

# Pension Issues Alert

Newsletter for CalSTRS members about possible changes to your retirement system

FEBRUARY 2005

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

**INSIDE:**

1

What CalSTRS is Doing For You

2

Budget Cut, Contribution Shift Could Hit Your Pocketbook

3

Change to a Defined Contribution Program Could Weaken Your Retirement System

## Your Pension Plan is Being Challenged

You have probably heard or read in the news about possible changes to California public employee retirement systems, including your retirement programs administered by CalSTRS. We are sending this newsletter to all CalSTRS members to provide them with more information on these important proposals.

The proposed changes include:

- a cut in the state's budget that could affect what you pay into your pension plan and
- two legislative proposals that would change public pension plans to 401(k)-style defined contribution plans for future employees.

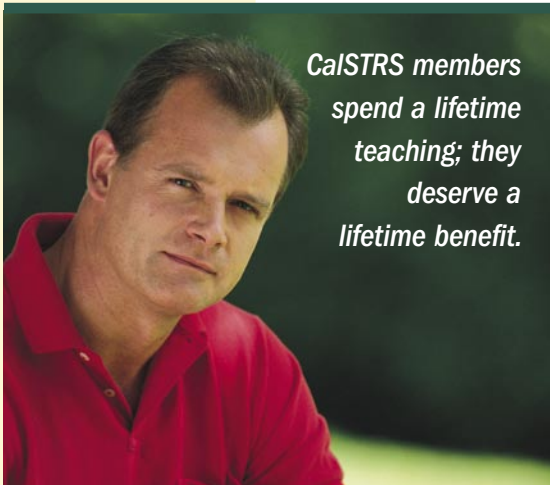
The budget cut would eliminate the state's obligation to contribute to your pension and increase the amount you or your employer contributes. The legislative proposals would close the current Defined Benefit Program to educators hired on or after July 1, 2007, in favor of a defined contribution plan. Current

CalSTRS members either could stay in the existing Defined Benefit Program or convert to the defined contribution plan.

Both proposed changes could have an impact on current educators and those hired starting July 2007. In addition, given the long-term effect of the proposed change that a defined contribution plan would have on the overall fiscal strength of CalSTRS, it is possible that certain benefits paid to retired members and other benefit recipients could be affected in the future.

### Get the Latest Information

- Go to [www.calstrs.com](http://www.calstrs.com) and click on "Pension Issues Resource Center."
- Sign up there to have our periodic e-newsletter on these proposals, *Pension Issues Alert*, e-mailed to you.



*CalSTRS members spend a lifetime teaching; they deserve a lifetime benefit.*

## What CalSTRS is Doing for You

### Board is Opposed

The Teachers' Retirement Board voted at its February 3 board meeting to oppose the state's plan to cut its contribution to your pension and shift the cost to your employer or you. The board also voted to oppose Assembly Constitutional Amendments 5 and 1X, legislation that would convert public pension plans to 401(k)-style plans. They voted in opposition because, among other things, these changes could undermine the ability to fund existing benefit programs.

*continued on page 4*



# Budget Cut, Contribution Shift Could Hit Your Pocketbook

The state budget proposal would change contributions to your retirement system. You could potentially end up paying more into your pension plan and getting less money from your Defined Benefit Supplement account.

Under the proposal, the existing state contribution to the CalSTRS Defined Benefit Program would be eliminated. The state's obligation would be shifted to the school districts, which currently contribute 8.25 percent of payroll, for a total of 10.25 percent. This additional 2 percent cost to the school districts would be approximately \$500 million annually. Each district would decide how to assume this additional expense, either from budget reductions or an attempt to pass it along to its CalSTRS member employees. Each district, through the collective bargaining process, could seek to have all or part of the 2 percent increase paid by the CalSTRS members. Members currently contribute 8 percent of pay to CalSTRS.

Through 2010, one-fourth of your 8 percent CalSTRS contribution

goes into your Defined Benefit Supplement account to be used as additional retirement income. The proposal could allow you to opt out of this reallocation to your Defined Benefit Supplement account.

After 2010, you could see an additional reduction in your take-home pay. In 2011, the 2 percent of pay currently going into your Defined Benefit Supplement account will be restored to your Defined Benefit Program contribution. If the state's shift of 2 percent of pay had been collectively bargained to be paid by the members in your district, then your total contribution to CalSTRS would increase

from 8 percent to 10 percent of pay.

The result would be a lower supplemental benefit when you retire, become disabled or die. You would be faced with a decision whether to accept a reduction in take-home pay or a reduction in future benefits.

