

CALSTRS Connections

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Take a Few Minutes to Check Your Retirement Progress Report

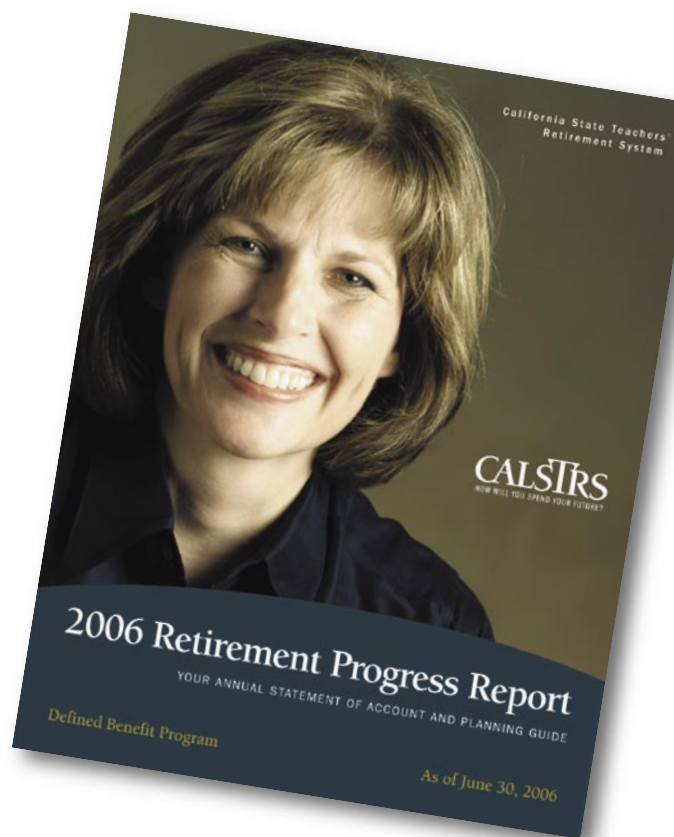
Most of you refer to it as the annual statement of account. We now call it your *Retirement Progress Report*. This personalized document includes not only your Defined Benefit and Defined Benefit Supplement account data, but it also includes your projected benefits and a guide to help you plan your retirement.

When you receive your *Retirement Progress Report* in early December, please take a few minutes to verify that the information in it is accurate.

Why? The facts and figures, such as your years of service credit, will ultimately be used to calculate your retirement benefit. An error now could mean a delay in correctly calculating your retirement benefit later.

If you find a discrepancy and you are currently working as an educator, please contact your employer. We receive information about you from employers; they are the only ones who can correct what has been reported to us. If you work for more than one employer, you'll need to contact each one until the error is found.

Ask to speak to the person in your district who is responsible for reporting your earnings to CalSTRS, usually the payroll time reporter in either the payroll or personnel office.



If you no longer work in a public school, and you spot an error, contact CalSTRS at 800-228-5453.

Remember, if you need a copy of a previous *Retirement Progress Report*, you can always print one by logging onto your account on *myCalSTRS* from the CalSTRS Web site at www.CalSTRS.com.

CalSTRS Board Votes on Comprehensive Funding Strategy

By Carolyn Widener
Teachers' Retirement Board Chair



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

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Chief Executive Officer

Christopher J. Ailman,
Chief Investment Officer

Lynette Blumhardt
Editor

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.

CalSTRS Connections is published twice a year for members of the California State Teachers' Retirement System. Send your comments or suggestions to:

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Harvey Cox wisely wrote, "Not to decide is to decide." But important decisions are seldom easy to make. Only after long months of deep study, thoughtful debate and significant input from members did the CalSTRS trustees decide at their September meeting on guiding principles to be used in drafting legislation to address the pension's long-term funding gap of \$20 billion. A draft of legislative language will be presented to the board in the future, but the Legislature and Governor must sign any change to the system into law.

Guiding Principles

In formulating the following guiding principles, we seriously considered all the issues that affect our members—both active and retired:

- No changes to existing benefits, other than to guarantee the current annual 2 percent benefit adjustment
- An increase in member contributions of ½ percent
- An increase in the state's support of the Defined Benefit Program of up to 1.25 percent
- An increase in the employer contribution rate to be determined by the Teachers' Retirement Board as necessary to fully fund the Defined Benefit Program within 30 years, not to exceed a specified percentage
- Employer contributions for post-retirement employment
- The use of excess employer contributions to fund retiree health care liabilities.

