

TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of the 2005 Purchasing Power Report

ITEM NUMBER: 5

ATTACHMENT(S): 2

ACTION: X

MEETING DATE: April 7, 2005

INFORMATION:

PRESENTER: Rick Reed

SUMMARY

Section 24400 of the Education Code requires the Teachers' Retirement Board (Board) to report annually to the Governor and the Legislature on the erosion of the purchasing power of the allowances being paid to California State Teachers' Retirement System (CalSTRS) benefit recipients.

The April 1, 2005 report shows that the purchasing power for the allowances of approximately 31.6 percent of CalSTRS benefit recipients will fall below 80 percent by June 30, 2005. Restoring purchasing power to the 80 percent level will require supplemental benefit payments of approximately \$251 million for 62,305 benefit recipients during the 2005-06 fiscal year. Supplemental benefit payments will generally be made to benefit recipients with a benefit effective date of 1987 or earlier. This represents the first change in the latest benefit effective date in several years. In prior years, supplemental benefit payments were generally made only to benefit recipients with a benefit effective date of 1986 or earlier.

RECOMMENDATION

Staff recommends that the Benefits and Services Committee recommend adoption of the attached Annual Report on the Purchasing Power of Allowances dated April 1, 2005 by the Board. In addition, after ratification of this action, the Board cause this adopted report to be forwarded to the Governor and the Legislature as required by Section 24400 of the Education Code. The April 1, 2005 report and a proposed resolution are attached.

**CALIFORNIA
STATE TEACHERS' RETIREMENT SYSTEM**

**ANNUAL REPORT ON
THE PURCHASING POWER
OF ALLOWANCES**

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

APRIL 1, 2005

**CALIFORNIA
STATE TEACHERS' RETIREMENT SYSTEM**

ANNUAL REPORT ON THE PURCHASING POWER OF ALLOWANCES

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EXHIBITS

- A. Increase in CCPI through December 2004
- B. Allowance Purchasing Power as of December 2004
- C. Number of Benefit Recipients by Purchasing Power Level
- D. Estimated Cost of Restoring Purchasing Power During 2005-2006
- E. Restoration of Purchasing Power through Supplemental Benefit Payments

**CALIFORNIA
STATE TEACHERS' RETIREMENT SYSTEM**

**2005 REPORT TO THE GOVERNOR AND LEGISLATURE
REQUIRED BY SECTION 24400 OF THE EDUCATION CODE**

I. LEGISLATIVE REQUIREMENT

Chapter 802, Statutes of 1979 (AB 604) added Section 24700 of the Education Code (renumbered in 1993 as Section 24400), which currently reads:

"The Legislature recognizes that inflation erodes the purchasing power of benefits paid under the plan under this part. It is the intent of the Legislature to understand the degree of erosion of these benefits. The board shall report to the Governor and Legislature no later than April 1 of each year on the extent to which inflation has eroded the purchasing power of benefits provided under the Defined Benefit Program. The board shall indicate the amount of supplementary increases in retirement allowances required to preserve the purchasing power of benefits provided by the Defined Benefit Program. The board shall also determine and report on the increases."

As a result, the Teachers' Retirement Board has prepared a report on:

- The current purchasing power of the Defined Benefit (DB) Program allowances payable by the California State Teachers' Retirement System (CalSTRS).
- The allowance increases granted to date.
- The amount of supplementary increases needed to restore current allowances to a minimum of 80 percent of the purchasing power of the initial allowances.
- The amount of supplementary increases needed to restore current allowances to 90 and 100 percent of the purchasing power of the initial allowances.

II. BASE YEAR AND REPORTING PERIOD

The current DB Program structure which bases retirement benefits on earnings, service and retirement age was implemented in 1956, and changed to its current formula in 1972. As of December 2004, only 30 benefit recipients have benefit effective dates prior to 1956. Therefore, 1956 was selected as the beginning year for this report, and all allowances with benefit effective dates prior to 1956 have been combined in a single group.

CalSTRS has maintained benefit statistics and applied ad hoc allowance increases on a July 1 through June 30 fiscal year basis to coincide with the school year. For this report, however, the calendar year is normally selected because the California Consumer Price Index for the preceding December is the most current data available for preparation of this report.

