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Board Extends Medicare Premium Payment Program

At its February 2006 meeting, the Teachers' Retirement Board voted to extend the CalSTRS Medicare Benefits Program to eligible members of the Defined Benefit Program who retire or are on disability between January 1, 2001, and July 1, 2007. The program had been due to expire in January 2006.

To be eligible to have CalSTRS pay your Medicare Part A premiums, you must meet all of the following:

- Be ineligible for premium-free Medicare Part A
- Enroll in Medicare Parts A and B at age 65
- Retire from a school district that either has held or is in the process of holding an election to permit employees to be covered by the Medicare payroll tax.

If you are age 58 or older at the time of the election and if you retire before July 1, 2007, you will automatically be eligible for the CalSTRS program. If you are under 58 at the time of the election and not otherwise eligible for premium-free Medicare Part A, you must vote "yes" at your district's election to be eligible for CalSTRS to pay your Medicare Part A premiums when you become eligible for Medicare.

If CalSTRS will be paying your Part A premiums, federal regulations require you to enroll in Part B. Therefore, you will pay the Medicare Part B (doctor visits) premium. In 2006, the Part B monthly premium is \$88.50 per month.

More information is available in the brochure *Your Retirement Guide* or online at www.CalSTRS.com. Click on *Members*, scroll down to *Medicare*.

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

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A Defined Benefit Pension Means Safety and Security

By Carolyn Widener
Teachers' Retirement Board Chair



If you are the average CalSTRS member who retired last year, you are nearly 62 years old and have been a teacher for just over 26 years. You have a CalSTRS pension of \$3,535 a month on a salary of \$5,944 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.

All across the United States, in public and private sectors, there is serious discussion about the viability of defined benefit pension plans. And in some places, as here in California, it is more than mere discussion.

With the recent financial news, especially in the airline and auto industries, it is clear the debate over the cost and funding of employee pension benefits will continue to be a headline topic. As you hear more about the subject, 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.

Where Does the Money Come From?

CalSTRS is a defined benefit program. Contributions come into the fund from employees, employers and the state, plus returns on investments. In fact, two-thirds of the money in the fund, currently topping \$140 billion, comes from earnings on investments, while one-third comes from contributions.

Because investment returns make up the bulk of the fund, fluctuations in the stock

market can help or hurt CalSTRS. Market downturns definitely hurt from 2000 to 2002, resulting in losses as high as 9 percent. Our investment portfolio has been rebounding the past few years, however, and ended 2005 with a return of 10 percent at a time when the Dow earned 1.7 percent for the year; the S&P 500 earned 4.9 percent and Nasdaq 1.4 percent.

Returns on investments have varied over the years, but contributions haven't seen the same flexibility. Those are fixed by state law: Educators contribute 8 percent of their salary, school districts contribute 8.25 percent of the educators' salaries. CalSTRS members do not pay into Social Security, thus don't receive Social Security benefits for CalSTRS-covered work. Nationally, the average total contribution rate for all other teacher systems not in Social Security is more than 3 percentage points higher than for CalSTRS. For example, in the Massachusetts Teachers' Retirement System employees and employers contribute 11 percent and 12.28 percent respectively. In the State Teachers' Retirement System of Ohio employees contribute 10 percent and employers 14 percent. For Tier 1 Miscellaneous members of CalPERS, employees pay 13.2 percent of their salaries (pension plus Social Security) and employers pay 13 percent (pension plus Social Security).

Where Does the Money Go?

CalSTRS exists to provide a secure retirement for its members. Therefore, most of our money is paid out in benefits. Last year, retirement, disability, death and survivor benefits paid out by CalSTRS totaled nearly \$6 billion, rising more than \$6 million over 2004.

Pensions are calculated based on a formula

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

Teachers' Retirement Board
Carolyn Widener, *Chair*
Dana Dillon, *Vice-Chair*
Phil Angelides
Kathy Brugger
David Crane
Michael Genest
Jerilyn Harris
Roger Kozberg
Gary Lynes
Jack O'Connell
Beth Rogers
Steve Westly
Jack Ehnes,
Chief Executive Officer
Christopher J. Ailman,
Chief Investment Officer

Lynette Blumhardt
Jean Bricarello
Editors

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 retired members and benefit recipients of the California State Teachers' Retirement System. Send your comments or suggestions to:

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Learn About Your Benefits – We'll Help You Learn What You Need to Know

Whether you're new to teaching or a seasoned veteran, CalSTRS can help you plan for a secure financial future. To make the most of CalSTRS services, however, you'll have to do some homework beforehand.