Current Benefits Won't Be Cut

Their trustees know what all teachers know: no one is getting rich as a retired teacher. The average CalSTRS teacher retires at 61 with almost 30 years of service and receives about 60-65 percent of pay. Moreover, members do not earn Social Security for CalSTRS-covered employment. Thus the board's principles begin with the agreement that it is important to protect, and not to cut, current benefits for our members.



Even Exceptional Investment Returns Cannot Do It All

CalSTRS' investment returns have bounced back beautifully in the last several years from the previous three years of low market returns which created the funding gap. However, it would be irresponsible to assume we could simply depend on extraordinary returns above our eight percent actuarial assumption every year to invest our way to 100 percent funding. Instead, adequate contributions—from employees, employers, and the state—are a necessary part of the solution. To make increases in contributions more predictable, the board agreed that they would be done incrementally over time and would begin no earlier than July 1, 2009.

We Want to Help With Health Care

There is no secure retirement without access to affordable health care, so the CalSTRS trustees are deeply concerned about the erosion in the retiree health care coverage of teachers in California. The board has established a Health Benefits Task Force that has begun meeting with constituency groups. Part of its charge is to explore how any excess employer contributions in the future might be used to help fund retiree health care liabilities.

In conclusion, I want to assure each of you that in the process of making these difficult decisions the trustees have put the members first. Securing the financial future and sustaining the trust of California's educators will always be our mission and our top concern.

Legislation Affects CalSTRS

This year the Legislature approved and the Governor signed the following bills that affect CalSTRS members. These new laws are summarized below and more information is available under the Legislation section at www.CalSTRS.com. Unless otherwise stated, new laws take effect on January 1, 2007.

Sponsored by CalSTRS and Signed Into Law:

Assembly Bill 2462 (Mullin) Chapter 780, Statutes of 2006

Specifies key components of due diligence that school employers must perform during their selection of a third party administrator for their deferred compensation plans, including CalSTRS.

Also authorizes CalSTRS to supply, or contract to supply, fiduciary, recordkeeping and administrative services for school employer-sponsored deferred compensation plans (403(b) and 457 plans) to districts that elect to contract with CalSTRS for those services. Because of IRS regulations that will take effect next year, employers who provide deferred compensation plans will have increased involvement in the administration of their plans. Many employers, often small or rural ones, don't have the expertise to perform the required tasks. Under this legislation, CalSTRS will establish a program to provide those services for school districts.

Senate Bill 1207 (Alarcon) Chapter 871, Statutes of 2006

Allows the use of majority voting to elect a member of the board of directors of a publicly traded California corporation in an uncontested election. SB 1207 furthers the Board's goal of promoting best corporate governance practices and helps ensure that shareholders have a meaningful vote when

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Legislation Affects CalSTRS

continued from page 3

nominees who do not represent the interests and philosophy of shareholders run uncontested in corporate board elections.

Senate Bill 1465 (Soto)

Chapter 654, Statutes of 2006

Establishes a threshold for the payment and collection of benefit adjustments for some community college part-time instructors and community college adult education instructors (see related article in this newsletter, page 15); provides a monthly benefit to dependent children under the Coverage B Survivor Benefits Program when there is no surviving spouse or partner at the time of the active member's death; changes service credit purchase and benefit calculation provisions, including time served in the Peace Corps; eliminates two redundant Legislative reports.

Senate Bill 1466 (Public Employment & Retirement Committee)

Chapter 655, Statutes of 2006

Makes a variety of technical and conforming changes to the Teachers' Retirement Law to facilitate efficient administration of the System, as well as provides for the new joint and survivor options and annuities provided by the Teachers' Retirement Plan.

Also Signed Into Law:

Assembly Bill 2941 (Koretz)

Chapter 442, Statutes of 2006

Prohibits CalSTRS and CalPERS from investing in a company with business operations in Sudan and establishes statutory criteria for determining whether a company has business operations in Sudan. Indemnifies from the General Fund all past, present and future board members, officers, employees and investment managers from liability sustained by reason of any decision not to invest in companies with business operations in Sudan.