III. HISTORY OF ALLOWANCE INCREASES

Under the DB Program, allowances are increased by an annual benefit improvement factor equal to 2 percent of the initial allowance payable. Additional increases have been paid to recipients on an ad-hoc basis. The term "ad hoc increase" refers to a permanent increase in the allowance that is calculated once and paid as long as the allowance is payable. The design of ad hoc allowance increases has varied. Specified percentage increases in the first \$300 of allowance were applied as of July 1 of 1967, 1972, 1976 and 1978.

The minimum unmodified allowance was increased as of July 1, 1972, October 1, 1980, and September 1, 1981. This "minimum guarantee" is the lowest amount of monthly allowance payable for each year of service credit earned by the member. In 1972, the minimum guarantee was increased from \$80 per year to \$10 per month for each year of creditable service. In 1980, the minimum guarantee was increased to \$16 per month for each year of service credit; and, in 1981, to \$18 per month for each year of service credit.

Effective January 1, 2000 certain benefit recipients received allowance increases to bring total annual DB Program benefit payments to specified minimum levels, pursuant to Chapter 632, Statutes of 1999 (SB 713). These minimum benefit levels were based on the member's credited service under the DB Program at the time of the member's retirement, disability or death. These increases were based on a graded scale beginning at \$15,000 with 20 years of service credit, increasing \$500 for each additional year of credited service, in one-year increments, to \$20,000 with 30 or more years of service credit. These increases receive the annual 2 percent benefit improvement beginning September 1, 2001, and are measured for purchasing power based on the January 1, 2000 effective date.

Effective January 1, 2001, an additional group of benefit recipients received allowance increases to bring total annual DB Program benefit payments to the specified minimum levels, pursuant to Chapter 1026, Statutes of 2000 (SB 1505). These minimum benefit levels are based on the member's credited service under the DB Program at the time of the member's retirement, disability or death. These increases are based on the same graded scale as those effective January 1, 2000 beginning at \$15,000 with 20 years of service credit, increasing \$500 for each additional year of credited service, in one-year increments, to \$20,000 with 30 or more years of service credit. These increases receive the annual 2 percent benefit improvement beginning September 1, 2002, and are measured for purchasing power based on the January 1, 2001 effective date.

Chapter 1027, Statutes of 2000 (AB 429) provided an additional ad hoc increase for all DB Program benefit recipients who had begun receiving a benefit prior to January 1, 1998. The ad hoc increase ranged from 1 percent for those who began receiving a benefit in 1997 to 6 percent for those who began receiving a benefit prior to 1975. The ad hoc increase is not applied to the minimum allowance increases provided in either 2000 or 2001. These increases receive the annual 2 percent benefit improvement beginning September 1, 2002, and are measured for purchasing power based on the January 1, 2001 effective date.

The first allowance purchasing power increase was applied as of January 1, 1980. The DB Program allowance "purchasing power" is measured by changes in the California Consumer Price Index (CCPI), and reflects changes in the cost-of-living since a benefit became effective. The purchasing power maintenance concept attempts to maintain the allowance at a specified percentage of the purchasing power of the initial allowance.

In addition to ad hoc allowance increases, which permanently increase the allowance, annual supplemental benefit payments (payable in quarterly installments) have been implemented. The supplemental benefit payments for any one-year are dependent upon the money available for that year. Beginning July 1, 1983, an appropriation from the General Fund equal to 5 percent of the average increase in the statewide payroll for certificated school employees over the previous three years was included in the Governor's Budget for the Retirees' Purchasing Power Protection Account. The proceeds of the account were distributed in supplemental payments to bring those allowances with the lowest purchasing power to a common minimum purchasing power level.

Since July 1, 1984, revenue derived from the use of School Lands has been provided to CalSTRS each year for quarterly supplemental benefit payments. The income derived from School Lands must be prorated among all benefit recipients whose allowances, after application of the annual 2 percent benefit improvement, are below a certain percent of the purchasing power of their initial allowances. From July 1, 1984 through December 31, 2001 the School Lands income was prorated between those whose allowances were below 75 percent. Since January 1, 2002, the School Lands income has been prorated between those whose allowances were below 80 percent.

