SUPPLEMENTAL PAYMENTS

FISCAL YEAR 2018-19

CALCULATION

AND

FUNDING INFORMATION

Revised 8/2018
LPRD-104

California State Teachers' Retirement System
Supplemental Payments

Contents

Attachments:

Purchasing Power Factors for 2018-2019 - Attachment A

Estimation Worksheet - Quarterly Payments

Purchasing Power

Inflation can significantly deteriorate a person's ability to maintain a consistent standard of living after retirement. Inflation is generally measured by changes in the average prices of selected goods and services. As inflation rises, the value of money decreases because it purchases fewer goods and services. A decline in the purchasing power of money is another way to define inflation.

The higher the rate of inflation, the greater the drop in the purchasing power of money. For example, if wages remain the same but prices double, the current purchasing power of wages is only 50 percent of the purchasing power of those same wages prior to the price increases. In this situation, wages must double to maintain the same purchasing power.

The California State Teachers' Retirement System (CalSTRS) measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index (CCPI) published by the Department of Industrial Relations, Bureau of Labor Statistics. The cumulative change in the CCPI from each year in which benefits have become effective since 1955 is displayed in Attachment A.

2 Percent Simple Benefit Adjustment (Education Code Sections 22140, 22141 and 24402)

The CalSTRS Defined Benefit Program provides an automatic 2 percent simple benefit adjustment to allowances payable to all benefit recipients to provide some protection against the effects of inflation. This annual "benefit improvement factor" is applied September 1 of each year following the first anniversary of the effective date of the benefit.

Supplemental Payments

There are two other sources of funds that provide additional purchasing power protection for CalSTRS benefit recipients through "supplemental payments". They are 1) School Lands Revenue and 2) the Supplemental Benefit Maintenance Account (SBMA). Supplemental payments begin automatically once your allowance qualifies and are issued from these funds on October 1, January 1, April 1 and July 1. It is important to remember that these payments are not guaranteed and will continue only as long as funds are available. Periods of low inflation can also occur and lower the quarterly supplemental payment amount.

School Lands Revenue (Education Code Sections 24412 and 24413)

Since 1983, it had been the intent of the Legislature and the Teachers' Retirement Board to maintain the level of purchasing power of CalSTRS allowances to a minimum of 75 percent of the purchasing power of the initial allowance. To fulfill this intention, revenue generated from the 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) during the prior year is transferred to CalSTRS each year for the purpose of providing annual supplemental payments in quarterly installments. Chapter 840, Statutes of 2001 increased the payment to provide for up to 80 percent purchasing power. The School Lands revenue only covers payments that maintain up to 80 percent purchasing power. Payments to maintain higher than 80 percent purchasing power comes from the SBMA.

This revenue is distributed on a pro-rata basis to all benefit recipients whose initial allowances have fallen below the 80 percent purchasing power level. Because the revenue from School Lands does not generate enough income to bring the purchasing power of all CalSTRS allowances to at least 80 percent, the available revenue is distributed on a proportional basis to all eligible benefit recipients. The amount of the School Lands payment for each benefit recipient depends on the: (1) amount of money available from School Lands that year; (2) number of benefit recipients whose allowance purchasing power is below 80 percent; and (3) increase in the CCPI.

For example, if School Lands revenue is only sufficient to provide 5 percent of the amount needed to bring all allowances up to a minimum of 80 percent of the purchasing power of the initial allowance, each eligible benefit recipient will receive from School Lands revenue 5 percent of the amount needed to restore their purchasing power to 80 percent.

In 2018-2019, School Lands revenue is providing only 5.29 percent of the amount needed to restore the purchasing power of allowances payable to all benefit recipients to a minimum of 80 percent. Therefore, each eligible benefit recipient receives a supplemental payment paid from School Lands revenue equal to 5.29 percent of the amount necessary to raise the purchasing power of the allowance to 80 percent.
Since School Lands revenue for 2018-2019 is not sufficient to raise the purchasing power of each CalSTRS allowance to a minimum of 85 percent of the purchasing power of the initial allowance, the SBMA is used to make up the difference.

Supplemental Benefit Maintenance Account

Chapter 751, Statutes of 2008 increased the Supplemental Benefit Maintenance Account to up to 85% of the purchasing power of the initial monthly allowance. It authorized the Teachers' Retirement Board (TRB) to adjust the purchasing power protection payments between no less than 80% and no more than 85%, based on actuarial projections.