Statutory changes are made from time to time that affect CalSTRS benefits and may affect any decisions you make in relation to those benefits. These changes are made by the California Legislature and the Governor. Although CalSTRS makes every effort to keep its members informed about changes in its benefit structure, we cannot safely predict what the Legislature and Governor may do that might be of interest to you. For this reason, you should keep yourself informed about possible benefit changes by consulting CalSTRS at www.CalSTRS.com or 800-228-5453, CalSTRS benefits counselors, your union representative (if applicable), your legislative representative and any other source that you believe may be helpful to you before you make any final decision. You are ultimately responsible for any decision you make in regard to your CalSTRS benefits.

New Headquarters Building Is a Sound Business Decision

CalSTRS is constructing a new headquarters building. After two years of searching and a review of more than 35 different locations and a variety of occupancy alternatives, such as leasing, CalSTRS decided its best and most effective option is to purchase and build on a site in West Sacramento. We closed escrow and broke ground in July. Construction will continue through 2008, with an expected move-in date the summer of 2009.

This move is a sound business decision that will allow us to consolidate our work force under one roof and control our facility costs, which will ultimately affect our members in a positive manner. The building's smart design will not only be good for the environment, but it will add to our operational efficiency.

Situated in an up and coming region considered to be one of the fastest growing and most livable areas in the country, the new headquarters in West Sacramento will only increase in value as the area's desirability and worth grows.

When we moved into our current location 23 years ago, membership totaled 396,000, we had 255 employees and assets were at \$11.3 billion.

Today we are 776,000 strong, have a staff of nearly 700 and boast a \$153 billion portfolio. Over the years, CalSTRS has grown to be the largest teachers' retirement fund in the country. This new headquarters solves a long-time space need that will only worsen over time.

In addition to accommodating more staff, we also expect to expand services to the membership. For instance, we'll be able to offer more in-house counseling sessions and make technology improvements that will allow us to more effectively communicate with you.

We're proud that the building will be a model of environmental responsibility. It has been designed to incorporate the latest break-

throughs in sustainable building science and technology, which translates into a boost for the environment and a boon for our trust fund. Water and energy efficient designs within the building will save an estimated \$1.7 million annually in operational costs.

Although the move is 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.



CalSTRS New Headquarters at a Glance

Size: 400,000 gross square feet

Height: 13-stories on two levels of public space

Location: West Sacramento, along the Sacramento River

Features: green technology to further our commitment to protecting the environment, state-of-the-art security to protect you and your assets, forward-thinking design to promote efficient operations, and an investment in a region that will return dividends.

You'll Find a CalSTRS Workshop at Every Stage of Your Career

Wherever you are in your teaching career, CalSTRS has a workshop for you. These free and informative sessions are a great way to establish your foundation of knowledge about your CalSTRS benefits and provide you with the knowledge and confidence to help you plan your successful retirement.

5-10 Years of Teaching

Demystifying CalSTRS is a one-hour workshop explaining how your CalSTRS pension is the foundation for your personal retirement plan. This is the workshop for you to attend if you have never attended a CalSTRS workshop or are in the early stages of your career. It is never too early to start planning for your retirement.

10-25 Years of Teaching

CalSTRS Fundamentals is a 1½- to 2½-hour workshop providing a comprehensive look into the essentials of your CalSTRS benefits with a focus on issues relevant to mid-career educators developing a pre-retirement plan. This workshop will provide you with the basic details of your CalSTRS benefits.

25+ Years of Teaching and Ready for Retirement

CalSTRS Retirement Check-Up is the workshop to attend as you near retirement.

This 1½-hour workshop provides details on how your retirement benefit is calculated, how to provide a lifetime benefit for another person, the three decisions you must make to retire from CalSTRS, the retirement process, working after retirement and resources for prospective retirees.

Retirement Income Management is a three-hour workshop that includes details on identifying retirement income and expenses; understanding the four retirement risks; closing income and expense gaps; and planning to preserve, protect and manage your retirement income. The workshop is designed for CalSTRS members aged 45 and over, retired educators or any member interested in developing a post-retirement plan.

