

RETIRE D Educator

SUMMER 2006



CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

CalSTRS Will Take Steps to Address Funding Issues

By Jack Ehnes
Chief Executive Officer

If you are the typical CalSTRS member who retired last year, when you retired you were nearly 62 years old and had been a teacher for just over 26 years. You began retirement with a CalSTRS pension of \$3,535 a month. You will live 20 to 25 more years and will have been paid \$1 million or more in CalSTRS benefits over your lifetime.

This is how the CalSTRS Defined Benefit program serves you. It's important to note that at CalSTRS, your core retirement benefit is guaranteed for life. That's a guarantee we've delivered on since 1913.

Part of our pledge to you includes regular monitoring of how our investments are doing. This includes an actuarial valuation

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Post-Retirement Earnings Limit Changes for 2006-07

How are you spending your retirement? If you're like 15 percent of our nearly 176,000 CalSTRS retirees, you may already have elected to return to the California public school system at least part time.

An e-mail survey of CalSTRS members indicates that the number one reason for returning to work is to stay active, followed by employer requests and the desire for additional income.

Educators who choose to return to California public schools and still draw a full retirement benefit may do so

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CalSTRS is Moving with the Times



By Carolyn Widener
Teachers' Retirement Board Chair

As a California educator, CalSTRS has followed you through a number of life changes – starting your career, planning your retirement, perhaps even buying a home. Now we're excited to share the news about some life changes of our own.

CalSTRS purchased its current headquarters in 1983 as the Teachers' Retirement Fund's first real estate asset. The building housed 255 employees. Membership totaled 396,000, with assets of \$11.3 billion. As for customer service, the "call center" consisted of a phone on the wall that staff took turns answering.

Fast forward to CalSTRS in 2006, where you, our members, are now 776,000 strong. CalSTRS has grown to be the largest teachers' retirement fund and the second largest pension fund overall in the country.

What does it take to serve the needs and secure the financial future of three-quarters of a million educators? A staff of nearly 700 and a portfolio of more than \$142 billion, to start. From a single phone on the wall, CalSTRS' customer service center has evolved into a team of 80 professionals who will field approximately 230,000 phone calls and 30,000 e-mails and letters this year. Clearly, CalSTRS has outgrown its current home.

After two years of searching and a review of more than 35 different sites and a variety of such tenancy options as leasing, CalSTRS is pleased to announce plans to move its operations to West Sacramento. The best choice for addressing CalSTRS' long-term space needs is an investment in the Sacramento Riverfront Master Plan, by constructing a 14-story headquarters building there.

The 400,000-square-foot facility is composed of four program elements: an administrative tower, a five-level parking structure for more than 1,000 cars, a public function area and a tree-filled park, which connects the neighboring community with the waterfront promenade and river. Construction is planned to begin this summer with move-in expected in early 2009.

The move means more than just a shiny new building. It means that CalSTRS will be better able to meet the needs of a growing and diverse membership. All of CalSTRS will be located under a single roof, instead of three separate buildings as now. This will enable staff to provide you more efficiently and effectively with the world-class quality service you expect from CalSTRS. Over the next decade,

Visit CalSTRS Headquarters Information at www.CalSTRS.com and click on Learn about CalSTRS

CalSTRS Mission:

Securing the financial future and sustaining the trust of California's educators

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Statements in this publication are general and the Teachers' Retirement Law is complex and specific. If a conflict arises between information contained in this publication and the law, any decisions will be based on the law.

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projections are that the CalSTRS portfolio will grow to more than \$250 billion, securing the retirement of several generations of members to come.

CalSTRS' new home will reflect our commitment to stewardship of your future and that of our children. This building will be a model of environmental responsibility by using the latest breakthroughs in sustainable building science and technology. This will not only be good for the environment but for the trust fund as well. The building's water- and energy-efficient designs will save an estimated \$1.7 million annually in operational costs.

CalSTRS headquarters will be located within the Raley's Landing Project, a mixed-use community of commercial, restaurants, hotel, housing and recreational opportunities. Investing in this vibrant, burgeoning project is a plus for the CalSTRS real estate portfolio, since this area will continue to grow in desirability and value as the area's build-out progresses.

