



## Regular Meeting

### Item number 16 – Open session

**Subject:** Actuarial Projection for the Supplemental Benefit Maintenance Account

**Presenter(s):** David Lamoureux, CalSTRS; Nick Collier and Scott Preppernau, Milliman

**Item type:** Action

**Date and time:** May 28, 2026– 10 minutes

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#### **Attachment(s):**

Attachment 1 – Projection of SBMA Funding Sufficiency

Attachment 2 – Proposed Resolution for the Adoption of the SBMA Purchasing Power Percentage

#### **PowerPoint presentation(s):**

Actuarial Projection for the SBMA

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#### **Item purpose**

The purpose of this item is to present the funding sufficiency projection for the Supplemental Benefit Maintenance Account (SBMA) and to adopt the purchasing power percentage for the SBMA.

#### **Recommendation**

Staff recommends that the board maintain the purchasing power percentage at 85%.

#### **Executive Summary**

The SBMA was created to provide inflation protection to CalSTRS retirees and their beneficiaries. The SBMA currently provides quarterly supplemental payments to maintain 85% of the purchasing power of a member's initial retirement allowance.

Every two years, an actuarial projection is performed for the SBMA to determine the level of purchasing power protection that can be provided over the long term. These projections consider existing assets as well as expected future state contributions and projected future SBMA payments

for current members. As per existing law, the board can adjust the purchasing power protection level provided by the SBMA between 80% and 85%, based on actuarial projections through 2089.

The table below compares key results between the June 30, 2025 and the June 30, 2023 actuarial projections for the SBMA.

**Key Results**

	<b>June 30, 2025 actuarial projection</b>	<b>June 30, 2023 actuarial projection</b>
Current assets	\$29.0 billion	\$25.0 billion
Present value of future contributions	\$12.6 billion	\$11.2 billion
Available resources	\$41.6 billion	\$36.2 billion
Present value of future SBMA payments for current members	\$29.1 billion	\$25.5 billion
<b>Projected excess resources</b>	<b>\$12.5 billion</b>	<b>\$10.7 billion</b>
Maximum purchasing power level	90%	90%

Based on the June 30, 2025 actuarial projection, current SBMA assets plus expected contributions continue to be sufficient to provide purchasing power protection at an 85% level. As shown above, the current SBMA balance plus expected contributions are projected to be sufficient to pay purchasing power benefits at a 90% level. Therefore, it is recommended that the purchasing power percentage remain at 85%, the maximum percentage authorized under current law. The purchasing power level has been at 85% since 2008-09. This level of benefit would continue until the next actuarial analysis, which is scheduled to be the June 30, 2027 analysis.

**Background**

The SBMA is a special account in the Teachers’ Retirement Fund that provides inflation protection to CalSTRS members. Section 24415.5 of the Education Code authorizes the Teachers’ Retirement Board to adjust the purchasing power protection level provided by the SBMA between 80% and 85%, based on actuarial projections through a period of time established by the board. Currently the purchasing power protection level is set at 85%.

In 2009, the board adopted regulations to outline and implement the process to adjust the purchasing power protection provided by the SBMA, including the timing and frequency of actuarial projections. As per these regulations, an actuarial analysis is performed every two years and must use June 30, 2089, as the date through which the sufficiency of the SBMA is measured.

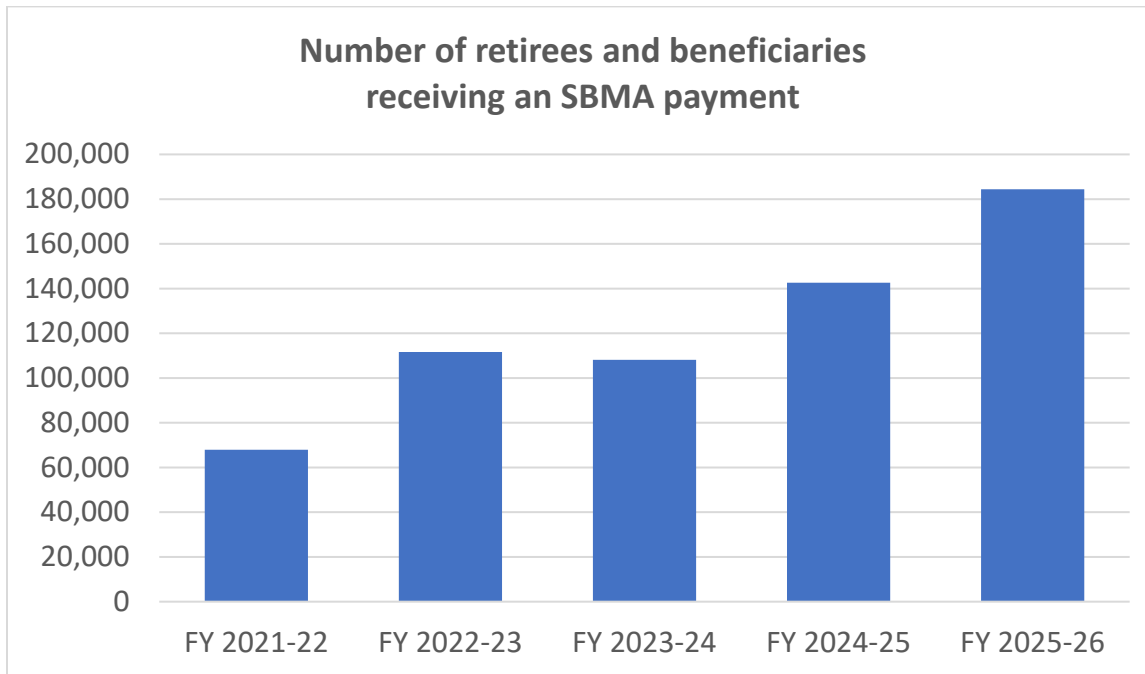
This item presents the results of the June 30, 2025, actuarial sufficiency projection for the SBMA. The last actuarial analysis was done two years ago. It was performed as of June 30, 2023, and presented to the board in May 2024. Based on the analysis presented at that time, the board voted to keep the purchasing power level at 85%, the maximum allowed by statute. The purchasing power level has been at 85% since 2008-09.