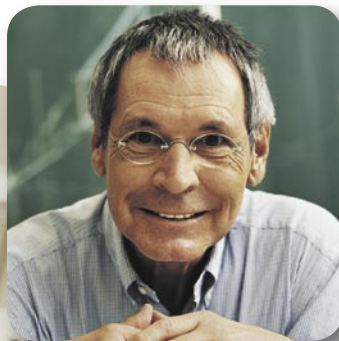
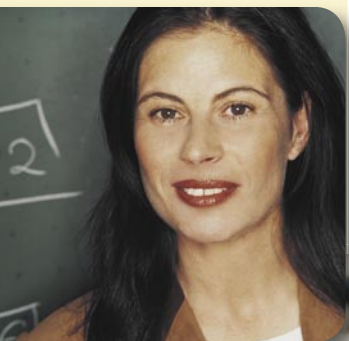
How? When? Where?

Workshops are offered at no cost statewide throughout the year, usually at a local school district office. CalSTRS workshops are conducted by trained and knowledgeable CalSTRS staff or benefits counselors. Registering for a CalSTRS workshop is quick and easy. Visit us online at www.CalSTRS.com/Counseling or call your local counseling office directly. The list of offices is also available on our Web site.

Learn and Apply, Learn and Apply

As educators, you design lesson plans that encourage sequential learning throughout the school year. Learning about your CalSTRS benefits happens in the same way. We do not expect you to know all about your benefits in one workshop. That's why we encourage you to attend workshops again and again to build a foundation of knowledge.

Wherever you are in your teaching career, CalSTRS has a workshop for you.



Four Years of Positive Investment Returns



CalSTRS ended the fiscal year (June 30, 2006) with \$142.7 billion in assets, thanks to a 13.2 percent return on investments. The fund needs only an 8 percent average annual return to meet projected benefit obligations to you—our 776,000 members and your beneficiaries.

Not satisfied with a minimum return of 8 percent; CalSTRS set a higher benchmark of 9.5 percent last year, and well exceeded that by earning the 13.2 percent.

“These exceptional returns illustrate the impact that a team of active investment professionals has on portfolio management,” said CalSTRS chief executive officer Jack Ehnes.

“Individual investors are still struggling to recover from the downturn market in 2000; our fund had fully rebounded by mid-2005 and continues to grow. While the national public pension debate continues, the value of a professionally managed defined benefit pension is indisputable.”

The positive year-end returns are attributed to an increase in active management in both U.S. and international stocks. Four of the fund’s five asset categories posted positive returns and beat their benchmarks for the one-year period ending June 30, 2006, with real estate, alternative investments and international stocks generating double digit returns.

- The real estate portfolio posted a 35.73 percent return and continues to outperform its benchmark.
- Assets in alternative investments posted a return of 32.03 percent, beating its benchmark by 23.3 percent.
- International stocks posted a 27 percent return, narrowly missing its benchmark by .97 percent.
- The U.S. stock portfolio posted a 9.5 percent return, beating its 9.4 percent benchmark.
- Continuing a four-year run of excellent performance, the fixed income portfolio exceeded its benchmark.

Note: As of October 2006, CalSTRS assets hit \$153 billion.

Corporate Governance Protects Your Pension

By Jack Ehnes,
CalSTRS Chief Executive Officer

Some say corporate greed has become as American as big business, Wall Street and the stock market. Such a negative conclusion is not entirely true, but it's the perception many people - especially investors - have of the way business gets done in the board room and on the trading floor. And why shouldn't you believe the worst about business? The nightly news is filled with stories about the likes of Enron and WorldCom. Movies and music glorify acquisition by any means. It's enough to make you feel powerless to do anything about unfair practices or incompetence by corporations in the world of investments.

Corporate Governance Is the Antidote

There is an antidote. It's called corporate governance.

Concern about things such as exorbitant executive compensation packages, the amendment of bylaws without shareholder approval or the dilution of company stock value to discourage hostile takeovers have prompted investors to embrace the concept of corporate governance.

We believe a better run, better governed company generates the best financial results in the long-haul for shareholders. For you, as members of CalSTRS, continuous, positive returns in your portfolio mean a secure retirement for you. That is the essence of corporate governance.

How We Got Here

The idea of corporate governance is one that was born nearly two decades ago out of the actions of corporate raiders such as T. Boone Pickens, Ivan Boesky and Carl Icahn. They broke the traditional rules of how corporate shareholders and corporate management played the stock market game. Such iconoclasts were dissatisfied when corporations only paid attention to the largest of shareholders.

Their intent - and they excelled at this - was to acquire undervalued corporations and break them into parts that were greater in value than the sum of the whole. In 1986 alone, there were nearly 3,000 mergers.

