CalSTRS Report for July 2018

By Pat Geyer, CalRTA Liaison with CalSTRS

Executive Summary

1. Long-Term Facilities. The budget has increased from the $226,675,746 estimate to $300,000,000.
2. CalSTRS members who retired in 1999 or earlier will receive a payment from the SBMA.
3. Pension 2 (a 403b program) now has $1 billion in assets.
4. The CalSTRS Board off site meetings will be held on October 3, 4. Full Board meetings will be on November 7, 8, 9, 2018.
5. The CalSTRS fund has reached $226 billion.

Appeals Committee

The Appeals Committee heard a presentation on quality control, quality assurance, and training needs. CalSTRS has less county offices each year due to the increase in the number of area CalSTRS centers so teachers are getting better and more accurate services.

Benefits and Services Committee

The Committee heard a presentation on the policy related to interest rates. The Defined Benefit interest rate is the same as the 2-Year U.S. Treasury notes. The Defined Benefit Supplement and the Cash Balance interest rates are linked to the 30-year Treasury notes because these are long term.

Staff reported that over the last 10 years CalSTRS has paid refunds of contributions to about 5,000 members per year. 4,000 of these members have had less than five years of service. About 100 retired members seek refunds each year. Regarding interest rates, CalSTRS uses the interest rate for the two-year treasury notes which presently are about 3%. Two notes were added to the Credit Interest Rate section - (1) The credited interest rate cannot exceed the
investment return rate of the DB program, and (2) the credited interest rate cannot be lower than what a person could earn in a savings account.

Next was a report on the SBMA (Supplemental Benefits Maintenance Account). CalSTRS members who retired in 1999 or earlier will receive a payment from the SBMA. SBMA is critical for the oldest retirees even though there has been low inflation in the last few years. The SBMA is paid quarterly, and has $10 Billion in excess reserves. However, this excess could be depleted if inflation returns.

Staff reported that health care costs, especially nursing home care are the largest risk for retirees. Mercer-Vanguard research predicted an annual health care expense for the average 65-year-old woman to be $5280 in 2018. Findings suggest the members’ expectation of health care expenses is less than the reality.

**Teachers’ Retirement Board**

The Board heard a report on the Long-Term Facilities. The budget has increased from the $226,675,746 estimate to a $300,000,000 budget. The increase is due to increases in the cost of construction ($53 million), infrastructure ($12 million), Contingency ($15 million) and Impact fees ($3 million). CalSTRS plans to lease up to 80% of the extra space until needed. The CalSTRS Headquarters expansion is the lowest cost compared to acquisition of a building or a lease.

David Walrath, CalRTA and Jennifer Baker, CTA both urged CalSTRS to provide a comprehensive plan. Walrath wanted CalSTRS to inform and work with the Department of Finance and the Legislature.

Aaron Laurel, City Manager West Sacramento gave a report. West Sacramento is predicted to have $80 million in riverfront development over the next 10 years – new apartments as well as additional office and retail buildings. They are planning street cars to run down Front Street and connect with Raley Field and the Tower Bridge. A new bridge over the Sacramento River is planned and will be located between the I Street and Tower Bridges.

The preliminary 2019-20 Operating Budget is $285 million and represents a $7.4 million increase for the fiscal year of 2018-19. The increase is due to wage increases, state mandates, growth and the Pension Solution computer project. CalSTRS is committed to 100% funded. Several groups have suggested an 80% funded target, but this would cause funded levels to decline over time.
The Board heard an update on the Pension Solution computer project. Prashant Mittal has been selected as the project director. CalSTRS has been working closely with employers. Eight webinars were conducted in May and June. The challenges to the computer project remain the same: a successful launch, employer readiness, budget for demonstrations and testing.

Chief Executive Officer, Jack Ehnes gave his report. An off-site meeting of the CalSTRS Board will be held on October 3-4 at the San Diego Service Center. Pension 2 (a 403b program) now has $1 billion in assets. In 2017 the Actuarial Standards Board adopted new standards (ASOP 51) regarding assessment and disclosure of risks for pension plans. This new plan will not impact CalSTRS.

The Board heard an update on State and Federal legislation:

State Legislation:

AB 1297 (Nazarian) prohibits CalSTRS and CalPERS from making new investments in Turkey. Bill is on Governor’s desk. CalSTRS opposes.

AB 2571 (Gonzalez) requires annual report on race, gender, pay equity and sexual harassment. Bill not heard. CalSTRS watch.

AJR 41 requests the repeal of the Government Pension Offset and Windfall Elimination Provision from Social Security. Bill passed


SCA 8 (Moorlach) permits a government employer the right to reduce retirement benefits based on work not yet performed. Position oppose. Held in Committee

SCA 10 (Moorlach) requires any retirement benefit increase be approved by a 2/3 vote of the electorate. Position oppose. Held in Committee


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