



Regular Meeting

Item number 18 – Open session

Subject: Review of Lump Sum Death Benefit

Presenter(s): David Lamoureux

Item type: Action

Date and time: May 28, 2026– 10 minutes

Attachment(s):

Attachment 1 – Lump Sum Death Benefit Level Actuarial Cost Analysis

Attachment 2 – Proposed Resolution for the Adoption of the Lump Sum Death Benefit

PowerPoint presentation(s): Review of Lump Sum Death Benefit

Item purpose

The purpose of this item is to establish the lump sum death benefit amounts paid to beneficiaries of active and retired Defined Benefit Program members for Fiscal Year 2026-27.

Recommendation

Staff recommends the board increases the lump sum death benefit amounts by 2.75% to the following levels effective July 1, 2026:

	Recommended lump sum death benefit amounts (effective July 1, 2026)
Active Coverage A and Retired Member	\$7,488
Active Coverage B	\$29,952

Background

A one-time lump sum death benefit payment is payable to the beneficiary upon the death of an active or retired Defined Benefit Program member under certain conditions specified in statute. When an active member dies prior to retirement, the amount of the lump sum benefit varies based on whether the member was under Coverage A or B.

Section 23801 of the Education Code provides for a death payment of \$5,000 to the beneficiary of an eligible deceased active member who had coverage under the Family Allowance Program (Coverage A) of the Defined Benefit Program. Education Code section 23880 also provides for a death payment of \$5,000 to the beneficiary of an eligible deceased retired member. Section 23851 of the Education Code provides for a death payment of \$20,000 to the beneficiary of an eligible deceased active member who had coverage under the Survivor Benefit Program (Coverage B) of the Defined Benefit Program.

Each of these three sections permits the board to “adjust the death payment amount following each actuarial valuation based on changes in the All Urban California Consumer Price Index” (California CPI). The table that follows shows a history of the adjustments to the lump sum death benefit levels.

The board has had the authority to adjust the one-time lump sum death benefit payment since 1992. The board has done so 12 times since 1992. The current one-time, lump sum death benefit paid on behalf of active Coverage A members and retired members is \$7,288. The current one-time, lump sum death benefit paid on behalf of active Coverage B members is \$29,152, four times the active Coverage A amount. These amounts were set by the board in May 2025. The table below summarizes the adjustments made to the lump sum death benefit since 1992.

Historical Adjustments to the Lump Sum Death Benefit		
Date of Death	Active Coverage A and Retired Member	Active Coverage B
10/16/92 to 6/30/94	\$5,000	\$20,000
7/01/94 to 12/31/96	\$5,110	\$20,440
1/01/97 to 6/30/98	\$5,227	\$20,908
7/01/98 to 6/30/99	\$5,493	\$21,974
7/01/99 to 6/30/00	\$5,598	\$22,394
7/01/00 to 6/30/01	\$5,763	\$23,052
7/01/01 to 6/30/02	\$6,010	\$24,040
7/01/02 to 6/30/18	\$6,163	\$24,652
7/1/18 to 6/30/2021	\$6,372	\$25,488
7/1/2021 to 6/30/2022	\$6,480	\$25,920
7/1/2022 to 6/30/2024	\$6,903	\$27,612
7/1/2024 to 6/30/2025	\$7,093	\$28,372
7/1/2025 to present	\$7,288	\$29,152

In March 2024, the board adopted revisions to the lump sum death benefit board policy. The revised policy specifies that annual increases are tied to the California inflation in the previous calendar year and capped at the long-term assumed inflation, currently 2.75%, along with a catch-up provision. In May 2025, the board adopted an increase of 2.75% in the lump sum death

benefit amounts. The cumulative catch-up balance from previous years, which is available for 2026-27, is 0.94%.

Inflation in California in calendar year 2025 was 3.21%. As shown in the table below, the increases under consideration for fiscal year 2026-27 have been capped at 2.75%, as per the rules set in the board policy. An additional catch-up of 0.46% will be added to the previous catch-up balance of 0.94%. A total catch-up of 1.40% will be available in future years when inflation is less than 2.75%.

Rate of increase for fiscal year 2026-27

1- Inflation in California in 2025	3.21%
2- Available catch-up for 2026-27	0.94%
3- Long-term inflation assumption	2.75%
4- Rate of increase for 2026-27 (lesser of 1+2 and 3)	2.75%
5- Catch-up for future years (1+2-4)	1.40%