An amount equal to 2.5 percent of the fiscal year covered CalSTRS' member payroll (ending in the immediately preceding calendar year) is contributed each year from the State of California General Fund to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund on July 1 of each fiscal year. Beginning with the 2008-2009 fiscal year, the appropriation would be reduced in accordance with the schedule below. The contributions are made on October 15 and April 15 of each fiscal year, with each contribution equal to one half of the amount appropriated.

2008-09 …… $66,386,000
2009-10 …… $70,000,000
2010-11 …… $71,000,000
2011-12 and each fiscal year thereafter …..$72,000,000

The SBMA provides annual supplemental payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 85 percent of the purchasing power of the initial allowance, after application of the School Lands monies, as long as funds are available.

Both the School Lands revenue and SBMA provide authority to make supplemental payments sufficient to bring purchasing power up to 85 percent of the purchasing power of the original allowance. Since 2001, funding from the General Fund has been a contractually enforceable obligation of the state. However, Chapter 6, Statues of 2003 reduced the General Fund contribution for 2003-2004 by $500 million. The TRB successfully pursued litigation to compel payment of the $500 million plus interest. A $500 million payment consisting of the interest owed to date and partial payment of the principal was received September 6, 2007. Chapter 751, Statutes of 2008 also appropriated $56,979,949 to pay the remaining principal and interest of the original $500 million, to be contributed to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund on or after July 1 in each fiscal year starting with fiscal year 2009-2010 and ending with fiscal year 2012-2013. The 85 percent level of supplemental payments, however, is not vested. This means that if the combined funding from both sources is not sufficient to bring purchasing power up to the 85 percent level, supplemental payments may have to be paid at a lower level. However, based upon our assumptions, the funding for an 85 percent supplemental payment is sufficient for well in excess of 30 years.

The amount of the supplemental payment from SBMA for each benefit recipient depends on: 1) the extent to which the benefit recipient's allowance has fallen below 85 percent of the purchasing power of the initial allowance; and (2) the amount of the supplemental payment provided from School Lands Revenue.

Estimation of Supplemental Payments

A benefit recipient can estimate his or her supplemental payments. It is first necessary to calculate the purchasing power of the current CalSTRS allowance. This is accomplished by using the following information:

Benefit Effective Date (identified by "Initial Date/Allow" on the Direct Deposit Advice/Check stub just below the Client ID)

Initial Allowance (identified by "Initial Date/Allow" on the Direct Deposit Advice/Check stub just below the Client ID)

Current Allowance (the sum of your Normal Allow and COLA on the Direct Deposit Advice/Check stub*), **and**

Change in the California Consumer Price Index (CCPI) is determined by dividing the CCPI for June of 2018 by the CCPI for June of the calendar year of retirement. Attachment A provides the result (Purchasing Power Factor) of this division for each calendar year of retirement.

* Due to legislative constraints, not all cost-of-living and minimum guarantee increases are used when determining the current allowance to be used in calculating the supplemental benefit. The current allowance shown on your warrant stub/deposit advice is for estimation purposes only.

Purchasing Power Percentage of the Current Allowance - Example

The example will use the following data to calculate the current purchasing power percentage:

Initial Allowance:	$1,000
Benefit Effective Date:	July 1, 1988
Current Allowance:	$1,600
Purchasing Power Factor:	2.239

In this example, the benefit effective year is 1988, and the corresponding Purchasing Power Factor is 2.239. (Change in CCPI is determined by dividing the CCPI for June of 2018 by the CCPI for June of the calendar year of retirement, in this example, 1988.)

The purchasing power of the current allowance is determined as follows:

A. Obtain the Purchasing Power Factor for the benefit effective year: 2.239

B. Multiply the initial allowance by the Purchasing Power Factor to obtain the **Fully Adjusted Allowance**. This is what the current allowance amount would be if it had been adjusted to keep pace with inflation since the Benefit Effective Date.

$1,000 x 2.239 = $2,239.00

C. Divide the Current Allowance by the Fully Adjusted Allowance to calculate the **Current Purchasing Power Percentage**.