As part of this forward-thinking investment, CalSTRS has also acquired an additional parcel adjacent to the headquarters' site. This parcel may be used to build a 17-story high-rise residential building providing 150 condominium units and 300 parking spaces.

Although the move is still three years away, CalSTRS is addressing first and foremost that there will be no interruption to the personal attention and service that you expect from your retirement system.



Southeast View: This is a view of the office tower, the main lobby and the public function areas at the ground level. The tower features a gently curved facade reminiscent of a ship's sail.

Architectural rendering by HOK

You may be exempt for the post-retirement earnings limitations if you meet any of these conditions:

- If you retired on or before January 1, 2004, and are providing direct remedial education in a classroom for grades two through 12

The following exemptions end January 1, 2008

- If you retired on or before January 1, 2004, and wait 12 months before returning to work (no documentation required)
- If you retired on or before January 1, 2004, and return to:
 - Provide direct instruction in a K-12 classroom
 - Support or assess new teachers in certain programs
 - Provide support to individuals completing student teaching assignments or internship or paraprofessional programs
 - Provide direct instruction in Special Education and English Language Learner programs
- If you return to work as a trustee or administrator for a financially insolvent employer
- If you return to work in an emergency situation in an administrative position requiring highly specialized skills (this exemption is for one-half the full time salary)

Note: in some cases, your ability to work for a particular employer after retirement may be limited by collective bargaining agreements.

Earnings Limit *continued from page 1*

with some restrictions. The earnings limit for CalSTRS retirees for fiscal year 2006-2007 is \$27,060. This limit applies only to CalSTRS-covered employment and does not pertain to disability retirees.

How did we reach this amount? The service retirement earnings limit is calculated using roughly 50 percent of the average full-time salary of our Defined Benefit members. This limit is adjusted annually by the Teachers' Retirement Board, based on salary rates.

Those of you who may already have returned to education may have noticed that the earnings limit generally goes up to reflect rising teacher salaries. For 2006-07, the limit will drop from \$27,940 to \$27,060. For the past two years, the limit was higher than it should have been because average teacher salaries during those two years were inadvertently overstated by CalSTRS.

If your income exceeds \$27,060, your CalSTRS benefit will be reduced dollar for dollar up to the annual benefit amount. CalSTRS will notify you if you get close to your earnings limit for the year.

There are a number of exemptions to the earnings limit under certain circumstances (please see box located at left).

For current information on these exemptions, call CalSTRS at 800-228-5453. You may also refer to the *Member Handbook* or visit www.CalSTRS.com under *Resources* and click *FAQ*.



Educators who choose to return to California public schools and still draw a full retirement benefit may do so with some restrictions.

CalSTRS Gets Tough for Shareholders



What would you think of an election in which the candidates are picked by the people in charge, and you can only vote “yes”?

It’s called plurality voting, and it’s the most commonly used method for electing corporate directors in hundreds of public companies across the nation. It means a person can be elected to a board of directors with only a single vote. It’s symbolic voting, not democratic voting.

We at CalSTRS think plurality voting is a bad idea. We have joined 140 large investors, as part of the Council of Institutional Investors, in pressing for companies to adopt majority voting, which requires a director to receive a majority of votes from the shareholders present and voting. Majority voting is currently not permitted for California-based companies.

We believe it is a fundamental right of shareholders to be able to vote for or

against those who will represent their interests in the board room and not rubber stamp a nomination. It’s called shareholder democracy.

The California Legislature is active in this issue, too. A proposal by state Sen. Richard Alarcon (D-Van Nuys), would permit majority voting in corporations based in the state. The bill, SB 1207, could affect 23 companies incorporated in California. CalSTRS is sponsoring the bill.

The campaign for majority voting is only one element of CalSTRS’ efforts to ensure companies we invest in demonstrate the highest ethical standards and practices. Corporate governance enhances our financial objectives as long-term investors helping to secure the financial

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We believe it is a fundamental right of shareholders to be able to vote for or against those who will represent their interests.