Not surprisingly, corporate management viewed these influences as destructive to the company, the workers and their own personal job security. Management threw up protective defenses in the form of "golden parachutes" for management, "poison pills" to prevent takeovers, split stock with super voting rights and classified boards. All were intended to protect management and to ward off the true but painful valuation of a company's economic value.

In the end, these mechanisms only reduced shareholder value, entrenched management, insulated the board of directors and angered shareholders.

CalSTRS Becomes a Part of the Solution

Enter pension plans. The Council of Institutional Investors was formed in 1985 to demand improved use of capital and ensure full valuation of stock from corporate management. CalSTRS was right in there, as a member of the CII from the beginning, insisting that publicly traded companies improve, operate openly and include shareholders in the decision-making process.

"Buy and Hold" Policy Garners High Returns

Why don't we just dump poor performing companies and scoop up rising stars? Strong, sure and steady companies generate positive, long-term results. We don't trade on day-to-day events or market news, but follow the "buy and hold" philosophy of investing.

That is one reason CalSTRS routinely and consistently posts strong returns. We don't trade away our disappointment in poor performers. We engage them and work toward rehabilitating their health to the benefit of our portfolio

assets. We believe a long-term approach acting as coach and partner adds value not only to the companies but also to our portfolio.

CalSTRS owns stock in nearly every major public firm in the U.S. It's not just our obligation to keep an eye on them, but it's our fiduciary duty. Improvements in the governance of a company don't always translate immediately into a more valuable stock price. Often they show up slowly over time as governance activities result in improved corporate earnings. The results from corporate governance activities can feel glacial at times.

What Have You Done for Me Lately?

In October, I joined CalPERS in commending SEC Chairman Christopher Cox for his leadership in deciding to go forward with a deliberative rulemaking process on the use of the proxy (ballot) to nominate corporate directors. The ability to legitimately participate in director elections and hold directors accountable are the cornerstones of shareowner rights.

Corporations have long relied on an insular director nomination process, which divorces shareholders from involvement and communication. The lack of a true democratic process for electing directors plus a one-sided nomination process, have led to a number of disturbing situations where board rooms do not have the type of diverse and critical thought that shareholders rely on in this all-important governing body of a corporation.

As shareholders we certainly do not expect to nominate directors on a frequent basis, but to know we have that right, under certain circumstances, strengthens our relationship as shareholders with corporate boards.

Majority Rule Passes in California

The Teachers' Retirement Board sponsored California Senate Bill 1207, which the Governor signed in September. The new law allows the use of majority voting to elect a member of the board of directors of a publicly traded California corporation in an uncontested election. Majority voting requires that a director of a corporate board receive a majority of votes from the shareholders. Without this law, director could have been elected with only a single vote.

Climate Risk Disclosure Is a Growing Concern

Climate change and the effect it has on the health of the environment and the ability of corporations to operate is a topic of great concern to many investors. It's a concern to CalSTRS, as well.

We joined an alliance of 14 leading global institutional investors and other organizations in October in asking that companies provide to investors the financial risks posed by climate change.

The Global Framework for Climate Risk Disclosure was created in response to growing concerns about the risks and opportunities from climate change, whether from new regulations, physical impacts or growing global demand for climate-friendly products.

Investors, including CalSTRS, pledged to use the disclosure framework to engage companies and encourage them to use existing reporting mechanisms.

As a player on the international scene, we are united behind this groundbreaking initiative because it will help strengthen our trust funds over the long-term. The framework will encourage responsible corporate behavior and accountability for the business risks associated with climate change. Companies that fail to recognize physical risks to their facilities or ignore the impact of their greenhouse gas emissions are operating on unsustainable and short-sighted business models.

We've Come a Long Way, Baby

From the time CalSTRS joined the Council of Institutional Investors back in the early 1980s, through the boom years of the stock market in the 1990s, and the recovery years of the first few years of the new century, we have been watching out for you and the security of your pension fund. There are so many factors that go into maintaining a strong portfolio. Corporate governance is one very important factor to which we are committed.

You're a VIP With Our VIP

You want to see your retirement dreams come true, and we want to help you make them a reality. Maybe you envision endless days of golf, leisure travel or just lavishing your grandkids.

The CalSTRS VIP, or Voluntary Investment Program, can help you get there. VIP, a 403(b) tax-deferred plan, supplements your CalSTRS retirement benefit.