To fund the SBMA, the State General Fund provides an annual transfer equal to 2.5% of total creditable compensation from the fiscal year ending in the prior calendar year, reduced by \$72 million each fiscal year. This contribution is in addition to the state contribution made to fund the Defined Benefit (DB) Program. The SBMA also receives revenues from the sale or use of state school lands (land granted to California by the federal government to support schools) and lieu lands (properties purchased with the proceeds from the sale of school lands). In fiscal year 2024-25, the SBMA received \$934.0 million in contributions, of which \$927.6 million came from the State General Fund and about \$6.4 million from school and lieu lands revenues. Benefits paid from the SBMA totaled \$695.6 million in fiscal year 2024-25.

Note that pursuant to Education Code section 22216, the assets in the SBMA are credited each year at the rate of the investment return assumed for the DB Program. This is done regardless of the actual return on assets in the program. For fiscal year 2024-25, the SBMA assets were credited with a return of 7%, the assumed investment return for the DB Program.

For purposes of measuring inflation protection, Education Code section 24415 requires that CalSTRS measures inflation for each fiscal year using the California CPI-U index issued by Department of Finance for the month of June. The current board-approved long-term assumption for inflation is 2.75%. This assumption was last reviewed by the board as part of the 2024 CalSTRS Experience Analysis, which was presented to the board in January 2024. Since the completion of the June 30, 2023 actuarial analysis, inflation in California has exceeded the assumed 2.75%. Inflation in California was 3.3% in fiscal year 2023-24 and 3.0% in fiscal year 2024-25.

As a result of the high inflation in the last two years, the number of members receiving SBMA has increased by 76,000. For fiscal year 2023-24, about 108,000 members received a benefit from the SBMA at an average of \$505 per month or \$1,514 each quarter since these payments are paid quarterly. This fiscal year, about 184,000 members are receiving a benefit from the SBMA at an average of \$357 per month or \$1,071 per quarter. This fiscal year, about 54% of all CalSTRS retirees and beneficiaries are receiving an SBMA benefit. Below is a chart showing how the number of retirees and beneficiaries who are receiving an SBMA benefit has significantly increased since 2021 when California and the United States began experiencing high inflation. In the last five years, inflation in California has averaged 4.4% per year.



The SBMA program continues to have adequate resources to support an 85% purchasing power protection level. The value of the available resources (current assets plus projected future contributions on current member payroll) exceeds the projected value of future purchasing power benefits for current members by \$12.5 billion as of June 30, 2025. Note that the projected excess resources have increased by about \$1.8 billion since 2023, mostly as a result the payroll increasing faster than assumed, which resulted in higher contributions than expected.

As per the actuarial projections prepared by Milliman, the current SBMA balance plus expected contributions are projected to be sufficient to pay purchasing power benefits at a 90% level through 2089. It is important to realize these projections reflect the board assumption that inflation will remain stable at 2.75% each year into the future. Continued period of higher-than-expected inflation would result in a continued increase in the number of members receiving SBMA payments and would lead to a reduction in excess resources for the program.

To measure the possible impact of fluctuations in future inflation, a stochastic model that varied inflation in the future was used to calculate a probability of sufficiency. Based on this stochastic analysis, it was determined that there was a 67% chance that the SBMA would be able to sustain an 85% level through 2089. The attached actuarial analysis also contains a sensitivity analysis of how the SBMA would be able to continue to provide an 85% protection level under various short-term and long-term inflation scenarios. Please see the section called “Risk of short-term high inflation exceeding the assumption” on page 6 of the attached analysis and the section called “Risk of long-term inflation exceeding the assumption” on pages 6 and 7 of the attached analysis for more details.

Based on the June 30, 2025, actuarial projection, it is recommended that the purchasing power level remain at 85%, the maximum benefit authorized under current law. This level of benefit would continue until the next actuarial analysis, which is scheduled to be the June 30, 2027, analysis.

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Note that Education Code section 24415.5 requires the board—if it determines there are funds available beyond the amount needed to maintain 85% purchasing power protection through 2089—to develop options for the use of these excess resources. Options are being discussed in a separate agenda item.

The actuarial analysis prepared by Milliman, CalSTRS consulting actuary, is provided as an attachment to this item.

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Strategic Plan linkage: Goal 1: Trusted stewards – Ensure a well-governed financially sound trust fund.

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