 for the 2% at 60 and the 2% at 62 benefit structures.

Adopted by:
Teachers' Retirement Board
On May 9, 2019

Reviewed by:

Jack Ehnes
Chief Executive Officer

Brian Bartow
General Counsel

Contribution Rates for Additional Service Credit
For Fiscal year 2019-20

<u>Age</u>	<u>2% at 60</u>	<u>2% at 62</u>	<u>Age</u>	<u>2% at 60</u>	<u>2% at 62</u>
Under 28	21.0%	18.1%	51	26.0%	22.6%
28	21.3%	18.5%	52	26.7%	23.1%
29	21.4%	18.6%	53	27.2%	23.6%
30	21.5%	18.7%	54	27.8%	24.1%
31	21.6%	18.8%	55	28.3%	24.5%
32	21.7%	18.9%	56	29.0%	25.1%
33	21.8%	19.0%	57	29.7%	25.8%
34	21.9%	19.1%	58	30.4%	26.4%
35	22.0%	19.2%	59	31.1%	26.9%
36	22.1%	19.3%	60	31.8%	27.6%
37	22.2%	19.4%	61	32.5%	28.3%
38	22.3%	19.5%	62	33.1%	29.0%
39	22.4%	19.6%	63	33.5%	29.8%
40	22.5%	19.7%	64	32.9%	31.1%
41	22.7%	19.8%	65	32.3%	31.6%
42	22.8%	19.9%	66	31.7%	31.0%
43	23.0%	20.0%	67	30.9%	30.3%
44	23.2%	20.2%	68	30.3%	29.7%
45	23.5%	20.4%	69	29.5%	29.0%
46	23.9%	20.7%	70	28.7%	28.3%
47	24.3%	21.0%	71	28.0%	27.5%
48	24.7%	21.3%	72	27.2%	26.8%
49	25.2%	21.7%	73 and above	25.2%	24.8%
50	25.6%	22.1%			

Note that these rates are the same as the rates in effect for fiscal year 2018-19.