Since 1995, VIP has been here to help all school district employees—both classified and credentialed—easily put aside extra money now for retirement later. VIP currently has \$132 million in investments.

Sure, you can invest on your own, but participating in VIP has several advantages, such as choice of funds, low fees, payroll deduction and free advice.

Sounds great, doesn't it? Now it's even better.

- VIP's low fees have gotten even lower. The cost of recordkeeping and advice services has been cut nearly in half, from 0.90% to 0.49%. What that means is if you invest \$1,000 with VIP, you now pay \$4.90 instead of \$9.00 to cover those costs. An investment management fee remains.
- The core investment choices have been restructured to better reflect the needs and preferences of VIP's participants.
- VIP now offers several "life cycle" funds, which automatically adjust as a participant approaches retirement. For example, a life cycle fund would consider that a young participant wants to invest in higher-risk funds, while someone close to retirement wants to invest in lower-risk funds.
- At no cost to participants, you get extra advice and a personalized statement that shows you what your investments could provide in the future, based on your risk tolerance.
- For an additional cost, you can choose to have your VIP account managed for you on an ongoing basis.

All of this adds up to a low-cost investment product that appeals to more investors—like you.

Get Started

It's easy to get started with VIP. Call or go online to get your enrollment packet. The enrollment packet will direct you through the process, or you can contact a VIP customer service rep.

For enrollment information or additional information on the program, visit www.CalSTRS.com/VoluntaryInvestmentProgram or call 800-699-4032.

Social Security Fact Sheet Available from CalSTRS

Social Security certainly is a frequent topic in the media today. If you're wondering how Social Security and your CalSTRS pension are tied, we have a new fact sheet to help you.

The two-page document informs CalSTRS members that any benefit earned

under Social Security-covered employment may be reduced by receiving a CalSTRS retirement benefit due to the federal Windfall Elimination Provision and the Government Pension Offset. This fact sheet encourages members to plan ahead, offering four steps to prepare for any impact these provisions might have on retirement income.

Social Security, CalSTRS and You is available to view, download or order on the CalSTRS Web site at www.CalSTRS.com/Publications, or call us at 800-228-5453.

As you know, California educators who are members of CalSTRS don't pay into Social Security on their earnings as a teacher. As a result, they don't receive a Social Security benefit based on those earnings.



Your Satisfaction Remains High

Your opinion of CalSTRS matters. We've been asking you what you think of us each year since 2004 by sending out 7,500 surveys to active and retired members. The results are pretty consistent and pretty positive. Your overall satisfaction with CalSTRS has remained in the 79 point range for the last three years, and your general impression of us has improved since 2004.

The Good News

You find our staff to be knowledgeable and able to provide accurate account information. In fact, your rating of staff knowledge and customer skills has significantly increased since 2004. You like the convenient counseling appointment times we offer, and you are satisfied with our communication materials. You recommend that we maintain our high level of performance by:

- Being knowledgeable
- Being caring and dependable
- Following through on requests
- Providing accurate information
- Educating members about retirement.

"I gave you a 10 because when I have questions or need help, I always have my questions answered and get the help that I need." Age 33, Satisfaction Rating 100

That's all very flattering, but you've also pointed out areas where we can improve, and we're taking steps to address your concerns.

Areas for Improvement

You want improved follow-through from us and to receive better and more accurate information. Your comments included receipt of poor or unclear information or information that isn't needed.

How satisfied are you with CalSTRS service overall?

Satisfaction ratings have not changed significantly over the past three years.



We should continue to focus on the following things that drive overall satisfaction:

- Timeliness
- Providing thorough and consistent answers
- Making it easy to find information about CalSTRS policies and procedures
- Efficiency
- Caring about members.

What We're Doing

Some of the steps that CalSTRS is taking that address your concerns and areas that need improvement include:

- A program of coordinated, consistent training
- Development of more ways to get information to you
- Plan to create more and improved services based on your feedback.

"I haven't utilized CalSTRS' services very much, but I am pleased with the effort that you have made to keep me updated regarding my status, number of credits, etc."

Age 33, Satisfaction Rating 60

Option Changes Coming Your Way in 2007



Have you made a pre-retirement election of an option? If so, you may have an opportunity to change that option, without assessment, early next year because of recent changes to Defined Benefit Program options.

