



Regular Meeting

Item Number 11– Open Session

Subject: Actuarial Projection for the Supplemental Benefit Maintenance Account

Presenter(s): David Lamoureux and Rick Reed, CalSTRS / Nick Collier and Julie Smith, Milliman

Item Type: Action

Date & Time: May 2, 2024 – 10 minutes

Attachment(s):

Attachment 1 – Milliman’s Projection of SBMA Funding Sufficiency

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

PowerPoint(s): Actuarial Projection for the SBMA

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.

Below is a table comparing some of the key results from the June 30, 2023 SBMA actuarial projection to the 2021 projection.

Key Results

	June 30, 2023 actuarial projection	June 30, 2021 actuarial projection
Current assets	\$25.0 billion	\$21.0 billion
Present value of future contributions	\$11.2 billion	\$9.7 billion
Available resources	\$36.2 billion	\$30.7 billion
Present value of future SBMA payments for current members	\$25.5 billion	\$18.8 billion
Projected excess resources	\$10.7 billion	\$11.9 billion
Maximum purchasing power level	90%	92%

Based on the June 30, 2023 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, 2025 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.

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, 2023, actuarial sufficiency projection for the SBMA. The last actuarial analysis was done two years ago. It was performed as of June 30, 2021, and presented to the board in May 2022. 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 2022-23, the SBMA received \$809.3 million in contributions, of which \$801.7 million came from the State General Fund and about \$7.6 million from school and lieu lands revenues. Benefits paid from the SBMA totaled \$485.6 million in fiscal year 2022-23.

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 2022-23, 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, 2021 actuarial analysis, inflation in California has exceeded the assumed 2.75%. Inflation in California was 8.3% in fiscal year 2021-22 and 3.1% in fiscal year 2022-23. Note that inflation this fiscal year is on pace to be below 2.75%.

As a result of the high inflation in the last two years, the number of members receiving SBMA has almost doubled compared to the last time the actuarial analysis was performed in 2022. For fiscal year 2023-24, about 108,000 members are receiving a benefit from the SBMA at an average of \$505 per month or \$1,515 each quarter since these payments are paid quarterly. Two years ago, about 68,000 members were receiving a benefit from the SBMA at an average of \$310 per month or \$930 per quarter. SBMA payments are currently paid quarterly to all members and beneficiaries of members who retired in 2005 or earlier. Those who retired in 2006 or more recently have yet to see their purchasing power fall below 85%.

The June 30, 2023 actuarial projection reflects the implementation of Senate Bill 868 (Cortese - 2022) which became effective July 1, 2023, and provided an additional 5% to 15% increase for all members and their beneficiaries that began receiving a benefit prior to 1999. Almost 46,000 CalSTRS members and their beneficiaries received an additional increase in SBMA benefit as a result of SB 868.

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 \$10.7 billion as of June 30, 2023. Note that the projected excess

resources have decreased by about \$1.2 billion since 2021, mostly as a result of higher-than-expected inflation and the implementation of SB 868. Even with this reduction, it is expected that there will be sufficient funds to pay the SBMA benefits at the current 85% level through June 30, 2089.

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. This measure has decreased since the last actuarial projection. In the last actuarial projection, the maximum purchasing power protection level was calculated to be 92%. The reduction is due in part to the higher than assumed inflation since 2021 and the benefit increase provided by SB 868. It is important to realize these projections reflect the board assumption that inflation will remain stable at 2.75% each year into the future.

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 68% 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 pages 6 and 7 of the attached analysis for more details.

Based on the June 30, 2023, 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, 2025, analysis.

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.

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