The first thing to do is attend a CalSTRS workshop. That will help establish a foundation of knowledge about your benefits and services and how to make the most of them. We have three core workshops, each designed for a specific stage in your career. Members are encouraged to attend with a spouse or registered domestic partner.

The workshops, which are offered at no cost, are held throughout the state.

How to register:

- Call CalSTRS toll-free at 800-228-5453 between 7 a.m. and 6 p.m. Monday through Friday.
- Go to www.CalSTRS.com/Workshops for a list of scheduled workshops and to register.

Early Career

Demystifying CalSTRS

1 to 5 Years

This 1½-hour workshop explains the CalSTRS benefits and programs available to you and shows you how your benefits are calculated. *Demystifying CalSTRS* lays the foundation to help you plan a more secure future. If you have never attended a CalSTRS workshop this is the place to start.



Mid-Career

CalSTRS Fundamentals

5 to 20 Years

This 2½-hour workshop covers your benefits and financial planning in detail. You'll learn:

- How your retirement benefit is calculated and how to increase your benefit.
- How to provide a lifetime monthly benefit for another person.
- What your disability and survivor benefits provide.
- How to complete a financial checkup.
- How to set your retirement goals.
- Why you need to save in a tax-deferred account.
- How to judge your tolerance for investment risk.
- How to choose a financial planner.



CalSTRS can help you plan for a secure financial future.

Near Retirement

CalSTRS Retirement Checkup

20 + Years or Age 55

If you're getting close to retirement and have at least five years of service credit, *CalSTRS Retirement Checkup* is for you. This 1½-hour workshop goes into detail on how your retirement benefit is calculated, how to provide a lifetime benefit for another person, your disability and survivor benefits, working after retirement and resources for prospective retirees.



Real Estate Portfolio Leads Gains in 2005

CalSTRS Expands Diversity in Investment Management



CalSTRS continues to search for undiscovered or underfunded money managers, markets and service providers that have what it takes to succeed.

*By Christopher J. Ailman
Chief Investment Officer*

How do you make \$4.6 billion in one month? Winning the Mega Millions Lottery won't even pay off that well. But \$4.6 billion is what CalSTRS investments earned in January. The portfolio closed the month at an all-time new high of \$141.8 billion in value. It has since grown to \$142 billion in February.

The portfolio posted a 10.2 percent return for 2005, out-performing the previous year by \$11 billion and boosting CalSTRS to the rank of second-largest public pension plan in the nation, according to *Pensions & Investments* magazine. All asset categories beat their

benchmarks for 2005. The largest gain was in the real estate portfolio which saw a 36.45 percent return.

Although the news is exciting, I see the pace as unsustainable over the course of a year. Like a marathon, it's not how you do over one mile or over even a couple of miles. The key is a sustained pace over the entire course. A disciplined, diversified approach is considered the best.

Other Benefits of Diversity

Diversity is clearly important when you pick places to invest your money, but it's also important when you pick people to invest your money. In recognition of the latter kind of diversity, CalSTRS is expanding the diversity of ideas and people throughout its investment portfolio. This approach will look at diversity to spur good returns and to reflect the changing face of California.

Helping CalSTRS in this work is Altura Capital, a New York City consulting firm. The company focuses on undiscovered or underfunded money managers, markets and service providers that have what it takes to succeed. The firm's work for CalSTRS will include developing a list of financial services providers as well as a review of investment strategy and ideas for policy changes. CalSTRS now has about \$3 billion managed by 32 emerging, minority- and women-owned firms in our domestic stock portfolio.

Survey Added Value, Too

As part of its research into diversity, CalSTRS has revealed the first round of survey results from its multiyear study of attitudes about diversity in the investment management industry. The anonymous Internet survey consisted of 31 multiple-choice questions and solicited opinions about diversity issues held by investment management professionals.

Key conclusions included:

- Biases against women and minorities still exist.

- There are structural and cultural issues preventing a tighter embrace of diversity.

More study is required to identify trends regarding diversity, and whether or how efforts to expand diversity are working. This survey was cited in CalSTRS' nomination for the Savviest Plan of the Year award by the editors of *Money Management Letter*.

