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COMMUNITY COLLEGE UPDATE

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

CalSTRS Contribution Rate Increase Expected for 2021–22

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As part of the 2014–15 State Budget, the California State Teachers' Retirement System (CalSTRS) Full Funding Plan (AB 1469) was put in place to propel the retirement system to be fully funded in 32 years. The plan included statutory employer and state contribution rates initially, and then gave authority to the CalSTRS Board—for the first time—to increase contribution rates (with some constraints) to fully exhaust the unfunded liability by 2046.

Initially, the employer contribution rate was set to increase evenly over a seven year period, with equal increases detailed in statute; at the end of that ramp up period the CalSTRS Board could increase or decrease the contribution rate by a percentage point each year, with a maximum employer contribution rate of 20.25% as follows:

“For fiscal year 2021–22 and each fiscal year thereafter, the board shall increase or decrease the percentages . . . to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation . . . as determined by the board based upon a recommendation from its actuary.”

The steady statutory increase was disrupted—in a positive way—for several years as the state subsidized the employer contribution rate by sending funds to CalSTRS on behalf of school districts, and thereby lowering the employer contribution rate. The 2021–22 employer contribution will enjoy a state subsidy, but is unlikely to be sufficient to mitigate the need for an employer contribution rate higher than in 2020–21.

The need for an increased rate is due to a statewide shrinking CalSTRS–eligible payroll as teachers left the profession in 2020–21 and have not been replaced. Because the payroll upon which the employer contribution rate is applied has shrunk, so too has the contribution sent to CalSTRS by employers shrunk. This exacerbates the unfunded liability.

The CalSTRS Board is set to exercise its new rate-setting authority in an action at its June 2021 meeting. Unfortunately, that will provide less than a month for local educational agencies (LEAs) to make budget adjustments for the new fiscal year. Therefore, we are recommending that LEAs begin to anticipate a CalSTRS employer contribution rate in 2021–22 based on what will be the recommendation of the actuary: 16.92%. The rate of 16.92% would be the net value of the employer contribution rate when applying the state subsidy of 2.18% to the employer contribution rate likely adopted by CalSTRS of 19.1%. This is an increase compared to both the current year rate of 16.15% and importantly against what LEAs are currently expecting in 2021–22, at 15.92%.

There is uncertainty in this rate: the CalSTRS Board could choose to adopt a lower contribution rate or the state could provide an additional subsidy for 2021–22. However, the conservative approach would be to expect this increase based on the best information available to date from CalSTRS.

The official action of the CalSTRS Board will take place on June 10, 2021, and will be reported to the field as soon as it is finalized.