What is a pre-retirement election of an option?

If you are eligible to retire, you can make a pre-retirement election of an option that will provide a monthly lifetime income for another person or persons if you die before retirement. Generally, you are eligible to retire if you are 50 years old and have 30 years of service credit or you are 55 years old and have five years of service credit.

How do I know if I have already made a pre-retirement election of an option?

If you are uncertain whether or not you have made a pre-retirement election of an option, you can check your latest *Retirement Progress Report*, review your account at *myCalSTRS* from www.CalSTRS.com or call us at (800) 228-5453.

Roberta, a 55-year-old member, enjoys teaching but looks forward to the freedom of retirement some day. An elementary classroom teacher for 30 years, Roberta is eligible to retire, but doesn't plan to do so for another seven years. Roberta's sister, Betty, is 53 years old, lives with Roberta and depends on her for financial assistance because of a job injury.

Roberta worried that if she died before retirement, her sister wouldn't make it financially, so just recently Roberta decided to name Betty as her option beneficiary in a pre-retirement election of an option. Roberta chose Option 6 (renamed 100% Beneficiary Option), which would give Roberta \$1,783 per month as a retirement benefit and would continue to give Betty \$1,783 per month when Roberta dies.

Under the new 75% Beneficiary Option that becomes available January 1, 2007, Roberta realizes that she can get a higher retirement benefit for herself and still provide for her sister. By changing to this option, Roberta will get \$1,840.40 per month as a retirement benefit, and Betty will get \$1,380.30 per month when Roberta dies. As long as Roberta makes this option change during the six-month window period—January 1, 2007, through June 30, 2007—she will not have to pay an assessment fee.

Roberta's mind is at ease that Betty will be taken care of.

Note: These figures, used for illustration purposes, are based on Roberta at age 55, Betty at age 53, and an unmodified retirement benefit of \$2,000.

I have a pre-retirement election of an option, what are my choices?

If you have Options 2 through 7, you may keep your current option election or change to 100% Beneficiary, 75% Beneficiary or 50% Beneficiary options.

If you have Option 8, you may make the respective changes permitted within that option.

Do I have to make a change?

No. You can keep your original option.

If I change, will it cost me anything?

Normally, when a member changes a pre-retirement option prior to retirement, CalSTRS charges an option cancellation assessment. However, if you make the option change provided for during a January 1, 2007, through June 30, 2007, window period, CalSTRS will not charge an assessment, but your monthly allowance amount may change depending on your option choice. The option factors used for your retirement calculation will be based on your age and your beneficiaries' ages as of the date of your original pre-retirement option election.

How do I know if I am eligible to make a change?

If you currently have a pre-retirement election of an option, you may be eligible to make an option change. You will receive a personalized letter in January 2007 from CalSTRS that will describe the option choices that may be available to you.

Why is CalSTRS changing the options?

As part of an effort to reduce the complexity of the option choices, CalSTRS analyzed member needs, researched other retirement systems' options and recommended changes which were adopted by the Teachers' Retirement Board.

What are the changes that will be made to the options?

Effective January 1, 2007:

- The options will be renamed to be more descriptive.
- Options 2-5 will no longer be available for selection.
- A 75% Beneficiary Option will be added.
- There will be respective changes within Option 8, which is being renamed Compound Option.
- Unmodified will be called Member Only Benefit.




403b
Compare

**Your California School
Employee Retirement
Product Information Bank**

Dare to Compare

- Feel uncertain about your 403(b)?
- Is it too confusing, time consuming, or just too much paperwork?
- Want to find out if your 403(b) is a good fit?

We *dare* you to log onto 403bCompare.com and find out how your 403(b) stands up to other plans. 403bCompare.com displays options side-by-side, provides unbiased information, and it's free.

www.403bCompare.com
California School Employee Retirement Product Information Bank

Mid-Year Retirement May Mean a Lower Compensation

Alice has an opportunity to run her son's souvenir shop in Washington, D.C. and be near her grandkids, but she would have to do so early in the spring because her son starts a job in April with the National Park Service.

Alice already has 25 years of service credit. She is eager to retire and begin the next phase of her life. She wants to retire in the middle of the school year. Is it to her benefit to retire mid-year and go ahead with her plans?

How Is a Mid-Year Retirement Figured?