Full survey results and other investment details can be viewed online at www.CalSTRS.com/Investments.

School Employees Can Get Free Online Help With Investment Choices

Many private firms offer tax-deferred products where educators can invest tax-deferred money to supplement their retirement income. But how do you decide where to put your money when there are so many choices out there? We can help.

CalSTRS administers a Web site – www.403bCompare.com – that provides information on 403(b) investment products for comparison shopping. The site has details on more than 290 tax-deferred products. The information is free and easy to view.

Making Your Own Investment Choice

Each California school district, community college district and county office of education determines which 403(b) vendors are offered to employees.

Steps to find the vendors available from your employer are:

1. Begin your search with your employer's name. A list of vendors will be displayed.
2. Click on each vendor's name and several details including services, products, fees and contact information will appear.
3. Select products of interest and compare them side by side.

Unsure which product to choose? The site has educational information, a glossary of terms, frequently asked questions and links to investor-related materials from state and federal government agencies.

The *403bCompare.com* Web site, developed and administered by CalSTRS, has received a 2005 Leadership Recognition Award from the National Association of Government Defined Contribution Administrators as an outstanding example of a comprehensive and effective tool to educate users.

If you have more questions, please contact the *403bcompare.com* Administrator (available on the site) or call 888-394-2060.

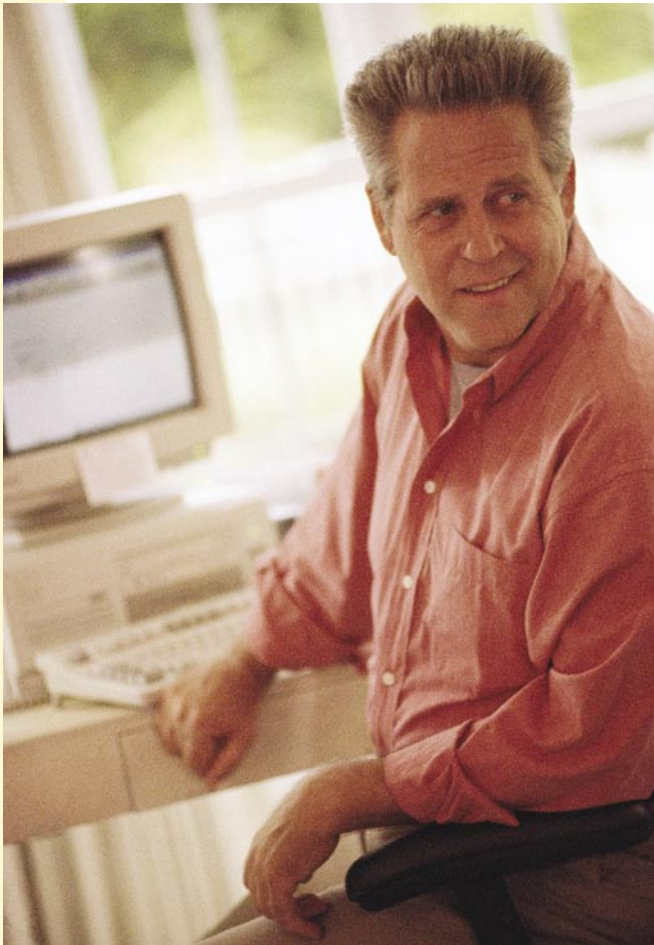


Improved Option and Annuity Choices Coming in 2007

One of the most important decisions you can make as you approach retirement is how to provide for your family after your death. CalSTRS offers a one-time death benefit to your survivors, but we have other ways to extend a lifetime benefit to those you care about.

- The Defined Benefit Program allows you to extend a lifetime monthly benefit to others after your death by selecting an option.
- The Defined Benefit Supplement Program and the Cash Balance Benefit Program have annuities that can provide ongoing benefits after you die.

A solid understanding of your changing benefits and choices will equip you with the tools you need to make the best choices for you and your family before you retire.



CalSTRS is making some changes to simplify and enhance the current option and annuity choices. The changes affect members who retire on or after January 1, 2007.

For the Defined Benefit Program, a 75% Beneficiary Option, which distributes 75 percent of the member's monthly pension to a beneficiary after the member's death, is being added. The names of the other options are changing.