Beginning July 1, 1990 and each July 1 thereafter, an amount equal to a specified percentage of total member salaries has been transferred from the General Fund to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund. This replaced the appropriation that had been made to the Retirees' Purchasing Power Protection Account. The proceeds of the SBMA are distributed annually in quarterly supplemental benefit payments to restore the purchasing power of all allowances to a specified minimum of the purchasing power of the initial allowance. The amount of payment is equal to the amount needed to restore the current allowance to the minimum level of purchasing power, after any supplemental payment was made from School Lands funds. Like other supplemental payments, these payments were not vested and would only be made to the extent funds were

available in the account.

Until April 1, 1998 the supplemental benefit payments restored allowances to 68.2 percent of the purchasing power of the initial allowance. Chapter 939, Statutes of 1997 (SB 1026), effective January 1, 1998, increased the supplemental benefit to a minimum of 75 percent of the purchasing power of the initial allowance. Partial funding for this increase was provided as a result of the federal sale of the Elk Hills Naval Petroleum Reserve and the federal payment of 9 percent of the proceeds of that sale to CalSTRS. This federal payment represents the school lands portion of this sale, which was to be received by CalSTRS over a period of seven years beginning in fiscal year 1998-99. Subsequently, one expected payment of \$72 million was reduced by Congress to \$36 million. As of April 1, 2005, CalSTRS expects the remaining \$36 million owed to be paid in the year following the last scheduled payment, making the entire proceed now paid over eight years instead of seven. Chapter 939 also authorizes the CalSTRS Board to transfer funds from the Teachers' Retirement Fund, increase employer contributions, or reduce the distribution below 75 percent, if the resources in the SBMA are insufficient to maintain the 75 percent purchasing power payments.

Chapter 840, Statutes of 2001 (AB 135), effective with the 2001-02 fiscal year, increased the supplemental benefit to a minimum of 80 percent of the purchasing power of the initial allowance.

Chapter 1006, Statutes of 1998 (AB 1102) continuously appropriates an annual transfer from the General Fund to the SBMA, equal to 2.5 percent of the total creditable compensation of the immediately preceding calendar year, effective July 1, 1999. This provision established the supplemental payments as a vested benefit (to the extent sufficient funds are available in the SBMA) pursuant to a contractual obligation to make the annual transfer from the General Fund to the SBMA.

Chapter 1021, Statutes of 2000 (AB 2700), revised the annual transfer from the General Fund from 2.5 percent of the total creditable compensation of the immediately preceding calendar year to 2.5 percent of the total creditable compensation of the fiscal year ending in the immediately preceding calendar year, effective July 1, 2003.

Chapter 6, Statutes of 2003 (SBX1-20) decreased the transfer from the General Fund, due on July 1, 2003, by \$500 million. CalSTRS considered this act to be illegal and is engaged in legal action to restore the \$500 million funding to the SBMA.

IV. CUMULATIVE CHANGES IN CCPI AND THE IMPACT ON ALLOWANCE PURCHASING POWER

Exhibit A displays the CCPI figures for June of every calendar year since 1956 and the percent of increase in the CCPI that has occurred from June of each year through December 2004.

Exhibit B displays the average impact of inflation, through December 2004, based on when allowances were initially paid by year. The exhibit includes, by calendar year, the change in CCPI, the average increase in allowances, the average purchasing power of allowances, and the average increase needed to restore full purchasing power.

A review of the average purchasing power of allowances as of December 2004 (Column 4 in Exhibit B) allows determination of the point at which supplemental payments will begin. This review indicates that supplemental benefit payments will be made to benefit recipients whose initial benefit was paid in 1987 or earlier. Although last year, supplemental benefit payments were made to benefit recipients whose initial benefit was 1986 or earlier, it isn't necessarily the case that that date will change each year. Whether more benefit recipients receive the supplemental payment each year depends on the rate of inflation relative to the impact of the annual benefit adjustment paid to benefit recipients.

V. EROSION OF ALLOWANCE PURCHASING POWER

As part of the basic benefits under the DB Program, allowances are increased by an annual benefit improvement factor equal to 2 percent of the initial allowance payable. Based on the low rates of inflation during the preceding fifteen years, a 2 percent simple increase was expected to prevent significant erosion of the purchasing power of DB Program allowances. However, the rate of inflation increased significantly in the mid-1970's and through most of the 1980's. The CCPI rose 386.4 percent in the period from June 1972 to December 2004, for an annual average rate of 5.07 percent.