Any CalSTRS retirement benefit is based on your years of service, your age at retirement and your final compensation. Final compensation when you retire at the end of the school year is usually figured this way:

- If you have at least 25 years of service, compensation is based on the highest average salary over 12 months.

How Alice Figures Her Final Compensation:

Alice earned \$57,000 last school year and would earn \$60,000 this school year. Here's how we'll determine her final compensation for a January retirement date:

$$\$57,000 / 12 = \$4,750 \times 6 \text{ months} = \$28,500$$

$$\$60,000 / 12 = \$5,000 \times 6 \text{ months} = \underline{\$30,000}$$

$$\$58,500 / 12 \text{ months} = \$4,875$$

If Alice retired at the end of the school year, her final compensation would be \$5,000 based on this calculation:

$$\$60,000 / 12 \text{ months} = \$5,000$$

This calculation applies if Alice receives her highest compensation in her final year of teaching, and she works through the end of December.



- If you have less than 25 years of service, compensation is based on the highest average salary over 36 months.

However, when you retire mid-year, your final compensation could be different than what you expect. To figure the average annual compensation earnable, we use the average annual salary you received last year and your average annual salary if you worked all the entire current year. See the box below.

Final Compensation is One Part of the Equation

From here, Alice's retirement benefit is based on her years of service, her age, and the final compensation. If Alice is 60 years old at retirement and has 25 years of service credit, her monthly retirement benefit would work out this way:

- Retiring at the end of the school year with a \$60,000 annual salary: \$2,500/month
- Retiring mid-year with a \$58,500 annual salary: \$2,437.50
- A monthly difference of \$62.50.

A Couple of Things to Consider

In your last six months of employment - which could be any time from July through January - if you work at a lower pay rate than your regular rate, you will decrease your final compensation. Teaching summer school or a special program, coaching or even attending meetings for which you get paid at a lower rate is added in with your regular pay and will lower your overall rate for your last six months of employment.

Some Community College Part-Timers Will Receive a Benefit Recalculation

Certain community college part-time instructors and community college adult education instructors who will be retiring will have their retirement benefit recalculated after their retirement date.

Why Do We Need to Recalculate Benefits?

Over the years, legislation changed the way benefits for this specific group are calculated to allow them to be eligible for benefits at an accelerated rate. An unintended consequence of the legislation was that some members may have received reduced benefits. To fix this, new legislation requires CalSTRS to recalculate and compare benefits using different criteria to give members the higher benefit. The result is that CalSTRS cannot calculate and compare members' benefits until after they retire.

Who Will Receive a Benefit Calculation?

We will perform a benefit comparison calculation for community college part-time instructors and adult education instructors who meet all of the following criteria:

- were hired by a California community college prior to July 1, 1996,
- began receiving a CalSTRS benefit after July 1, 1996, and
- whose employer reduced its standard (base hours) to lower than 1,050 hours per school year after July 1, 1996.

If you fall within this specific group, your final benefit won't be known until you retire and CalSTRS receives all the data from your employers. We will use the employer information to recalculate and compare to come up with your final benefit. The actual, final benefit will not be less than your initial benefit.

Calculations Won't be Available From Counselors

Due to the complexity of the recalculation process, counselors will not be able to provide qualifying members with an estimate and calculators will not be available on the CalSTRS Web site.

For more information on the recalculation of benefits, go to www.CalSTRS.com, click on *FAQs* and then *Community College-Part-time/Adult Education Benefit Calculation (AB 1586)*.

If you work summer school at a lower pay rate than your previous school year and you receive a pay raise at the beginning of your final year of teaching, you may not see the benefit of that raise if you retire mid-year.

Contact a Benefits Counselor

If you're thinking of retiring mid-year, please talk to a counselor first, so you can discuss the specifics of your situation. A benefits counselor can help you calculate a mid-year retirement.

A CalSTRS benefits counselor can help you calculate a mid-year retirement. To schedule an appointment with a benefits counselor, please call us at 800-228-5453 and press 6. You'll either speak to customer service representative or you may leave a message and a customer service representative will return your call. To schedule a face-to-face appointment with Benefits Counselor in your area, visit www.CalSTRS.com/Counseling for a list of field counselors.

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

**E-Newsletter version of
CalSTRS Connections
coming to a computer near you.**



2 easy ways to register:

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

It's educational, environmentally friendly and expeditious.