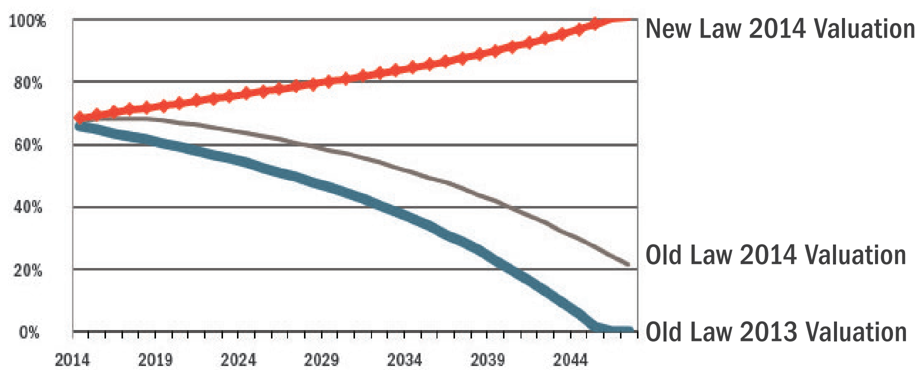
# CalSTRS Funding Status

## Stabilization of the Defined Benefit Program Reflected in Valuation

For the first time in nearly 10 years, projections indicate contributions are sufficient to meet future needs—based on the current investment assumption of 7.5 percent. Due to the new funding structure enacted in Chapter 47, Statutes of 2014 (Assembly Bill 1469-Bonta), CalSTRS no longer projects a depletion date. Instead, the Defined Benefit Program is expected to be fully funded by 2046.

A snapshot of the program's assets and liabilities as reported in the June 30, 2014, actuarial valuation, reflects a decrease of about one billion in the unfunded liability, now at $72.7 billion. Last year's projections marked the funding shortfall at $73.67 billion. This year's valuation also shows a 1.6 percent increase in the funded ratio from 66.9 percent to 68.5 percent.

### Projected Funded Ratio




## New Funding Status Better Than Previously Projected

Overall, the Defined Benefit Program achieved a better funded status when compared to projected calculations in the June 30, 2013, valuation. The June 30, 2013, valuation projected a June 30, 2014, unfunded liability of $79.2 billion, with a funded ratio of 65.8 percent. This improvement in the projected financial status stems primarily from investment gains.

Last fiscal year's 18.6 percent investment return gains are projected to result in contribution rates imposed on the state and employers that are less than those specified in the funding legislation. This is assuming all future experience remains consistent with the current 7.5 percent investment earnings assumption.

Provisions within the legislation provide the Teachers' Retirement Board with additional flexibility should future employer and state contribution adjustments need to be made. Beginning July 1, 2017, the state contribution rate can be adjusted based on the contribution rate necessary to amortize the unfunded actuarial obligation attributable to the 1990 contribution and benefit structure. The employer contribution rate can also be adjusted beginning July 1, 2021.

## What Is Funding Status?

Funding status operates like a measuring stick. It is an actuarial methodology used to guide appropriate changes and decisions needed to sustain the program's long-term viability. Actuarial valuation reports forecast long-term, projected costs and revenues. They serve to determine the sufficiency of future contributions from members, employers and the state to meet current and future obligations of the Defined Benefit Program.

Past valuations showed the fund would deplete its assets in about 30 years. However, the funding plan in AB 1469 sets the Defined Benefit Program on course for full funding by 2046 through gradual contribution increases from all plan contributors.

The most common measurement of funding status is the funded ratio, which compares the current assets with the projected value of benefits to be paid in the future for service to date. Thus, a funded ratio of 70 percent indicates that assets on hand are 70 percent of the value of currently earned benefits. The difference, or funding gap, between the assets and the value of benefits needs to be made up with contributions. This is why the recent legislation in AB 1469 is so critical, as it is provides for increased contributions that are projected to bridge this funding gap.