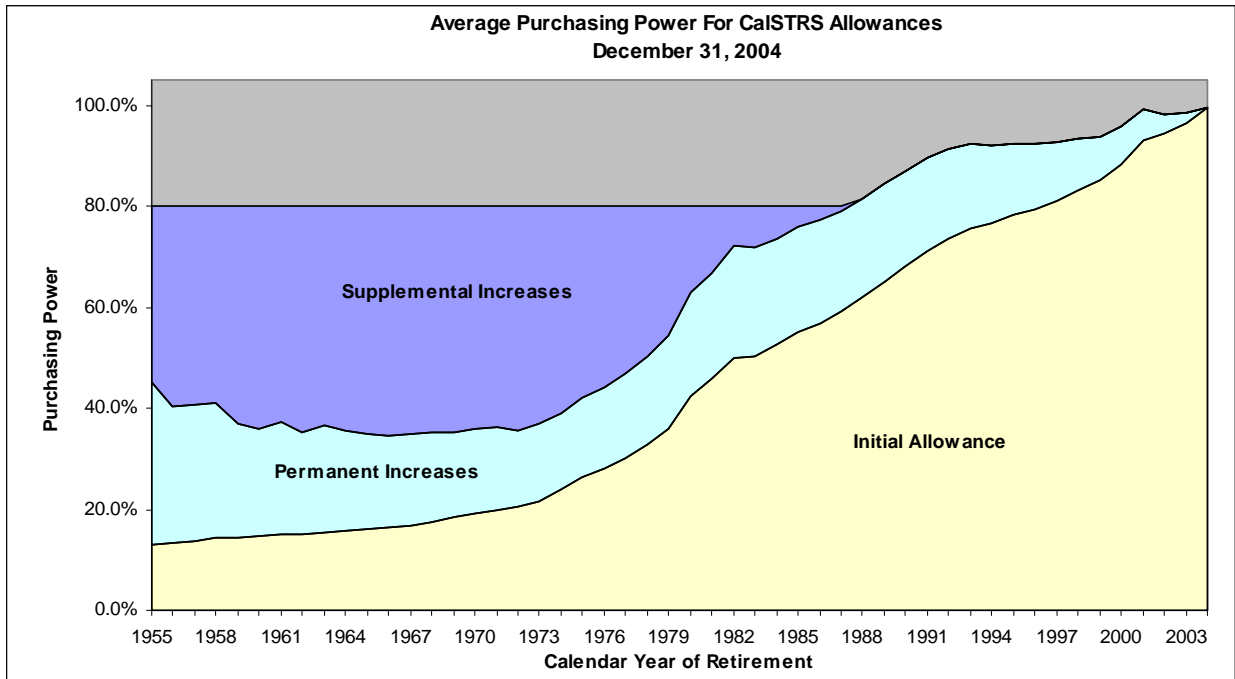
Legislation requiring this report was enacted in 1979. The CCPI has risen 177.5 percent in the period from June 1979 to December 2004. During this period, 25 annual 2 percent simple benefit improvements have been applied to allowances, for a total increase of 50 percent.

On January 1, 1980, DB Program benefit recipients received a substantial ad hoc increase intended to adjust allowances up to 72 percent of the purchasing power of the initial allowance based on an estimated September 1979 CCPI. The increase effectively raised the purchasing power of DB Program allowances to an average of 71 percent of the initial allowances based on the June 1979 CCPI.

Exhibit C displays the number of benefit recipients by percentage of allowance purchasing power level. As indicated in Exhibit D, the allowances paid to 62,305 (31.6 percent) benefit recipients are expected to be below 80 percent of the purchasing power of their initial allowances in June 2005, while 134,819 (68.4 percent) are expected to be at or above the targeted 80 percent purchasing power maintenance level.

The graph below indicates the purchasing power of current DB Program allowances. The Initial Allowance area of this graph shows the current average purchasing power of the

initial DB Program allowances using the change in the California Consumer Price Index from June of the calendar year in which the benefits became effective to December of 2004. The Permanent Increases area shows how the permanent allowance increases (the annual 2 percent benefit improvement plus any applicable ad hoc increases) have added to the purchasing power of the initial allowances. During 2004-05, the purchasing power of the allowances has been raised to the level indicated by the Supplemental Increase area of the chart by means of quarterly supplemental benefit payments. These quarterly payments are payable on an annual basis subject to the availability of revenues from the SBMA Reserve, School Lands and General Fund contributions to the SBMA.



