

Permissive Service Contribution Rates - Defined Benefit Program

SUBJECT

Adoption of the Fiscal Year 2023-24 Permissive Service Contribution Rates for the Defined Benefit Program

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.

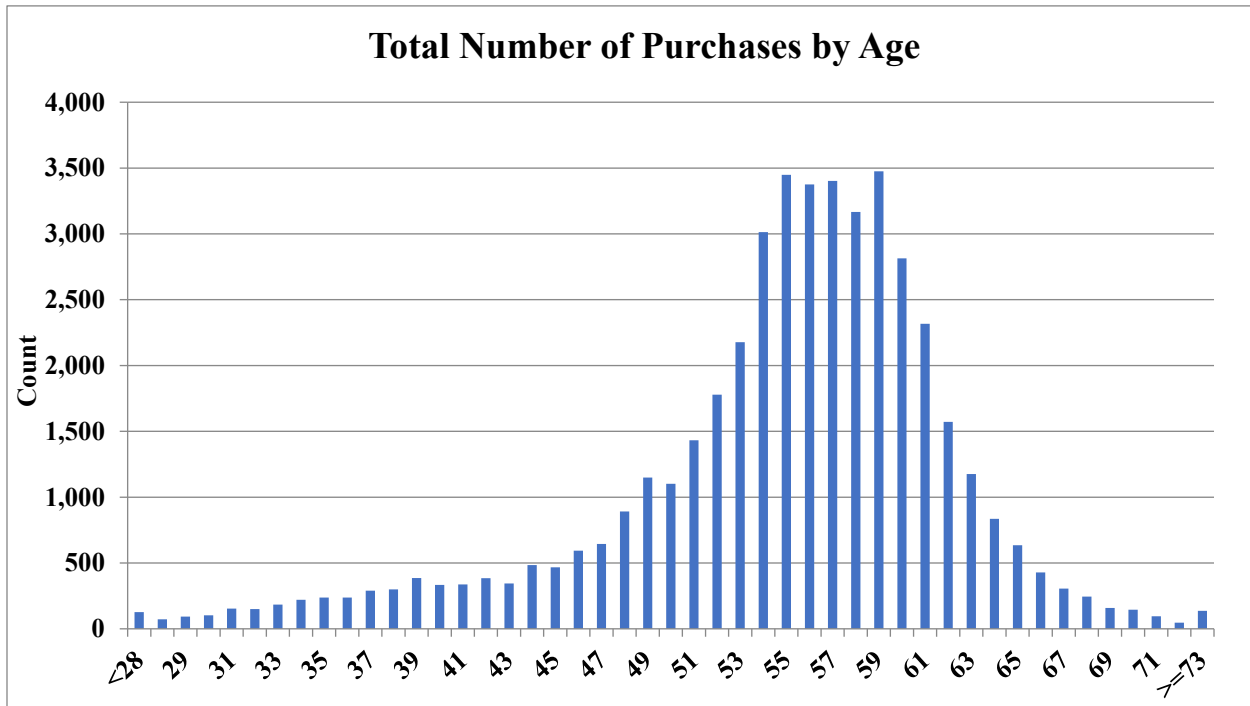
Members may purchase permissive service credit either in a lump sum, or in up to 120 monthly installments. If permitted by the member's employer, the installment may be deducted from a member's paycheck on a tax-deferred basis. Regular interest is charged on any monthly unpaid balance for an installment 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 stored in the CalSTRS database since 2001. In total, there were 45,461 separate purchases of service credit by 31,428 different members, with some members purchasing service credit for more than one type of permissive service during this time period. There were 656 purchases in fiscal year 2021-22. 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.

All Permissive Service Purchase Types	Count	Average Amount of Service Purchased
CB Non-Member Service	642	2.008
Child Care Center	18	1.636
State College or University Service	372	1.152
CB Consolidation of Benefits	1,050	3.164
Deaf and Blind School	2	1.265
Family Care and/or Medical Leave	1,883	0.279
Federal Mutual Educational and Cultural Exchange Program	25	0.808
California Job Corps	16	1.284
Maternity/Paternity	7,417	0.663
Military	16	2.051
Native American School	7	2.871
Non-Member Service	19,024	0.716
Out of State	11,697	2.643
Peace Corps	19	1.426
Sabbatical	3,077	0.363
Uniformed Service Credit	166	1.020
Workers Compensation	30	0.242
Total	45,461	1.242

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



Of the 45,461 purchases, only 352 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.