$1,600.00 / $2,239.00 = 71.46%

Note: If the Current Purchasing Power Allowance percentage is greater than 85 percent, no supplemental payments will be paid.

Total Quarterly Supplemental Payment

The total supplemental payment is determined as follows:

A. Multiply the fully Adjusted Allowance by 0.85 to determine the 85 percent **Purchasing Power Amount.**

$2,239.00 x 0.85 = $1,903.15

B. Subtract the Current Allowance from the 85 percent Purchasing Power Amount to determine the **Supplemental Payment Monthly Amount,** the monthly payment amount that would be needed to restore the purchasing power allowance to the 85 percent level.

$1,903.15 - $1,600.00 = $303.15

C. Multiply **Supplemental Payment Monthly Amount** by three (3) months to determine the **Total Quarterly Supplemental Payment.**

$303.15 x 3 = $909.45

For this example, $909.45 would be the Quarterly Supplemental payment that would be paid on October 1, 2018, January 1, 2019, April 1, 2019 and July 1, 2019.

California State Teachers' Retirement System
Supplemental Payments

Factors for Calculating 2018-2019 Purchasing Power
All Urban CA Consumer Price Index
Attachment A

Year	June CCPI	Purchasing Power Factor*
1955	25.7	10.602
1956	26.2	10.399
1957	27.1	10.054
1958	28.1	9.696
1959	28.5	9.560
1960	29.1	9.363
1961	29.5	9.236
1962	30.0	9.082
1963	30.2	9.022
1964	30.8	8.846
1965	31.6	8.622
1966	32.1	8.488
1967	32.9	8.282
1968	34.3	7.943
1969	36.0	7.568
1970	37.9	7.189
1971	39.4	6.915
1972	40.5	6.727
1973	42.7	6.381
1974	47.1	5.785
1975	52.0	5.240
1976	55.2	4.936
1977	59.5	4.579
1978	64.6	4.218
1979	71.0	3.837
1980	83.3	3.271
1981	90.1	3.024
1982	98.5	2.766
1983	99.1	2.749
1984	103.6	2.630
1985	108.4	2.513
1986	112.2	2.428
1987	116.3	2.343
1988	121.7	2.239
1989	128.2	2.125
1990	134.3	2.029

California State Teachers' Retirement System
Supplemental Payments

Year	June CCPI	Purchasing Power Factor*
1991	140.1	1.945
1992	145.2	1.876
1993	148.9	1.830
1994	150.7	1.808
1995	154.2	1.767
1996	156.6	1.740
1997	160.0	1.703
1998	163.6	1.665
1999	167.8	1.624
2000	174.0	1.566
2001	183.2	1.487
2002	185.9	1.466
2003	189.9	1.435
2004	195.8	1.392
2005	201.3	1.354
2006	210.9	1.292
2007	217.4	1.253
2008	228.324	1.193
2009	224.994	1.211
2010	227.113	1.200
2011	233.285	1.168
2012	237.781	1.146
2013	241.926	1.126
2014	247.228	1.102
2015	250.404	1.088
2016	255.576	1.066
2017	262.286	1.039
2018	272.462	1.000

*The Purchasing Power Factor is obtained by dividing the CCPI for June of 2018 by the CCPI for June of the calendar year of retirement.

California State Teachers' Retirement System
Supplemental Payments

Estimation Worksheet - Quarterly Payments

Current Allowance Purchasing Power Percentage

1.	_____	x	_____	=	_____	
	Initial Allowance Monthly Amount		Purchasing Power Factor for the Benefit Effective Year		Fully Adjusted Allowance (a)	
2.	_____	/	_____	=	_____	
	Current Allowance Monthly Amount		Fully Adjusted Allowance (a)		Current Purchasing Power Percentage	(Must be less than 85% to proceed)

Total Supplemental Payment

1.	_____	x	0.85	=	_____	
	Fully Adjusted Allowance (a)		Purchasing Power Percentage		85% Purchasing Power Amount (b)	
2.	_____	-	_____	=	_____	
	85% Purchasing Power Amount		Current Allowance Monthly Amount		Supplemental Payment Monthly Amount (c)	
3.	_____	x	3	=	_____	
	Supplemental Payment Monthly Amount(c)		Number of months in a quarter of a year		Total Quarterly Supplemental Payment	