

Employer Contribution Rate for Elected Officials of Employee Organizations

SUBJECT

Adoption of the Employer Contribution Rate for Elected Officials of Employee Organizations for Fiscal Year 2022-23.

SUMMARY

The "Employer Contribution Rate for Elected Officials" is used to charge the employer for service credit granted to a member for an approved leave of absence to serve as an elected official of an employee organization. The maximum amount of service credit that may be granted for service as an elected official of an employee organization is 12 years.

During the leave of absence, the member contributes the amount that would have been contributed if he or she had continued to perform service in the position on a full-time basis. The employer contributes an amount based upon the salary that the member would have been paid if employed full-time. During the leave of absence, the employer contributes at the Employer Contribution Rate for Elected Officials, as specified by the board pursuant to Section 22711 of the Education Code. In fiscal year 2020-21, 41 members were credited with service under this section.

Under board policy, the employer contribution rate for elected officials of employee organizations is the greater of (1) the normal cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit.

Members whose benefit is based on the 2% at 62 formula, those hired after January 1, 2013, have a lower benefit and normal cost than members under the 2% at 60 formula. Therefore, it is appropriate to use the normal cost specific to the CalSTRS 2% at 62 members when determining the contribution rate for these members.

The actuarial valuation of the Defined Benefit Program as of June 30, 2021, which will be presented to the board at the May 2022 Regular Meeting, determined the normal cost rate, as of June 30, 2021, to be equal to 20.814% of member payroll for CalSTRS 2% at 60 members and 18.150% of member payroll for CalSTRS 2% at 62 members.

Based on this information, minimum contribution rate thresholds can be calculated for each member group.

The following table shows the contribution rate thresholds for fiscal year 2022-23.

Fiscal Year 2022-23 Contribution Rate Thresholds	CalSTRS 2% at 60	CalSTRS 2% at 62
1. Normal Cost Rate for FY 2022-23	20.814%	18.150%
2. Member Contribution Rate for FY 2022-23	10.250%	10.205%
Minimum Contribution Rate Thresholds (1 minus 2)	10.564%	7.945%

As part of a separate item discussing the results of the June 30, 2021 actuarial valuation of the Defined Benefit Program, staff is recommending the adoption of a total employer contribution rate of 19.1% of payroll for fiscal year 2022-23 for the Defined Benefit Program. Since this contribution rate exceeds the thresholds shown above, the board would normally be asked to adopt the same rate as the Employer Contribution Rate for the Elected Officials. However, it is not yet known whether employers will contribute less to the Defined Benefit Program next fiscal year.

This fiscal year, employers are contributing 16.92% of payroll to the Defined Benefit Program. Note that even though the board adopted a total employer rate of 19.1% for fiscal year 2021-22, employers are currently contributing less as a result of a rate reduction of 2.18% enacted through the 2020 Budget Act to provide employers with contribution rate relief in response to the COVID-19 pandemic. The rate relief was obtained by redirecting previously received supplemental contributions from the state away from reducing the employers' share of the unfunded liability into providing short-term rate relief. This rate relief is set to expire on June 30, 2022. It is not yet known if further rate relief will be provided to employers in fiscal year 2022-23 as part of the 2022 State Budget.

For this reason, rather than adopting 19.1% as the Employer Contribution Rate for Elected Officials, the board is being asked to adopt a rate equal to 19.1% minus any applicable rate relief, as long as the net employer contribution exceeds 10.564% of payroll for 2% at 60 members and 7.945% of payroll for 2% at 62 members, the thresholds calculated as per board policy.

RECOMMENDATION

Staff recommends that the Employer Contribution Rate for Elected Officials for fiscal year 2022-23 be set equal to 19.1% minus any applicable rate relief provided through the 2022 State Budget to the extent the net employer contribution rate exceeds 10.564% for 2% at 60 members and 7.945% for 2% at 62 members.

RESOLUTION OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of Employer Contribution Rate for Elected Officials of Employee Organizations for the 2022-23 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, Section 22711 of the Education Code requires that the Teachers' Retirement Board adopt the Employer Contribution Rate for Elected Officials of Employee Organizations; and

WHEREAS, the Teachers' Retirement Board adopted a policy to base the rate on the greater of (1) the normal cost of the member's benefit structure, less the member contribution rate, and (2) the employer contribution rate in effect for all other service credit; and

WHEREAS, for fiscal year 2022-23, the difference between the normal cost of the member's benefit structure and less the member contribution rate is 10.564% for 2% at 60 members and 7.945% for 2% at 62 members; and

WHEREAS, for fiscal year 2022-23, the Teachers' Retirement Board adopted an employer supplemental contribution rate that resulted in a total employer contribution rate of 19.1%; and

WHEREAS, the employer contribution rate to the Defined Benefit Program in effect for fiscal year 2022-23 could be lower if contribution rate relief is provided to employers by the Legislature as part of the 2022 State Budget; therefore, be it

RESOLVED that the Teachers' Retirement Board set the Employer Contribution Rate for the Elected Officials of Employee Organizations for fiscal year 2022-23 equal to 19.1% minus any applicable rate relief provided through the 2022 State Budget to the extent such rate exceeds 10.564% for 2% at 60 members and exceeds 7.945% for 2% at 62 members.

Adopted by:
Teachers' Retirement Board
On May 4, 2022

Cassandra Lichnock
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel