

## CalSTRS Funding Needs

The CalSTRS \$56 billion funding shortfall can be managed, but the solution requires thoughtful action. The \$150 billion fund is projected to have assets to pay promised benefits to current members and retirees for more than 30 years. However, absent changes in contribution rates or liabilities, current calculations show the program will deplete its assets by the early 2040s. The state must act to adopt a responsible funding strategy that will protect the state General Fund and uphold the state's promise to teachers.

### **Fair, hard-earned CalSTRS benefits reward decades of classroom service.**

- Last year, CalSTRS members—on average—retired at nearly age 62 after more than 25 years of service with a pension that replaced about 60 percent of their highest salary.
- Our members receive no Social Security benefits for their CalSTRS-covered employment.
- Of the nearly 220,000 CalSTRS members receiving retirement benefits from their own service, only 2.2 percent receive pensions that exceed \$100,000 annually.
- Generally, CalSTRS retired members do not receive employer-paid health care benefits after age 65.

### **Failure by the state to adopt a responsible funding strategy increases the costs and risks to the state General Fund.**

- Without a plan of action, the CalSTRS fund will be depleted in the early 2040s.
- If CalSTRS does run out of money, the annual cost to the state is projected to be \$9 billion (in today's dollars).
- As the plan sponsor, the state will be obligated to pay the difference between the benefits paid and the contributions received.
- CalSTRS core benefits are guaranteed by the U.S. and California constitutions.

**CalSTRS contribution rates have not increased for decades.**

- Employer contributions have not changed since 1990 and employees' since 1972.
- Contributions by the State of California to the Defined Benefit Program actually declined from 4.607 percent in 1998 to the current level of 2.017 percent.
- Unlike most other national pension plans, the CalSTRS board does not have the authority to raise contribution rates—only the Legislature can do that.
- What is needed to fund the existing benefit plan is an increase in contribution rates, which can be gradual and predictable.

**History of responsible, prudent action.**

- Over the past 20 years CalSTRS has averaged an annual investment return of 8.2 percent.
- In November 2010 the CalSTRS board voted to lower its investment assumption rate from 8 percent to 7.75 percent.
  - » The board's decision acknowledged expert recommendations and the trend of lower investment assumptions due to weaker market performance in recent years.
  - » The impact of lowering the assumption rate on CalSTRS funding shortfall will be reflected when the fund's next valuation is performed in April 2011.
- After making adjustments to its investment mix to better position the fund's recovery, CalSTRS posted a solid 12.2 percent return at the end of the 2009-10 fiscal year and earned 12.7 percent in calendar year 2010.
- Benefit enhancements were enacted in 1998 and 2000 to address a teacher shortage. Some of these enhancements were not permanent and expired December 2010. Continuing these enhancements would have cost \$12 billion over 30 years.

**Leader in ethics.**

- Beginning in 2006, CalSTRS adopted a package of regulations and policies to set the gold standard for ethics to ensure conflict-free investment decisions. These include:
  - » Disclosure of third party relationships and payments.
  - » Regulation of placement agent fees and activities.
  - » Restrictions on campaign contributions to board members.

## What is the CalSTRS Defined Benefit Program?

The Legislature created CalSTRS in 1913 to provide a reliable retirement for California's teachers and create a loyal workforce by promising to pay a fixed monthly retirement benefit to qualified members. The amount of that benefit is based on a formula set by California law and determined by years of service, age at retirement and highest salary. Benefits are adjusted annually at a rate of 2 percent of initial benefit and not based on inflation.

CalSTRS members are prekindergarten through grade 12 teachers, public school administrators, community college instructors and their beneficiaries. Local school district employers set the salaries and determine whether or not to provide health benefits.

## Who pays for CalSTRS Defined Benefit Program?

CalSTRS benefits are paid by contributions from members, school employers and the State of California. The CalSTRS investment earnings on those contributions also are a source used to fund benefits.

Over the last 15 years, member contributions represented 18 percent of the total resources to pay benefits; school district employers, 18 percent; the state General Fund, 9 percent; and investment earnings, 55 percent. Last fiscal year, \$9.4 billion was paid in benefits.

## How do CalSTRS contributions compare to other plans?

All CalSTRS contribution rates are set by statute. Members' contribution of 8 percent of their earnings has not changed for nearly 40 years. Employers contribute 8.25 percent of each member's earnings, an amount that has not increased since 1990. The state's contribution to the Defined Benefit Program dropped in 1998 from 4.607 percent of payroll to the current 2.017 percent. The state pays an additional 2.5 percent of payroll for purchasing power protection.

### CalSTRS Comparison with Other Pension Plans

#### Percentage of Payroll

	Employee Social Security	Employee Defined Benefit	Employer Social Security	Employer Defined Benefit	State	TOTAL
<b>CalPERS Classified School Employees (2010-11)<sup>1</sup></b>	6.20%	7.00%	6.20%	10.71%	N.A.	<b>30.11%</b>
<b>Average Public Plan, Non-safety (2007-08)<sup>2</sup></b>	6.20%	5.00%	6.20%	8.70%	N.A.	<b>26.10%</b>
<b>CalSTRS (2010-11)</b>	N.A.	8.00%	N.A.	8.25%	1.86% <sup>3</sup>	<b>18.11%</b>

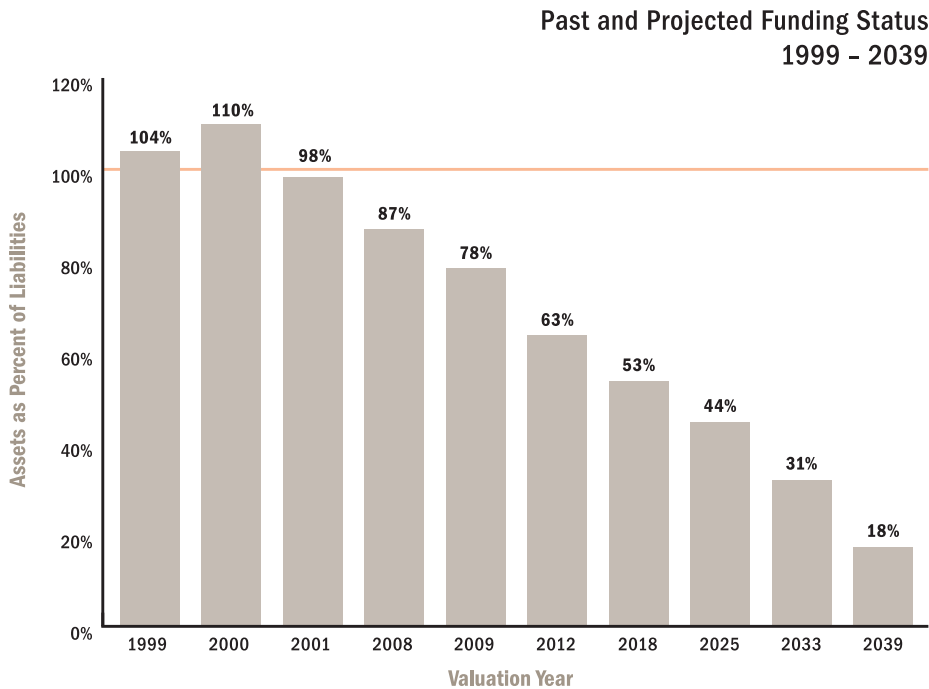
Sources/Notes: <sup>1</sup> CalPERS

<sup>2</sup> National Association of State Retirement Administrators

<sup>3</sup> Current payroll rate is equivalent amount of 2.017% of fiscal year ending in prior calendar year

## What is the funding status of the plan?

The current shortfall of \$56 billion is based on an actuarial valuation, a snapshot of the CalSTRS fund's assets and liabilities as of June 30, 2010. That valuation shows the fund is 71 percent funded, when the previous year it was 78 percent funded.



Sources: 2000-2009 CalSTRS Comprehensive Annual Financial Reports  
2010-2039 Milliman, CalSTRS independent actuarial consultant

## Why is the plan under-funded?

While CalSTRS assets were at an all-time high at the beginning of the decade, and more than adequate to meet future obligations, the 2001 dot com bust and the 2008 world economic turmoil created lower than expected investment returns. The fund experienced a 25 percent loss for the fiscal year that ended June 30, 2009. Without legislative approval for increased contributions, CalSTRS would need a more than 20 percent investment return each year for next five years to achieve full funding in 30 years.

# CALSTRS