

## **Permissive Service Contribution Rates - Defined Benefit Program**

### **SUBJECT**

Adoption of the Permissive Service Contribution Rates for the Defined Benefit Program for Fiscal Year 2026-27

### **SUMMARY**

The Teachers' Retirement Law allows members of the Defined Benefit Program to purchase service credit for many different specific activities that were previously undertaken by the member. To determine the cost of this additional service CalSTRS uses Permissive Service Contribution Rates. Section 22117 of the Education Code defines the "Contribution rate for additional service credit" as the contribution rate adopted by the board for the purchase of service credit.

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. These rates are reviewed for appropriateness and adopted by the board on an annual basis.

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 Defined Benefit Program at the time of the election to purchase, the earnings are based on the greater of the compensation earnable in the current school year or either of the two immediately preceding school years.

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

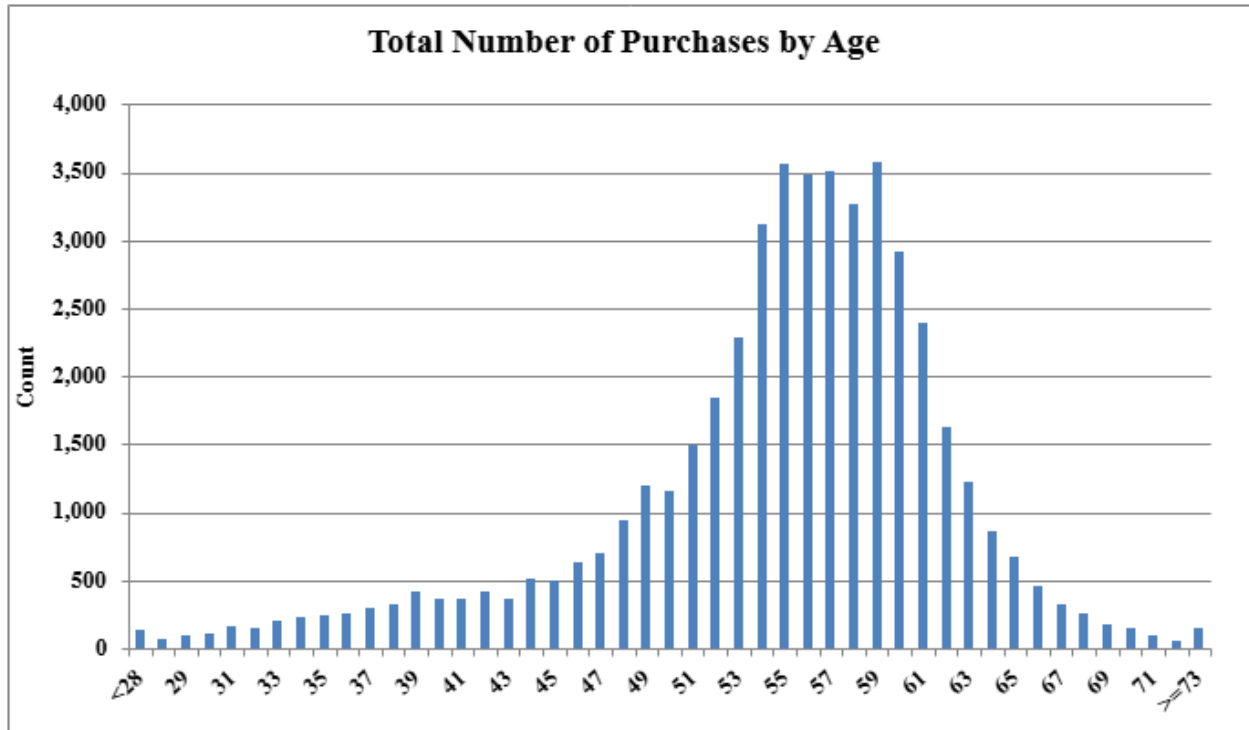
Members may purchase permissive service credit either in a lump sum, or in up to 120 monthly installments. If permitted by the member's employer, the installment may be deducted from a member's paycheck on a tax-deferred basis. Regular interest is charged on any monthly unpaid balance for an installment 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 since 2001. In total, there were 47,324 separate purchases of service credit by 32,718 different members, with some members purchasing service credit for more than one type of permissive service during this time period. There were 597 purchases in fiscal year 2024-25. 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, and past purchases of this type were excluded from this analysis.