Here's the breakdown on the DB options and the changes:

- **Unmodified Benefit** – Renamed the Member-Only Benefit, it provides a monthly pension to the member only. When the member dies, the monthly payments end, although a one-time death benefit is paid to a recipient the member had designated.
- **Options 2 through 5** – These will not be available for selection after December 31, 2006, although members who previously selected these options will be allowed to keep them.

Under the following three options, if your option beneficiary dies before you, your benefit will increase to the Member-Only amount.

- **Option 6** – Renamed the 100% Beneficiary Option, it provides for your option beneficiary to receive the full amount you were receiving.
- **Option 7** – Renamed the 50% Beneficiary Option, it provides for your option beneficiary to receive half of what you were receiving. Under this option and the 75% Beneficiary Option, if your option beneficiary dies before you, your benefit will increase to the Member-Only amount.

- **Option 8** – Renamed the Compound Option, it allows for various choices. You can name one or more option beneficiaries, with an option choice for each, plus retain a portion of your benefit as Member-Only.

DBS and CB Annuities Changing

The Defined Benefit Supplement Program, which provides additional retirement income, and the Cash Balance Benefit Program, which serves part-time educators, will have similar changes in names and features for annuity choices. The changes include the addition of a 75% Beneficiary Annuity. The Single Life Without Cash Refund will not be available for selection on or after December 31, 2006.

Details to Come

More information on the options and annuities will be coming your way on the CalSTRS Web site and in future newsletters as January approaches. Benefits counselors and workshops will also cover the changes. Those who have selected an option will have a chance to select the new 75% Beneficiary Option or Annuity during a six-month enrollment period from January to June 2007.

A solid understanding of your changing benefits and choices will equip you with the tools you need to make the best choices for you and your family before you retire. That's something that will never change.

What is the Defined Benefit Supplement Account?

Since January 1, 2001, members of the CalSTRS Defined Benefit Program have had a supplemental account to provide additional funds when they retire or leave CalSTRS-covered employment.

One-quarter (2 percent) of your 8 percent payroll contribution to CalSTRS goes into your Defined Benefit Supplement account and will continue to do so through the end of 2010. In addition, if you earn more than one year of service credit in a school year, through extra jobs such as coaching or teaching summer school, contributions from you and your employer for this excess service go into your DBS account. Account information is available on your *Retirement Progress Report*

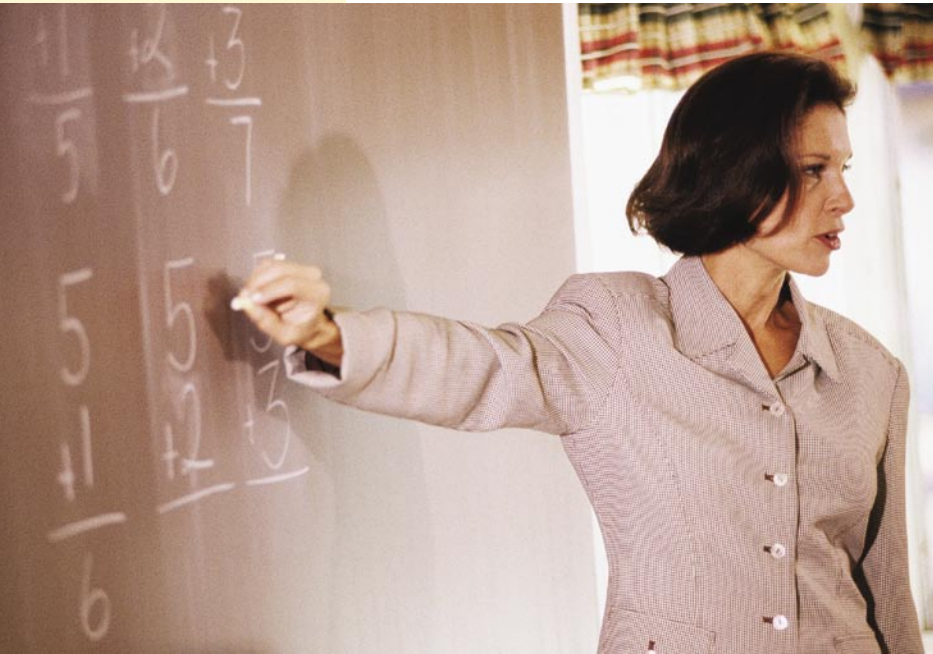
(formerly *Annual Statement of Account*) mailed to you each December. Registered *myCalSTRS* users can also view their account information online anytime. Access *myCalSTRS* from www.CalSTRS.com.