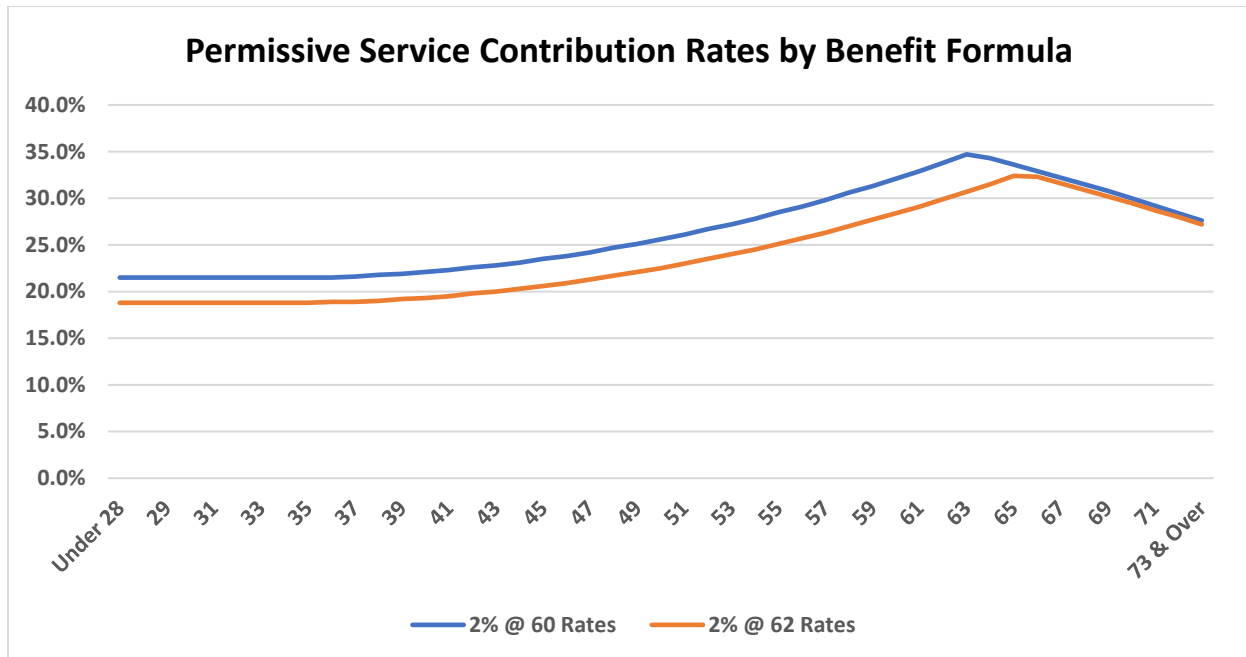
In January 2020, the board adopted new actuarial assumptions to be used in all future actuarial valuations, effective for the June 30, 2019 Actuarial Valuation of the Defined Benefit Program. These new assumptions have been used to determine new Permissive Service Contribution Rates. Most of the assumptions used in determining the contribution rates were not changed with the new experience analysis; however, the board did adopt mortality tables that reflect slight improvements in life expectancy.

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. Since there are now over

forty-five thousand historical purchases in the analysis, the relatively small number of new purchases each year have a minor impact on the key assumptions. Furthermore, recent purchases have been consistent with historical experience.

Given that there has been no change to the board adopted assumptions and the underlying demographic data has remained consistent with previous years, staff recommends no changes to the Permissive Service contribution rates for fiscal year 2023-24.

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 actuarial assumptions is currently scheduled to be presented to the board in January 2024. If changes are made at that time, these changes would impact Permissive Service Contribution Rates effective for the 2024-25 fiscal year. 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 the fiscal year 2023-24 under the CalSTRS 2% at 60 and CalSTRS 2% at 62 benefit structures.

RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Permissive Service Contribution Rates

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, in November 2013 the Teachers' Retirement Board adopted the current policy 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, 2023 for the 2% at 60 and the 2% at 62 benefit structures.

Adopted by:
Teachers' Retirement Board
On May 3, 2023

Cassandra Lichnock
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel

Permissive Service Contribution Rates for Fiscal Year 2023-24

<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	21.5%	18.8%	51	26.1%	23.0%
28	21.5%	18.8%	52	26.7%	23.5%
29	21.5%	18.8%	53	27.2%	24.0%
30	21.5%	18.8%	54	27.8%	24.5%
31	21.5%	18.8%	55	28.5%	25.1%
32	21.5%	18.8%	56	29.1%	25.7%
33	21.5%	18.8%	57	29.8%	26.3%
34	21.5%	18.8%	58	30.6%	27.0%
35	21.5%	18.8%	59	31.3%	27.7%
36	21.5%	18.9%	60	32.1%	28.4%
37	21.6%	18.9%	61	32.9%	29.1%
38	21.8%	19.0%	62	33.8%	29.9%
39	21.9%	19.2%	63	34.7%	30.7%
40	22.1%	19.3%	64	34.3%	31.5%
41	22.3%	19.5%	65	33.6%	32.4%
42	22.6%	19.8%	66	32.9%	32.3%
43	22.8%	20.0%	67	32.2%	31.6%
44	23.1%	20.3%	68	31.5%	30.9%
45	23.5%	20.6%	69	30.8%	30.2%
46	23.8%	20.9%	70	30.0%	29.5%
47	24.2%	21.3%	71	29.2%	28.7%
48	24.7%	21.7%	72	28.4%	28.0%
49	25.1%	22.1%	73 and above	27.6%	27.2%
50	25.6%	22.5%			