Even if you’re no longer working, your money should be.

Looking to rollover your 403(b) for one with lower fees?

Too many choices and too little time?

Use 403bCompare.com to cut through the clutter.

- Unbiased online registry of 403(b) investment products in an easy-to-compare format
- Displays options side-by-side to compare fees, returns and other details
- Information is free and includes more than 270 products



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Organizing Your Documents

Clip out and use the form below to keep track of your important documents. This will help you quickly find your records when you need them the most. You may also want to let your family members know about this form, so they can easily access the documents if they need them.

IMPORTANT DOCUMENTS

PERSONAL *Indicate the location of each document.*

Birth certificate _____ Marriage certificate _____
Deed/title to property _____ Vehicle title _____
Passport _____ Social Security card _____
Divorce papers _____ Military service record _____
Funeral arrangements _____

FINANCIAL *Indicate the bank name and account number for each account.*

Bank account (Primary) _____
Bank account (Other) _____
Mortgage _____
Safe deposit box/box number/location _____

INSURANCE *Indicate the insurance company, address and policy number for each policy.*

Life insurance _____
Health insurance _____
Vehicle insurance _____
Property insurance _____

LEGAL *Indicate the location of each document and, if applicable, an authorized individual.*

Will _____
Trust _____
Power of attorney _____

CaISTRS DOCUMENTS *Indicate the location of each document, if applicable.*

One-Time Death Benefit Recipient form _____
Service Retirement Application _____
Award letters _____
1099-R tax forms _____

OTHER *Indicate the location of each item.*

Extra keys to home, vehicle, etc. _____
Safe deposit box keys _____

Option and Annuity Changes Coming in 2007

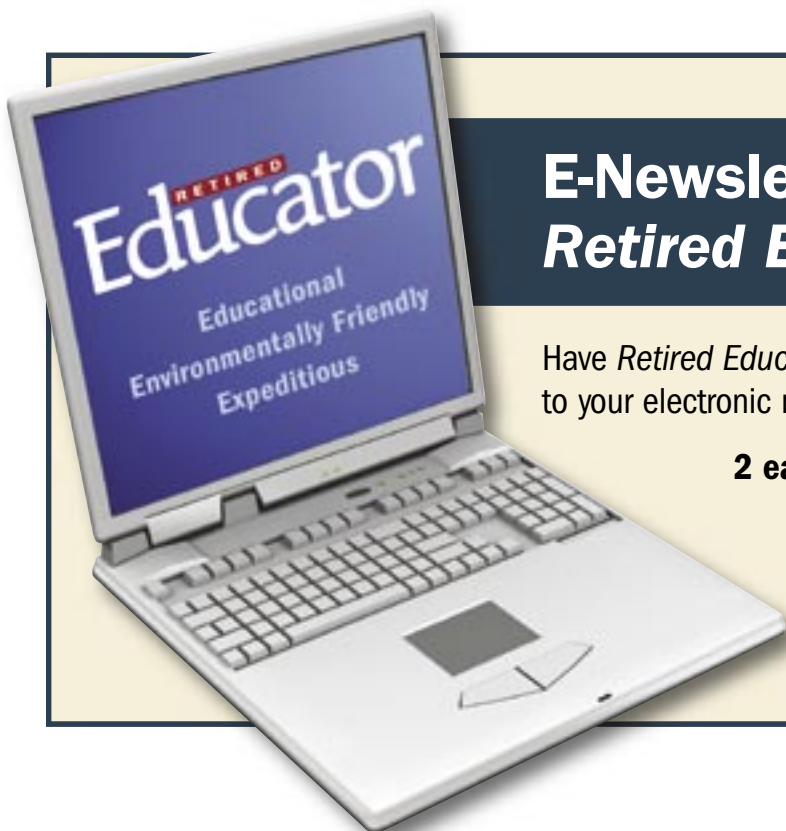
Among the choices you made when you retired was whether or not to elect an option that would provide an ongoing monthly benefit to a loved one after your death. If you decided to do that, you will have an opportunity early next year to review that selection and possibly change it.

