

## **LAO Analyzes CalSTRS Unfunded Liability**

On Friday, May 5, 2017, the Legislative Analyst's Office (LAO) released a report on California State Teachers' Retirement System (CalSTRS) unfunded liability. According to the LAO, the CalSTRS total unfunded liability increased by \$21 billion in 2014-15, nearing almost \$100 billion as of 2015-16.

The report acknowledges that CalSTRS has historically been inadequately funded for almost all of its "100-plus year history." If CalSTRS remained on this path with no plan in place, its assets would have been depleted by 2046, at which point funds going into the system would be used simply to keep up with the benefits promised to retirees. Recent legislation (Assembly Bill 1469, 2014) was passed with the intent of fully funding the CalSTRS Defined Benefit Program by the mid-2040s with increased employer, employee, and state contributions for the next few decades.

Even with legislation in place, the LAO states that the most important action the state can take to meeting the funding goal by the mid-2040s is to consider increasing the state's contribution faster. This is important because if CalSTRS funding worsens, the state will be responsible for covering the resulting costs, keeping in mind that the state's contribution rate can only be increased by up to 0.5% annually.

The LAO asserts that the Legislature has the following three options for increasing state contributions faster:

- Option #1: Increase the current annual state contribution rate increase cap of 0.5%--each 0.25% increase in the cap would cost around \$75 million per year in the near term
- Option #2: Dedicate a portion of Proposition 2 debt payments to CalSTRS on a one-time, periodic, or ongoing basis
- Option #3: Implement Option # 1 and Option #2

The LAO's full report can be found at: [http://lao.ca.gov/publications/report/3662?utm\\_source=subscription](http://lao.ca.gov/publications/report/3662?utm_source=subscription).