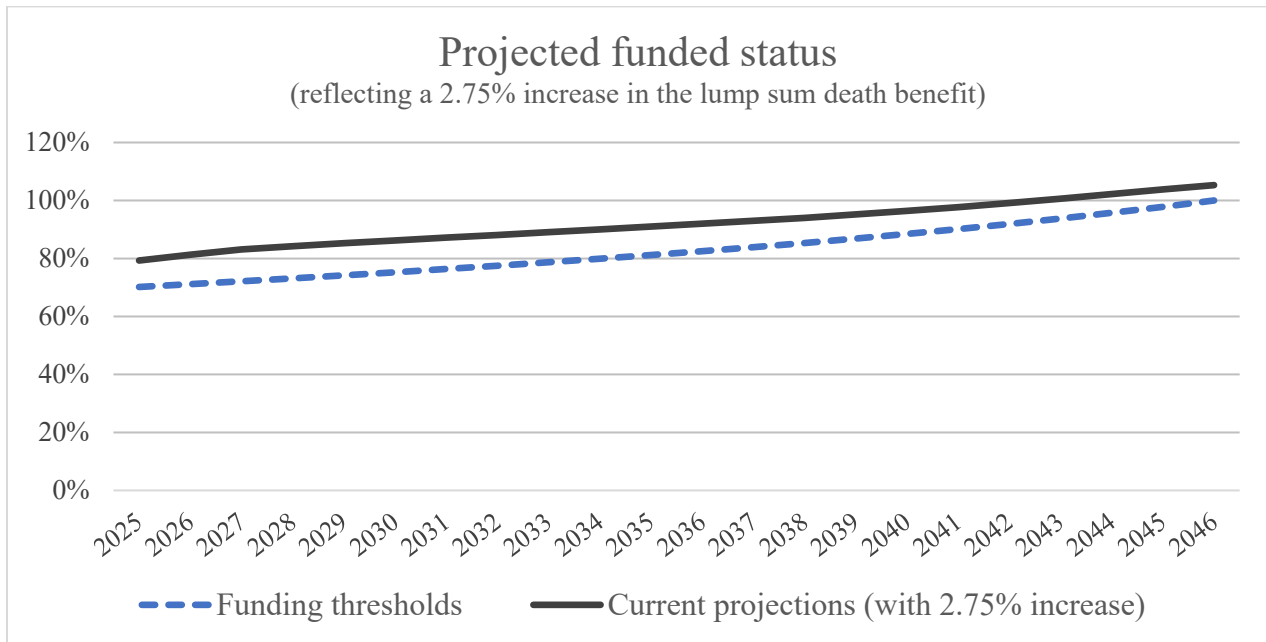
An increase of 2.75% would increase the lump sum death benefit to \$7,488 for active Coverage A members and retired members. The lump sum death benefit for active Coverage B members, which is set to four times the active Coverage A amount, would increase to \$29,952

The board policy also includes funding thresholds tied to the CalSTRS Funding Plan. Specifically, the policy states that the board will consider increases in the lump sum death benefit amounts only if the following funding thresholds are met at each annual review:

- The funded status for the Defined Benefit Program is projected to be 100% or greater on June 30, 2046.
- In the most recent actuarial valuation, the funded status of the Defined Benefit Program, reflecting the increase under consideration, is greater than the funded status that was projected when the funding plan was adopted.

For this item, an analysis was performed to estimate the cost impact of increasing the lump sum death benefit amounts by 2.75%. The cost analysis was based on the June 30, 2025, actuarial valuation of the Defined Benefit Program and prepared by Milliman, CalSTRS consulting actuary. A copy of the analysis is attached to this agenda item. Page 3 of the cost analysis shows the projected funded status through 2046, reflecting a 2.75% increase, to help determine whether benefit increases should be recommended for adoption by the board.

As shown in the chart below, if the lump sum death benefit amounts were to be increased by 2.75%, the projected funded status for the Defined Benefit Program would remain ahead of the schedule set in the funding plan and meet the funding thresholds set in the board policy.



Increasing the lump sum death benefit would increase the actuarial obligation for the Defined Benefit Program by about \$34 million. As per the rules of the funding plan, increases in the lump sum death benefit above \$5,000 have always been treated as a benefit under the 1990 benefit structure, as the responsibility of the state. Therefore, any increases in the lump sum death benefit will increase the state’s share of the unfunded actuarial obligation.

The cost analysis also includes an estimated 0.006% of payroll increase in cost through 2046, which assumes the \$34 million increase in the unfunded actuarial obligation is amortized and paid for by June 30, 2046, the full funding target date set in the CalSTRS Funding Plan. The attached cost analysis contains additional information on the cost impact of amortizing increases in the unfunded actuarial obligation over a shorter period. This information can be found on pages 5 and 6 of the attached cost analysis. Page 6 of the attached cost analysis also contains a section called “Risk Discussion” that highlights some of the factors that could impact the results of the cost analysis.

Since all funding thresholds have been met, it is recommended the board increase both lump sum death benefit amounts by 2.75% effective July 1, 2025. Increasing both amounts by 2.75% will increase the lump sum death benefit to \$7,488 for active Coverage A members and retired members and to \$29,952 for active Coverage B members.

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

Board Policy linkage: Board Governance Manual: Section 7E - Benefits and Services Policy - Specified Interest and Contribution Rates and Lump Sum Death Benefit