CalSTRS is making several improvements to the options in the Defined Benefit Program and the annuities in the Defined Benefit Supplement Program and the Cash Balance Benefit Program. Retired members who have selected an option and meet other criteria will have an opportunity to change their option during a special window period from January to June 2007.

If you have previously selected an option and your beneficiary is still living, CalSTRS will send you a letter detailing the option and annuity changes by mid-January 2007. There is no action necessary until you have received this notice. The letter will contain a personalized list of the choices available to you, the estimated impact of each choice on your monthly benefit and instructions on how to make the change. For additional information after you receive your letter, you can call us or visit our Web site at www.CalSTRS.com and review the FAQs.

You are not required to make any changes. You can decide to keep your original option or annuity election if desired.

Greater detail will be provided in the January 2007 issue of *Retired Educator*.



E-Newsletter version of *Retired Educator* now available.

Have *Retired Educator* conveniently delivered to your electronic mailbox.

2 easy ways to register:

- Log in to myCalSTRS; click *Preferences*
- Talk to a CalSTRS customer service representative at 800-228-5453

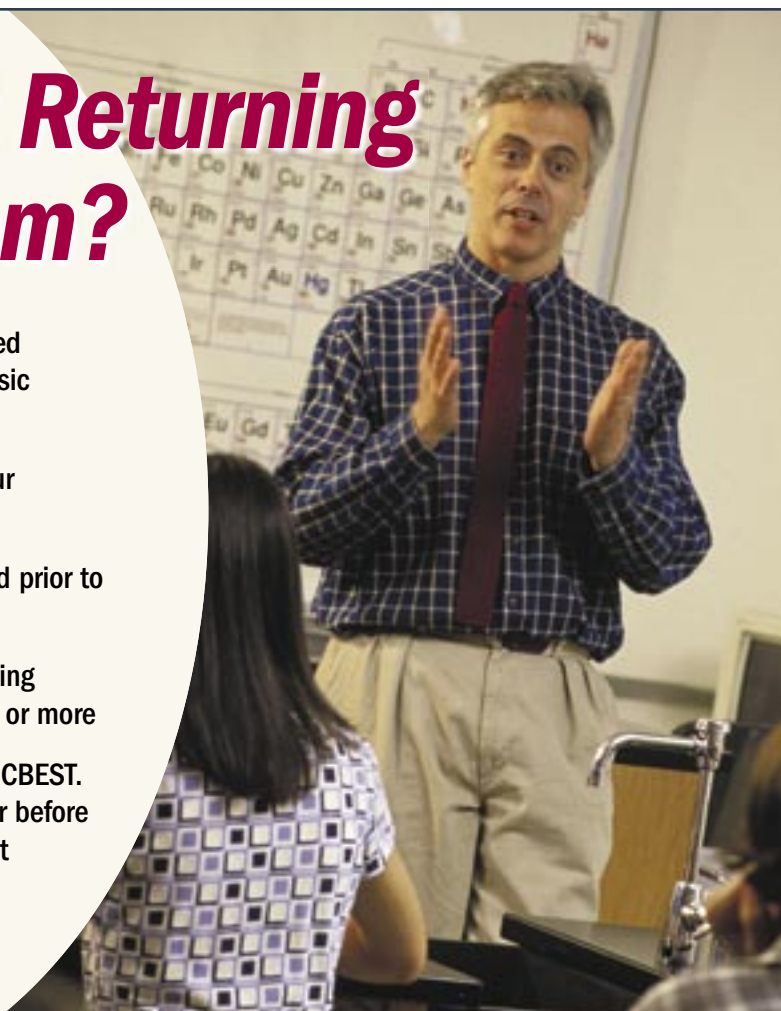
Thinking About Returning to the Classroom?

If you are thinking about returning to CalSTRS-covered employment, you may have to take the California Basic Educational Skills Test.