<b>All Permissive Service Purchase Types</b>	<b>Count</b>	<b>Average Amount of Service Purchased</b>
CB Non-Member Service	750	2.215
Child Care Center	18	1.636
State College or University Service	381	1.143
CB Consolidation of Benefits	1,172	3.335
Deaf and Blind School	2	1.265
Family Care and/or Medical Leave	2,122	0.268
Federal Mutual Educational and Cultural Exchange Program	28	0.784
California Job Corps	17	1.326
Maternity/Paternity	7,748	0.650
Military	24	2.088
Native American School	7	2.871
Non-Member Service	19,762	0.716
Out of State	11,938	2.636
Peace Corps	27	1.323
Sabbatical	3,123	0.363
Uniformed Service Credit	175	1.038
Workers Compensation	30	0.242
<b>Total</b>	<b>47,324</b>	<b>1.241</b>

The chart below shows the total number of purchases by age since 2001.



Of the 47,324 purchases, only 613 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 benefit structure.

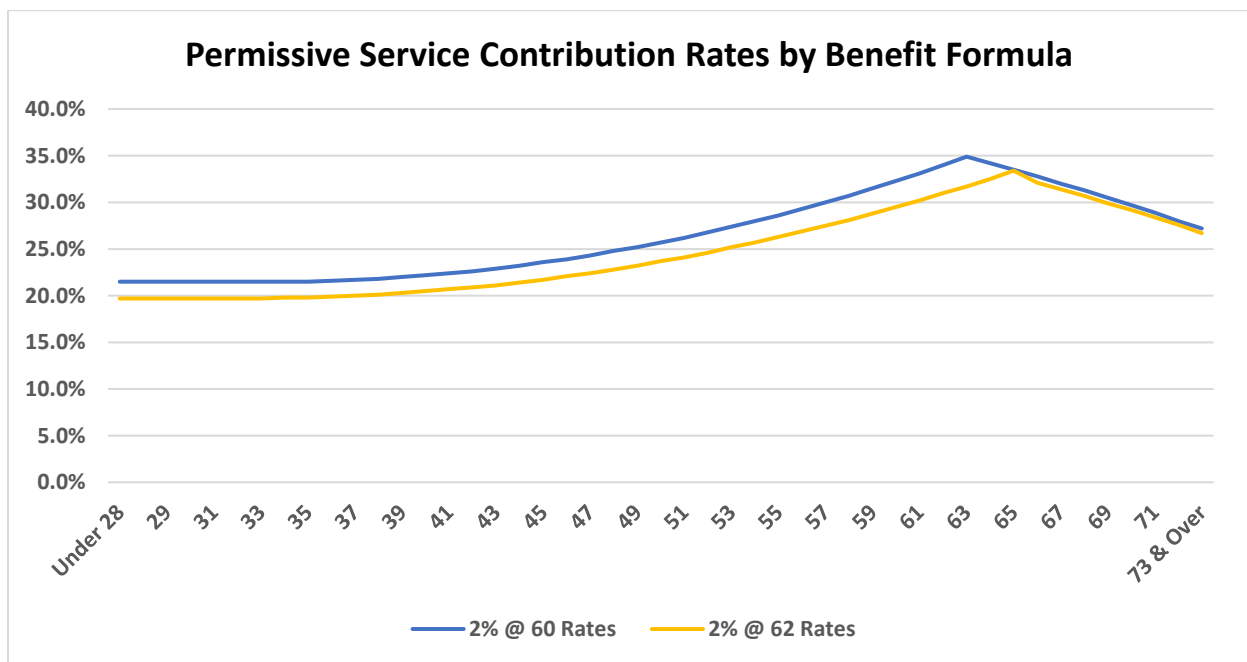
The primary drivers of the cost to purchase permissive service credit are the actuarial assumptions used. In particular, the mortality assumptions, the investment return assumption, the assumed increases in salary, and the expected retirement age have the largest impact to the Permissive Service Contribution Rates.

