



## **CalSTRS Funding Plan Key Points from 2014-15 May Revision**

Governor Brown's 2014-15 May Revision budget proposal plans to fully fund the CalSTRS Defined Benefit Program. As the budget proposal demonstrates, closing the Defined Benefit Program's nearly \$74 billion funding gap can be resolved through gradual, predictable contribution increases.

### **CalSTRS Facts**

- All CalSTRS contribution rates are set by statute.
- The employer contribution rate of 8.25 percent has not increased since 1986, and the member contribution rate has been 8 percent since 1972.
- The state's contribution to the Defined Benefit Program has fluctuated significantly throughout CalSTRS' 100-year history, peaking at 4.607 percent in 1998, and has since declined to the current rate of 3.041 percent.

Absent any changes in contribution rates or liabilities, current calculations show the program will deplete its assets by as early as 2046. What is needed to fund the existing benefit plan is an increase in contribution rates which can be gradual and predictable. Unlike most other pension plans in California, the CalSTRS board lacks the authority to raise contribution rates—only the Legislature and the Governor can do that. The state must act to adopt a responsible funding strategy that upholds the state's promise to teachers while protecting the state General Fund.

### **Proposed Member Contribution Increases**

- Member contributions are proposed to increase from 8 percent to a total of 10.25 percent of pay phased in over the next three years for CalSTRS 2 percent at 60 members. Member contributions are proposed to increase to 8.15 percent in 2014-15, to 9.2 percent in 2015-16, and to 10.25 percent in 2016-17. CalSTRS 2 percent at 62 member contribution rates would be phased in over three years and capped at about 9.21 percent by 2016-17, under the May Revision proposal.

### **Proposed Employer Contribution Increases**

- School employer contributions will increase from 8.25 percent to a total of 19.1 percent of payroll, phased in over the next seven years. This includes an increase in the contribution rate of 1.25 percent in 2014-15, and increases of 1.6 percent in the 2015-16 through 2020-21 fiscal years.
- Even with the proposed increases in employer contributions, contributions by employers for the retirement of school employees covered by CalPERS will continue to be greater than for CalSTRS members, and even more so when employer Social Security costs are included.



## **Proposed State Contribution Increases**

- The state's contribution is proposed to increase from the current 3.041 percent in 2013-14, to 6.3 percent of payroll in 2016-17. This increased contribution will address about \$20 billion of the \$74 billion shortfall.

## **Public Agencies**

Under soon-to-be-implemented accounting standards issued by the Governmental Accounting Standards Board, public agencies, including school employers and the state, will have to disclose their share of the Net Pension Liability of pension plans in which their employees participate. Under those standards, if the pension plan is projected to have insufficient assets to pay liabilities, the magnitude of that Net Pension Liability would increase substantially. Under current law, this would apply to the Net Pension Liabilities of CalSTRS benefit programs. Such an impact on financial statements could hamper the ability of school employers and the state to issue debt to finance their programs. By fully funding the Defined Benefit Program, the May Revise proposal avoids the substantially higher share of Net Pension Liabilities. If the proposal is enacted by June 30, 2014, the first financial statements affected by the new standards would not need to reflect such a large liability.

## **Vested Rights Doctrine**

Under existing case law, the general principle is that "where the employee's contribution rate is a fixed element of the pension system, the rate may not be increased unless the employee receives comparable new advantages for the increased contributions," *Pasadena Police Officers Association v. City of Pasadena* (1983) 147 Cal. App. 3d 695, 702-703. Consistent with this decision, contributions paid by CalSTRS Defined Benefit Program members cannot be increased once they are hired to perform service subject to coverage in the program, unless the members receive a corresponding, offsetting advantage. The only means by which the contribution rate can be increased is to provide the member with an increased benefit of comparable value. Generally, the cost of the increased benefit would offset any revenue associated with the increased contribution, negating any value of the higher contribution in addressing the CalSTRS funding shortfall.

One instance in which the contribution paid by current members could be increased without requiring an offsetting increase in liabilities is in the 2 percent Annual Benefit Adjustment, also known as the 2 percent improvement factor.

The Governor's proposal increases current members' contributions and offsets it with a guaranteed 2 percent benefit adjustment.

**May Revision Funding Proposal for CalSTRS**  
**3-Year Ramp Up for State and Teachers**  
**7-Year Ramp Up for Schools**

<b>Share of Unfunded Liability</b>	<b>STATE</b> \$20 billion	<b>TEACHERS</b> \$8 billion		<b>SCHOOLS</b> \$47 billion	<b>TOTAL</b> \$74 billion
<b>Total Contribution Rate</b>	<b>STATE</b>	<b>TEACHERS</b>		<b>SCHOOLS</b>	<b>TOTAL</b>
		Classic	PEPRA		
2013-14	3.04%	8.00%	8.00%	8.25%	19.29%
2014-15	3.45%	8.15%	8.08%	9.50%	23.20%
2015-16	4.89%	9.20%	8.56%	11.10%	26.24%
2016-17	6.33%	10.25%	9.21%	12.70%	29.28%
2017-18	6.33%	10.25%	9.21%	14.30%	30.88%
2018-19	6.33%	10.25%	9.21%	15.90%	32.48%
2019-20	6.33%	10.25%	9.21%	17.50%	34.08%
2020-21 - 2045-46	6.33%	10.25%	9.21%	19.10%	35.68%
<b>Incremental Increase Over Current Contribution Rate</b>					
2014-15	\$59 million	\$40 million		\$347 million	\$446 million
<b>Total Lifetime Payments</b>					
2014-15 - 2045-46	\$42 billion	\$25 billion		\$170 billion	\$237 billion

**Comparison: Projected Employer Contribution Rates**  
**for CalPERS School Plan (Non-Teaching Staff)**  
 Approved by CalPERS Board in April 2014

2013-14	11.4%
2014-15	11.7%
2015-16	12.6%
2016-17	15.0%
2017-18	16.6%
2018-19	18.2%
2019-20	19.9%
<b>2020-21</b>	<b>20.1%</b>

Notes: PEPRA teachers would contribute a total of 9.21% of pay, pending further legal review. The May Revision identifies \$73.2 million GF for new CalSTRS state funding in 2014-15. The \$59 million displayed on this chart reflects a technical adjustment made after the May Revision. Of the \$347 million incremental increased cost share for schools in 2014-15, it is estimated that \$28 million of this increase is attributable to community colleges.