You may need to retake the CBEST before having your credential reissued if:

- 1) You hold a life or clear credential that was issued prior to 1983 and
- 2) You have not been employed in a position requiring certification in any school district for 39 months or more

Your employer will let you know if you must take the CBEST. If you do, you can work in the classroom up to a year before taking the test. Your employer can also tell you about CBEST exemptions.



Shareholders *continued from page 5*

future of our 775,000 members.

Interest in corporate governance grew in the 1980s with the emergence of large institutional investors. CalSTRS has been involved in the issue from the beginning – long before it became fashionable – and we have been a consistent leader. In fact, we invest over \$1 billion in corporate governance mutual funds.

Other Issues at Stake

Overly generous pay packages to executives are another area of concern, particularly when there is little public disclosure of retirement benefits, severance agreements and perks. On the issue of executive compensation, CalSTRS has

written to the Securities and Exchange Commission in favor of proposed regulations to broaden the current disclosure rules for such compensation. The Teachers' Retirement Board also supports provisions including proposed federal legislation calling for broader accountability. The bill, "Protection Against Executive Compensation Abuse Act" (HR 4291) was introduced in the House of Representatives by Congressman Barney Frank (D-Mass.).

CalSTRS is obligated to keep an eye on companies we invest in, and we own stock in nearly every major public firm in the United States. It's more than the right thing to do for CalSTRS investments, it's a fiduciary duty.

California Teachers Study is On The Web

by Rich Pinder, Program Manager, California Teachers Study

California's teachers are making remarkable contributions to a better understanding of patterns and causes of cancer among women. Want to know how? It's all a few mouse clicks away.

Just visit www.CalTeachersStudy.org to view all kinds of information about the California Teachers Study. For instance, on the *Home Page* you'll learn that it is one of the largest cancer research studies ever – more than 133,000 teachers have participated and that it was created using funding from cigarette taxes.

The study has an intriguing approach. Rather than studying sick people to try to understand why they became ill, back in 1994 the Teachers Study enrolled healthy people. Only CalSTRS members were invited to participate. Those that joined at the beginning have been contributing new research data about their life and health every two years through mailed surveys. You can find more information about the study as it has progressed in the annual newsletters by clicking on *Newsletters*.

Three surveys have been collected so far and a fourth survey is currently being gathered. Many participants have already responded and those who have not will get a new copy in the mail in the next few weeks. Unfortunately only original participants from 1994 are eligible to participate in the current study. If you would like to see the surveys, click on *Surveys*.

If you want to know more about who is participating in the study, click on *Study Data*. Of course, the personal identities of

participants are kept confidential. Most importantly, to see what has been learned, click on *Publications*. These are excerpts from the actual articles published for other doctors to read and use.

If you have comments or questions about the California Teachers Study, click on *Contact Us*. Even if you are not a participant, you can use the *Contact Us* form.

The Teachers Study has always been a collaborative effort of leading cancer research programs in California. All of the researchers at the Teachers Study are California residents. If you would like to learn more about them or the research institutions, click on *The Team*.

Finally, for other Web sites focused on teachers or cancer information, check out *Helpful Links*.

The Teachers Study research team extends many thanks to the participants over the years and looks forward to learning more about the causes and prevention of cancer among California teachers in the future.



Social Security Provisions May Affect Your Retirement Income



The Social Security Administration has an online calculator to estimate the impact of these provisions on your Social Security benefit.

As a retiree of CalSTRS, you can count on receiving your monthly benefit. The great news is that you are guaranteed that benefit for life.

You may also receive or plan on receiving other retirement benefits, including Social Security. You should be aware that any Social Security benefits you expect may be subject to reduction.

If you plan to apply to Social Security for a benefit based on your own Social Security-covered employment, that income may be reduced or eliminated by a federal provision called the Windfall Elimination Program. You can learn more about the WEP by contacting Social Security directly.

Retired educators should anticipate that any expected spousal or surviving spousal benefit under Social Security could be reduced or eliminated under another federal provision called the Government Pension Offset.

Spousal and widow/widower Social Security benefits were originally intended to provide income for non-wage earning partners (i.e., homemakers). In recent years, households have trended toward dual incomes, which changes that dynamic.