VI. COST OF RESTORING ALLOWANCE PURCHASING POWER

The estimated cost of the supplemental benefit payments needed to restore the allowances payable in 2005-06 to 80 percent of the original purchasing power is shown in Exhibit D. The State Lands Commission estimates that there will be \$3.0 million in revenues for supplemental benefit payments to DB Program benefit recipients in 2005-06. These payments will be prorated among those benefit recipients whose allowances, after application of the annual 2 percent benefit improvement, have fallen below 80 percent of the purchasing power of their initial allowances.

An additional \$248,074,457 will be required to bring the purchasing power level of all allowances to a minimum of 80 percent of the initial allowance. This amount will be provided from the SBMA.

A history of supplemental benefit payments and the source of income for those payments are displayed in Exhibit E. This exhibit shows that, prior to 1992-93, the Teachers' Retirement Fund provided the balance of the amount needed in the SBMA to restore purchasing power to a minimum of 68.2 percent of the purchasing power of the initial allowance. General Fund contributions made in subsequent years that were in excess of that needed to restore purchasing power to a minimum of 68.2 percent were used to repay the Teachers' Retirement Fund. With completion of the full repayment of amounts from the Teachers' Retirement Fund, General Fund contributions are now accumulated in the SBMA to assist with funding subsequent supplemental benefit payments.

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
INCREASE IN CALIFORNIA CONSUMER PRICE INDEX FROM YEAR OF
BENEFIT EFFECTIVE DATE THROUGH DECEMBER 2004**

<u>Calendar Year of Benefit Effective Date</u>	<u>CA Consumer Price Index as of June</u>	<u>Percent Increase Through December 2004</u>
1956	26.2	651.9
1957	27.1	626.9
1958	28.1	601.1
1959	28.5	591.2
1960	29.1	577.0
1961	29.5	567.8
1962	30.0	556.7
1963	30.2	552.3
1964	30.8	539.6
1965	31.6	523.4
1966	32.1	513.7
1967	32.9	498.8
1968	34.3	474.3
1969	36.0	447.2
1970	37.9	419.8
1971	39.4	400.0
1972	40.5	386.4
1973	42.7	361.4
1974	47.1	318.3
1975	52.0	278.8
1976	55.2	256.9
1977	59.5	231.1
1978	64.6	205.0
1979	71.0	177.5
1980	83.3	136.5
1981	90.1	118.6
1982	98.5	100.0
1983	99.1	98.8
1984	103.6	90.2
1985	108.4	81.7
1986	112.2	75.6
1987	116.3	69.4
1988	121.7	61.9
1989	128.2	53.7
1990	134.3	46.7
1991	140.1	40.6
1992	145.2	35.7
1993	148.9	32.3
1994	150.7	30.7
1995	154.2	27.8
1996	156.6	25.8
1997	160.0	23.1
1998	163.6	20.4
1999	167.8	17.4

EXHIBIT A (Continued)

<u>Calendar Year of Benefit Effective Date</u>	<u>CA Consumer Price Index as of June</u>	<u>Percent Increase Through December 2004</u>
2000	174.0	13.2
2001	183.2	7.5
2002	185.9	6.0
2003	189.9	3.7
2004	195.8	0.6

The increase from calendar year of the benefit effective date is calculated by dividing the December 2004 CCPI (197) by the index figure for the year of retirement and adjusting the results to reflect the percentage increase. For example, the calculation for 1956 is: $197 / 26.2 = 7.519 - 1.000 = 6.519 \times 100 = 651.9$.