Interest is paid on the funds in this account at a rate set annually by the Teachers' Retirement Board. For this next fiscal year, the rate is 4.75 percent. The Board may, however, vote to pay an additional amount if investment returns generate sufficient reserves.

Once you retire or leave CalSTRS-covered employment, your DBS account funds will be paid out in a lump sum or as an annuity, depending on your circumstances.



CalSTRS Will Take Steps to Address Funding Issues



ation of the Defined Benefit Program shows that the program has about 86 percent of the long-term funds needed to pay benefits due to current members, resulting in a funding shortfall of \$20.3 billion. 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. You don't have to have all the money today, just a structured plan in place to handle the debt over time.

Taking Steps to Face the Challenge

Even if nothing is done to address the shortfall, CalSTRS will still have enough funds to cover benefits for the next 60 years, even as the total amount paid out continues to rise. We need to consider possible remedies now, though, because our actuaries tell us the shortfall could rise to a staggering \$170 billion by 2035. 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. Increases in investment returns will help, but can't be expected to bridge the entire gap.

How does all of this affect you as a CalSTRS member? Whatever solution or combination of solutions is ultimately adopted will depend on a variety of factors.

By Jack Ehnes
Chief Executive Officer

Supplying monthly checks to about 170,000 retired educators and the 12,000 or so expected to retire each year is quite an accomplishment for CalSTRS. After all, we have 775,000 members to think about. Providing for their future takes smart investments, sound management and dedicated employees. It also takes regular monitoring of how we are doing. Part of that monitoring is an actuarial valuation 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.

There the news is not what we'd like. As you see in the enclosed *2005 Summary Report to Members*, the latest actuarial valu-

Analyzing the Alternatives

To help the board find a suitable solution to this long-term problem, CalSTRS staff has prepared a study of options.

The options 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

So how does all of this affect you as a CalSTRS member? Whatever solution or combination of solutions is ultimately adopted will depend on a variety of factors. The CalSTRS board will work with the Legislature, teacher groups, school districts, state administration and other parties to develop a strategy to address this long-term and serious issue. 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.

Looking to Boost Your Nest Egg? Look to Us for Tax-Deferred Savings

Active Defined Benefit Program members who want to build a larger retirement nest egg may want to invest in an optional tax-deferred retirement savings program such as CalSTRS' Voluntary Investment Program.

VIP allows you to save a pre-tax portion of your salary through a payroll deduction and put it into your choice of 12 different investments. CalSTRS is improving the program by lowering fees effective July 1.

Sure, you can invest on your own, but participating in VIP has several advantages:

- Diversified choices; multiple products can be selected
- Payroll deduction
- Low fees (under half a percent)
- Monitoring by CalSTRS investments professionals
- Secure account access through www.CalSTRS.com
- Free advice services
- Personalized fund management by the VIP administrator, CitiStreet (for a fee)

VIP is a federally recognized 403(b) plan. These accounts are similar to 401(k) accounts available at for-profit entities and have similar tax advantages.

Defined Benefit Pension

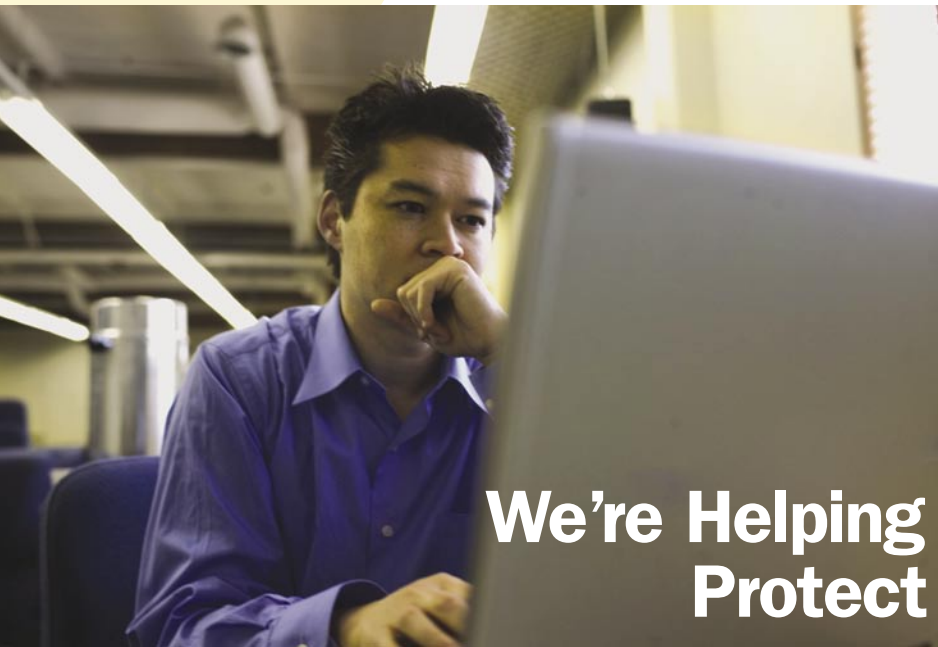
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that reflects a member's age, highest final salary and years of service. When you retire, you will be guaranteed a monthly income you can never outlive. You will even have the option of extending a lifetime benefit to loved ones after your death. The guarantee of a monthly check provides a high degree of certainty and stability in retirement even as health care and other costs can rise.