## Current Defined Benefit Contributions

State	2.017 %
Employer	8.25 %
Employee	8 %
<i>(6 % to Defined Benefit and 2 % to DB Supplement. DBS reallocation ends 2010.)</i>	

## Proposed Budget Shift

### If Employer Pays the State's Contribution

<b>Through 2010:</b>	State	0 %	<b>OR</b>	6 % to DB
	Employer	10.25 %		2 % to DBS
	Employee	6 % to Defined Benefit 0 % to DB Supplement		
<b>After 2010:</b>	State	0 %		
	Employer	10.25 %		
	Employee	8 % to Defined Benefit 0 % to DB Supplement (DBS reallocation ends 2010.)		

## Proposed Budget Shift

### If Employer/Employee Negotiates State's Contribution to Employee

<b>Through 2010:</b>	State	0 %	<b>OR</b>	8 % to DB
	Employer	8.25 %		2 % to DBS
	Employee	8 % to Defined Benefit 0 % to DB Supplement		
<b>After 2010:</b>	State	0 %		
	Employer	8.25 %		
	Employee	10 % to Defined Benefit 0 % to DB Supplement (DBS reallocation ends 2010.)		

# Change to a Defined Contribution Program Could Weaken Your Retirement System

Assemblymember Keith Richman introduced legislation, Assembly Constitutional Amendment 5 in December and Assembly Constitutional Amendment 1X at a special legislative session in January, which would change all public employee pension plans, including those administered by CalSTRS. The legislative proposals, which are Constitutional amendments, ultimately will require a public vote.

## Who is Affected?

Under the proposals, employees hired on or after July 1, 2007, could not enroll in the existing CalSTRS Defined Benefit Program and could only enroll in a 401(k)-style defined contribution plan. As a current member, you would remain in the Defined Benefit Program if you choose, but you could instead move over to a defined contribution plan during a specific time period in 2007.

In addition, it is possible that retirees and benefit recipients would be affected. Over time, the pension plan will become more expensive as trust assets are needed more quickly to pay benefits. This situation could undermine the funding of two existing benefit programs. Those two programs are the annual 2 percent benefit adjustment (COLA) paid to all retirees and benefit recipients and the quarterly supplemental benefit program for long-term retirees. Any potential impacts on these programs would be in the future. No immediate changes to benefits are anticipated.

## What is the Difference Between the Plans?

Defined benefit and defined contribution plans are similar in that both the employer and the employee contribute to them. However, there are a number of significant differences between defined benefit and defined contribution plans.

The benefits paid by a defined benefit plan are not based on the amount contributed but are based on a formula that reflects the member's age, years of service and final salary. In addition, an employee cannot outlive his or her benefit from a defined benefit plan. Disability and survivor benefits are provided in a defined benefit plan. Investment professionals at the retirement system manage the funds coming into the system.

On the other hand, an employee in a defined contribution plan can outlive his or her benefit because it is based on funds paid into the employee's account, plus the outcome of investment decisions made by individual employees. Decisions about how funds are invested in different options are made by each employee. The amount of money in the plan fluctuates depending on how investments perform. If the employee dies or becomes disabled early in his or her career, the disbursement to the employee's survivors would likely be very small. The disbursement would be dependent on the account balance, not on a guaranteed benefit.

## A Look at the CalSTRS Defined Benefit Program and a Defined Contribution Plan

### CalSTRS Defined Benefit Program Features

- You cannot outlive your benefit; it guarantees a lifetime pension.
- Funds are managed by CalSTRS investment professionals.
- Its benefit is based on your age at retirement, years of service and highest salary, not on the amount in your account.
- It offers guaranteed disability and survivor benefits based on a member's salary, not on the individual's account balance.
- It is a selling point for employers in recruiting and retaining teachers.
- It generates a predictable, steady retirement income.
- It is the sole guaranteed retirement income for CalSTRS members because they are not part of Social Security.

### Defined Contribution Plan Features

- You can outlive your benefits because it is based on the amount in your account.
- Its success depends on each employee's ability to make good investment decisions.
- It provides disability and survivor benefits based on the individual's account balance only.
- It can generate an unpredictable retirement income.
- It often requires that workers stay in the workforce longer.
- It is portable from job to job.

# Pension Issues Alert

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CalSTRS Workshops  
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Voluntary Investment Program

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## What CalSTRS is Doing For You *continued from page 1*

### Our Work Continues

The board has expressed to the Legislature and the administration its concerns that these proposed changes are not only less than desirable for teachers but they'll do little to help reduce the state's budget deficit. We have joined other concerned organizations to push for a workable and fair outcome for California educators.

We have provided you with this informational newsletter and have created a resource center on our Web site with up-to-date information and developments about these issues. Visit it at [www.calstrs.com](http://www.calstrs.com) and while there, register for our electronic newsletter to keep you informed as events unfold.