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
AVERAGE ALLOWANCE PURCHASING POWER AS OF DECEMBER 2004**

Calendar Year of Benefit Effective Date	CCPI Increases through December 2004	Average Allowance Increases through December 2004	Average Purchasing Power of December 2004 Allowance	Average Increases Needed to Restore Full Purchasing Power	Average Annual Supplemental Increase
(1)	(2)	(3)	(4)	(5)	(6)
Prior to 1956	666.5%	246.2%	45.2%	121.4%	\$2,433
1956	651.9%	203.4%	40.4%	147.8%	\$5,364
1957	626.9%	196.1%	40.7%	145.5%	\$5,166
1958	601.1%	187.2%	41.0%	144.1%	\$3,315
1959	591.2%	156.5%	37.1%	169.5%	\$5,822
1960	577.0%	142.9%	35.9%	178.7%	\$5,623
1961	567.8%	148.5%	37.2%	168.7%	\$5,222
1962	556.7%	130.8%	35.1%	184.5%	\$5,947
1963	552.3%	138.1%	36.5%	174.0%	\$5,352
1964	539.6%	126.9%	35.5%	181.9%	\$6,746
1965	523.4%	118.3%	35.0%	185.6%	\$6,850
1966	513.7%	112.6%	34.6%	188.7%	\$6,702
1967	498.8%	109.3%	34.9%	186.1%	\$7,230
1968	474.3%	102.3%	35.2%	183.9%	\$8,862
1969	447.2%	93.2%	35.3%	183.2%	\$8,620
1970	419.8%	86.0%	35.8%	179.5%	\$8,623
1971	400.0%	81.1%	36.2%	176.1%	\$9,065
1972	386.4%	73.2%	35.6%	180.8%	\$11,145
1973	361.4%	70.3%	36.9%	170.9%	\$10,896
1974	318.3%	63.0%	39.0%	156.6%	\$9,686
1975	278.8%	59.8%	42.2%	137.0%	\$8,917
1976	256.9%	57.6%	44.1%	126.5%	\$8,422
1977	231.1%	55.2%	46.9%	113.3%	\$7,806
1978	205.0%	52.9%	50.1%	99.5%	\$7,030
1979	177.5%	50.7%	54.3%	84.1%	\$5,898
1980	136.5%	48.5%	62.8%	59.3%	\$3,632
1981	118.6%	46.2%	66.9%	49.5%	\$2,848
1982	100.0%	44.5%	72.2%	38.4%	\$1,715
1983	98.8%	42.8%	71.8%	39.2%	\$1,960
1984	90.2%	40.1%	73.7%	35.8%	\$1,565
1985	81.7%	38.0%	76.0%	31.7%	\$1,036
1986	75.6%	35.9%	77.4%	29.2%	\$694
1987	69.4%	34.0%	79.1%	26.4%	\$264
1988	61.9%	32.0%	81.5%	22.7%	\$0
1989	53.7%	29.9%	84.5%	18.3%	\$0
1990	46.7%	27.7%	87.0%	14.9%	\$0
1991	40.6%	26.0%	89.6%	11.6%	\$0
1992	35.7%	24.0%	91.4%	9.4%	\$0
1993	32.3%	22.0%	92.2%	8.4%	\$0
1994	30.7%	20.1%	91.9%	8.8%	\$0
1995	27.8%	18.1%	92.4%	8.2%	\$0
1996	25.8%	16.2%	92.3%	8.3%	\$0
1997	23.1%	14.1%	92.7%	7.9%	\$0
1998	20.4%	12.5%	93.4%	7.0%	\$0

EXHIBIT B (Continued)

Calendar Year of Benefit Effective Date	CCPI Increases through December 2004	Average Allowance Increases through December 2004	Average Purchasing Power of December 2004 Allowance	Average Increases Needed to Restore Full Purchasing Power	Average Annual Supplemental Increase
1999	17.4%	10.1%	93.8%	6.6%	\$0
2000	13.2%	8.3%	95.6%	4.5%	\$0
2001	7.5%	6.7%	99.2%	0.7%	\$0
2002	6.0%	4.2%	98.3%	1.7%	\$0
2003	3.7%	2.1%	98.4%	1.6%	\$0
2004	0.6%	0.1%	99.5%	0.5%	\$0

Explanation of source and/or calculation of data in columns 3, 4 and 5:

- Column 3 - Increases from all sources as a percentage of initial allowance. Obtained by dividing total current allowance by total initial allowance and adjusting to a percentage.
- Column 4 - Purchasing Power as of December 2004. Obtained by dividing total current allowance payable by full CCPI adjusted allowance. Based on totals for all benefit types by calendar year of effective date.
- Column 5 - Percentage increase in current allowance payable required to restore full 100 percent purchasing power as of December 2004. Obtained by dividing the fully adjusted CCPI allowance factor (column 2) by the percentage increase to date (column 3) and adjusting to a percentage. Example: $(665.5 + 100) / (246.2 + 100) = 2.214 \times 100 = 221.4 - 100 = 121.9$ percent.