In January 2024, the board adopted new actuarial assumptions to be used in all future actuarial valuations, effective for the June 30, 2023 actuarial valuation of the Defined Benefit Program. There were minor changes in the assumed increases in salary and to the mortality assumptions. The changes to the mortality assumptions resulted in a slight decrease in life expectancy compared to the previous assumptions. These assumptions have already been reflected in the current Permissive Service Contribution Rates.

In addition, several of the assumptions used for setting the Permissive Service Contribution Rates are based on the demographics of members electing to purchase service. One example is the average retirement age of those who have purchased service credit. For this analysis, rates were determined based on a separate assumed age of retirement for the 2% at 60 members and the 2% at 62 members. Specifically, it was assumed that 2% at 62 members will retire one year later than 2% at 60 members due to the higher normal retirement age of their formula.

Given that there has been no change to the board adopted assumptions and the underlying demographic data has remained consistent with previous years data, staff recommends no change to the Permissive Service contribution rates for fiscal year 2026-27.

The following chart compares the Permissive Service contribution rates for both the 2% at 60 members and 2% at 62 members.



It is anticipated that the Permissive Service Contribution Rates will remain the same until the board revisits the actuarial assumptions. The next review of the actuarial assumptions is scheduled to occur in January 2028. Staff will continue to perform an annual review of the Permissive Service Contribution Rates and report the results to the board.

### **RECOMMENDATION**

Staff recommends that the board adopt the Permissive Service Contribution Rates provided in the resolution below to be used for the purchase of additional service credit for fiscal year 2026-27 under the CalSTRS 2% at 60 and CalSTRS 2% at 62 benefit structures.

RESOLUTION  
OF THE  
TEACHERS' RETIREMENT BOARD

SUBJECT: Permissive Service Contribution Rates for Fiscal Year 2026-27

RESOLUTION NO. XX-XX

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

WHEREAS, the Teachers' Retirement Board policy states that the Permissive Service Contribution Rates used for the purchase of 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 Permissive Service Contribution Rates for use in the purchase of 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 Permissive Service Contribution Rates by age ranges effective July 1, 2026 for the 2% at 60 and the 2% at 62 benefit structures.

Adopted by:  
Teachers' Retirement Board  
On May 28, 2026

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Cassandra Lichnock  
Chief Executive Officer

Reviewed by:

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Brian J. Bartow  
General Counsel

**Permissive Service Contribution Rates for Fiscal Year 2026-27**

<b><u>Age</u></b>	<b><u>2% at 60</u></b>	<b><u>2% at 62</u></b>	<b><u>Age</u></b>	<b><u>2% at 60</u></b>	<b><u>2% at 62</u></b>
Under 28	21.5%	19.7%	51	26.2%	24.1%
28	21.5%	19.7%	52	26.8%	24.6%
29	21.5%	19.7%	53	27.4%	25.2%
30	21.5%	19.7%	54	28.0%	25.7%
31	21.5%	19.7%	55	28.6%	26.3%
32	21.5%	19.7%	56	29.3%	26.9%
33	21.5%	19.7%	57	30.0%	27.5%
34	21.5%	19.8%	58	30.7%	28.1%
35	21.5%	19.8%	59	31.5%	28.8%
36	21.6%	19.9%	60	32.3%	29.5%
37	21.7%	20.0%	61	33.1%	30.2%
38	21.8%	20.1%	62	34.0%	31.0%
39	22.0%	20.3%	63	34.9%	31.7%
40	22.2%	20.5%	64	34.2%	32.5%
41	22.4%	20.7%	65	33.5%	33.4%
42	22.6%	20.9%	66	32.8%	32.1%
43	22.9%	21.1%	67	32.0%	31.4%
44	23.2%	21.4%	68	31.3%	30.7%
45	23.6%	21.7%	69	30.5%	29.9%
46	23.9%	22.1%	70	29.7%	29.2%
47	24.3%	22.4%	71	28.9%	28.4%
48	24.8%	22.8%	72	28.0%	27.6%
49	25.2%	23.2%	73 and above	27.2%	26.7%
50	25.7%	23.7%			