

Credited Interest Rate - Defined Benefit Program

SUBJECT

Adoption of Fiscal Year 2024-25 Credited Interest Rate for the Defined Benefit Program

SUMMARY

Credited interest, as defined by Section 22120 of the Education Code, is interest that is credited to members' accounts at a rate set annually by the board. Members who terminate membership in the Defined Benefit Program and withdraw their funds receive a refund of their contributions along with the interest credited to their account. Credited interest generally does not affect a member who receives a monthly allowance under the Defined Benefit Program.

According to board policy, the credited interest rate adopted is equal to the average amount paid on 2-year U.S. Treasury notes for the previous twelve months, rounded to the next highest basis point. The 12-month period ending in February is used for setting the credited interest rate. The board policy also states that the credited interest rate cannot exceed the assumed investment return and cannot be lower than a passbook rate calculated as the average one-year annual percentage yield a person would earn in a savings account for a representative sample of banks and credit unions.

The average rate paid on 2-year U.S. Treasury notes during the period March 1, 2023 through February 29, 2024 was 4.608%. It results in a rate of 4.61% when rounded up to the next highest basis point. This is more than the rate of 3.49% adopted for the 2023-24 fiscal year. This rate is less than the actuarial assumed rate of 7.00% and more than the current passbook rate of 0.02%.

RECOMMENDATION

Staff recommends the board adopt the Credited Interest Rate of 4.61% for the Defined Benefit Program for the 2024-25 fiscal year.

RESOLUTION OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of the Credited Interest Rate for the Defined Benefit Program for the 2024-25 Fiscal Year

RESOLUTION NO. XX-XX

WHEREAS, the Teachers' Retirement Law requires the Teachers' Retirement Board to adopt the Credited Interest Rate; and

WHEREAS, Section 22120 of the Education Code specifies that "Credited Interest" means interest that is credited to active members' and inactive members accumulated retirement contributions and accumulated annuity deposit contributions at a rate set annually by the board as a plan amendment; and

WHEREAS, the Teachers' Retirement Board adopted a policy of basing the Credited Interest Rate on the average rate paid on 2-year U.S. Treasury notes for the previous twelve months, rounded up to the next highest basis point; and

WHEREAS, the average rate paid on 2-year U.S. Treasury notes during the period March 1, 2023 through February 29, 2024 was 4.608%, resulting in a rate of 4.61% when rounded up to the next highest basis point; and

WHEREAS, the average rate for 2-year U.S. Treasury notes during the past twelve months was greater than the current passbook account rate of 0.02% and less than the actuarial assumed interest rate of 7.00%; therefore, be it

RESOLVED that the Teachers' Retirement Board adopts the Credited Interest Rate of 4.61% for the Defined Benefit Program for the 2024-25 fiscal year.

Adopted by:
Teachers' Retirement Board
On May 2, 2024

Cassandra Lichnock
Chief Executive Officer

Reviewed by:

Brian J. Bartow
General Counsel