**CALIFORNIA
STATE TEACHERS' RETIREMENT SYSTEM
ESTIMATED NUMBER OF BENEFIT RECIPIENTS
BY PURCHASING POWER LEVEL
AS OF JUNE 30, 2005**

<u>Purchasing Power Level</u>	<u>Benefit Recipients</u>	
	<u>Number</u>	<u>Percent</u>
Greater than 100.0%	1,950	0.99%
95.1% - 100.0%	44,503	22.58%
90.1% - 95.0%	51,271	26.01%
85.1% - 90.0%	30,047	15.24%
80.1% - 85.0%	7,031	3.57%
80%	17	.01%
75.1% - 79.99%	15,532	7.88%
70.1% - 75.0%	14,679	7.45%
65.1% - 70.0%	8,315	4.22%
60.1% - 65.0%	3,821	1.94%
55.1% - 60.0%	556	0.28%
50.1% - 55.0%	3,570	1.81%
45.1% - 50.0%	5,085	2.58%
40.1% - 45.0%	4,274	2.17%
0.0% - 40.0%	<u>6,473</u>	<u>3.28%</u>
	197,124	100.00%

In this exhibit benefit recipients are grouped by the percentage of allowance purchasing power level of their current allowances. Those with initial allowances plus permanent increases from all sources equal to and below 40 percent of full purchasing power are combined in one group. The purchasing power level of 725 benefit recipients is at exactly 100.0%

**CALIFORNIA
STATE TEACHERS' RETIREMENT SYSTEM**

**ESTIMATED COST OF RESTORING
ALLOWANCE PURCHASING POWER
THROUGH SUPPLEMENTAL BENEFIT PAYMENTS
DURING FISCAL YEAR 2005-2006**

<u>Restoration Level</u>	<u>Benefit Recipients</u>	<u>Total Amount Required</u>	<u>Amount from School Lands</u>	<u>Additional Amount Required</u>
80.00%	62,305	\$251,105,957	\$3,031,500	\$248,074,457
90.00%	99,360	\$439,261,994	\$3,031,500	\$436,230,494
100.00%	194,449	\$920,707,281	\$3,031,500	\$917,675,781

**CALIFORNIA
STATE TEACHERS' RETIREMENT SYSTEM**

**RESTORATION OF ALLOWANCE PURCHASING POWER
THROUGH SUPPLEMENTAL BENEFIT PAYMENTS**

Retirees' Purchasing Power Protection Account Payments

<u>Year</u>	<u>Purchasing Power</u>	<u>Count</u>	<u>Total \$ Paid</u>	<u>Income Source</u>		
				<u>School Lands</u>	<u>Investment Earnings</u>	<u>General Fund</u>
83-84	58.4%	35,654	\$ 21,394,183	\$ n/a	\$ 894,183	\$ 20,500,000
84-85	62.4%	57,189	54,306,976	10,119,124	2,426,456	41,761,396
85-86	65.5%	56,811	85,675,243	7,770,757	3,994,458	73,910,028
86-87	68.2%	57,343	122,275,289	4,167,970	5,511,448	112,595,871
87-88	68.2%	59,092	128,231,357	6,083,374	5,317,456	116,830,527
88-89	68.2%	58,037	143,061,285	4,479,266	5,956,019	132,626,000
89-90	68.2%	55,971	158,274,048	2,751,075	n/a	155,522,973 ^a

^a The 89-90 appropriation was from the Teachers' Retirement Fund. This amount plus regular interest was repaid from General Fund contributions to the SBMA.

Supplemental Benefit Payments

<u>Year</u>	<u>Purchasing Power</u>	<u>Count</u>	<u>Total \$ Paid</u>	<u>Income Source</u>		
				<u>School Lands</u>	<u>Teachers' Retirement Fund</u>	<u>SBMA</u>
90-91	68.2%	52,199	\$168,922,827	\$2,964,211	\$111,103,596	\$54,855,020
91-92	68.2%	48,650	178,057,887	2,913,338	56,985,521	118,159,028
92-93	68.2%	54,029	184,551,442	6,658,800	0	177,892,642
93-94	68.2%	49,113	178,886,980	4,225,808	0	174,661,172
94-95	68.2%	46,459	168,359,918	4,973,687	0	163,386,231
95-96	68.2%	41,703	168,517,183	1,171,779	0	167,345,404
96-97	68.2%	38,939	159,786,522	1,870,825	0	157,915,697
97-98	68.2% ^b /75.0%	44,887	179,308,000	2,586,920	0	176,721,080
98-99	75.0%	42,624	197,860,324	4,168,363	0	193,691,961
99-00	75.0%	41,048	190,478,334	2,704,171	0	187,774,163
2000-01	75.0%	44,699	189,388,495	4,023,007	0	185,365,488
2001-02 ^c	80.0%	60,428	256,976,205	7,967,992	0	249,008,212
2002-03	80.0%	58,591	233,814,578	3,543,362	0	230,271,216
2003-04	80.0%	55,779	223,501,415	2,922,844	0	220,578,571
2004-05 ^d	80.0%	57,079	222,878,861	3,031,500	0	219,847,361