If one partner works in employment not covered by Social Security, the Social

Security Administration applies the Government Pension Offset formula to any secondary benefits that person might receive, such as a spousal benefit. As a CalSTRS member, the GPO effectively reduces any Social Security spousal or survivor benefits you might receive by two-thirds the amount of your CalSTRS benefit. The GPO *does not* impact your CalSTRS benefit in any way.

It is your responsibility to ensure that your CalSTRS benefits are reported to the Social Security Administration. If Social Security discovers you are receiving an unreported benefit from CalSTRS, you will be required to reimburse Social Security for any overpayment of benefits.

In cases where your spousal/survivor Social Security benefit is already impacted by the GPO, Social Security expects you to notify it each year when you receive your annual benefit adjustment from CalSTRS. This is listed as COLA on your CalSTRS benefit payment stub.

The Social Security Administration has an online calculator to estimate the impact of the Government Pension Offset on your Social Security benefit. To access this calculator and other information affecting your Social Security benefit, visit www.SocialSecurity.gov and click *Information for: Federal, State & Local Government Employees*.

To learn more about these provisions, call Social Security at 800-772-1213 or 800-325-0778 (TTY).

Funding Issues *continued from page 1*

that CalSTRS conducts periodically to measure its funding status; in other words, its long-term ability to cover the benefits already earned by the members of the Defined Benefit Program.

The latest actuarial valuation of the Defined Benefit Program shows that the program has 86 percent of the long-term funds needed to pay benefits due to current members. Our situation is not unique. A CalSTRS analysis shows that most of the nation's largest public pension plans are funded around 80 percent, including the State Teachers' Retirement System of Ohio at 74 percent and the Teacher Retirement System of Texas at 87 percent.

Is it necessary to be 100 percent funded? No more than it is necessary to have 100 percent of what you owe on your home in the bank. You don't have to have all the money today, just a structured plan in place to handle the debt over time.

How Did We Get Here?

Because investment returns make up the bulk of the Retirement Trust Fund, fluctuations in the stock market definitely impact our funding status. The market downturn a few years ago resulted in three years of lower than anticipated investment returns. This is the major contributor to our current funding situation. Our investment portfolio has been rebounding, however, and ended 2005 with a return of 10 percent at a time when Dow Jones earned 1.7 percent for the year; the S&P 500 earned 4.9 percent and Nasdaq 1.4 percent. However, we cannot invest our way out of this situation. We need a structured plan, just as a mortgage holder does.



Planning for the Long Term

The Teachers' Retirement Board recognizes the importance of addressing this matter and is actively evaluating options. The basic question is whether we look at ways to take in more contributions, reduce some benefits or a combination. Options under review by the board include:

- Reducing supplemental benefits for new members
- Increasing contributions by employees, employers and the state
- Issuing pension obligation bonds
- Cutting back core benefits for new members

How Does This Affect You?

Whatever solution or combination of solutions is ultimately adopted will depend on a variety of factors, but your basic retirement benefit will remain unchanged. We want to assure you that securing the financial future and sustaining the trust of California's educators will always be our mission and our top concern.

CalSTRS Resources

Web sites www.CalSTRS.com
Click *Contact Us* to e-mail
www.403bCompare.com

Call 800-228-5453
7 a.m. to 6 p.m.
Monday through Friday
TTY 916-229-3541

866-384-4457
Home Loan Program

800-699-4032
Voluntary Investment Program

Write CalSTRS
P.O. Box 15275
Sacramento, CA 95851-0275

Fax 916-229-3879

Visit Member Services
7919 Folsom Boulevard
Sacramento, CA 95826

Need Help?

Phone center adds hours

CalSTRS knows that it's important that we're available when you need us.

When a recent survey showed us that 75 percent of you preferred to call us outside of our usual hours, we adjusted our schedules to serve you better.

CalSTRS phone service center is now open to assist you from **7 a.m. to 6 p.m., Monday through Friday.**

800-228-5453