There is another benefit involved here, too. A strong traditional pension system has proved to be a tangible way to attract and retain skilled, experienced teachers and administrators. Our children deserve no less.

As the pension debate continues, we hope you'll keep these key points in mind and know that the Teachers' Retirement Board will persist in exercising proper stewardship to safeguard your pension system. Together we must be aware of and prepared to face any challenges that will certainly come our way. After all, we have 93 years of success to build on.

***When you retire,
you will be
guaranteed a
monthly income
you can never
outlive.***



We're Helping You Protect Your Privacy

Identity theft is serious, and we want you to know we are serious about protecting your personal information.

One way we help ensure your privacy is through the use of a randomly assigned Client ID number instead of your Social Security number to identify you on your annual statement and letters from us. Experts say protecting your Social Security number is key to protecting your identity.

You can find your Client ID number on your annual *Retirement Progress Report* (formerly *Annual Statement of Account*) or any correspondence from us. Registered users of *myCalSTRS* can view their Client ID number online. Access *myCalSTRS* from www.CalSTRS.com. When you write to us, we ask that you use your Client ID number, if you have it, not your Social Security number unless specifically asked to provide it on a form or application. The Social Security number will still be needed for CalSTRS records.

Other CalSTRS privacy precautions cover our phone, e-mail and mail correspondence with members.

- By phone: When you call CalSTRS, you will be asked to provide your

Social Security number before a customer service representative accesses your account. This is done to verify your identity.

- By e-mail: We suggest using *myCalSTRS* instead of e-mail to send and receive secure, confidential messages about your account. If you haven't registered for *myCalSTRS*, go to www.CalSTRS.com and follow three simple steps. Registered *myCalSTRS* users with Level 2 access can also update their mailing address online.
- By mail: A signed form is required for changes to mailing address and other personal information. Forms are available on our Web site, or call us at 800-228-5453 and we'll send you what you need.

More information on identity theft and protecting your Social Security number is available online at the California Office of Privacy Protection Web site, www.privacy.ca.gov/index.html.

CalSTRS Gets Tough

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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. 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 call for 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 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, Too

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 a letter 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.

We have a staff of six devoted to our core responsibility of corporate governance oversight. CalSTRS actions have included:

- Support of Sarbanes-Oxley legislation bringing new standards to corporate board rooms and accounting.
- A Workplan program to identify poor corporate performers each year in our portfolio and work with them to improve.
- Litigation to pursue financial remedies from scandal-plagued companies, including recovery of \$38.7 million from WorldCom Inc. executives and investment banks. CalSTRS was also the lead plaintiff in a class-action lawsuit against PricewaterhouseCoopers in the Homestore.com case, which was settled for \$17.5 million, and a suit against Homestore.com, which was settled for \$93 million.

CalSTRS is a long-term investor with a "buy and hold" philosophy. Thus, the thrust in CalSTRS' corporate governance effort is to boost the long-term value of the shares we hold. The bottom line has been, and will continue to be, improved performance so members can have a secure, dependable pension.

CalSTRS is obligated to keep an eye on companies we invest in... it's more than the right thing to do for CalSTRS investments, it's a fiduciary duty.

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 as an educator, every hour in your day is valuable. That's why 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.

Effective June 1, 2006, CalSTRS phone service center is now open to assist you from 7 a.m. to 6 p.m., Monday through Friday.