^b Percentage changed to 75% effective 1/1/98 and payable 4/1/98 (Chapter 939, Statutes of 1997)

^c Percentage changed to 80% effective 1/1/2002 and payable 10/1/2001 (Chapter 840, Statutes of 2001)

^d Data for the 2004-05 fiscal year is estimated.

**CALIFORNIA
STATE TEACHERS' RETIREMENT SYSTEM**

**RESTORATION OF ALLOWANCE PURCHASING POWER
THROUGH SUPPLEMENTAL BENEFIT PAYMENTS**

SUPPLEMENTAL BENEFIT MAINTENANCE ACCOUNT RESERVE

<u>Year</u>	<u>General Fund Contributions</u>	<u>Benefit Payment</u>	<u>Interest</u>	<u>Reserve</u>
95-96	\$ 0	\$ 0	\$ 0	\$ 0
96-97	271,223,100	157,915,697	0	113,307,403 ^e
97-98	367,227,622	176,721,080	9,064,592	312,878,537
98-99	119,479,543 ^f	193,691,962	25,030,283	263,696,401
99-00	417,943,519	187,774,163	21,095,712	514,961,469
2000-01	483,670,301 ^g	185,365,488	44,795,031	858,061,313
2001-02	523,024,624 ^h	249,008,212	68,644,905	1,200,722,630
2002-03 ⁱ	580,984,268	230,271,216	96,057,810	1,647,493,492
2003-04 ^j	94,867,986	220,578,571	117,347,121	1,639,130,028
2004-05	620,924,682	219,847,361	131,130,402	2,171,337,751

^e Total contributions received from the General Fund were \$332,513,817 of which \$61,290,717 was used to pay the loan balance from the Teachers' Retirement Fund, and \$157,915,697 was used for purchasing power payments. The remaining balance of \$113,307,403 established the SBMA reserve account at June 30, 1997.

^f General Fund contributions of \$403,479,543 minus a one time reduction of \$320,000,000 per Chapter 939, Statutes of 1997 which occurred as a direct result of the sale of the Elk Hills Naval Petroleum Reserve by the Federal Government. In addition, the Federal Government provided \$36,000,000 as a first payment for Elk Hills School lands, to the SBMA, from the proceeds of the sale.

^g Includes second \$36,000,000 Federal payment for Elk Hills school lands received October 2000.

^h Includes third \$36,000,000 Federal payment for Elk Hills school lands received October 2001.

ⁱ Includes the fourth \$36,000,000 Federal payment for Elk Hills school lands received October 2002.

^j Estimate General Fund contributions of \$558,867,986 minus a one time reduction of \$500,000,000 per Chapter 6, Statutes of 2003 (SBX1-20). In addition, the Federal Government provided \$36,000,000 as the fifth payment for Elk Hills school lands, received October 2003.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

Subject: Adoption of the 2005 Report on Purchasing Power

Resolution No. _____

WHEREAS, Section 24400 of the Education Code requires that the Teachers' Retirement Board report annually, on the degree of erosion of the purchasing power of California State Teachers' Retirement System allowances; and

WHEREAS, Section 24415 of the Education Code provides supplemental benefits to members and beneficiaries to maintain allowances at a minimum of 80 percent of the purchasing power of the original allowance; and

WHEREAS, the purchasing power of a substantial number of benefit recipients remains below this level: Therefore be it

RESOLVED, that the Teachers' Retirement Board adopt the accompanying California State Teachers' Retirement System Annual Report on the Purchasing Power of Allowances.

Adopted by:
Benefits and Services Committee

Ratified by:
Teachers' Retirement Board

On April 7, 2005

JACK EHNES
Chief Executive Officer