

Together We Can Narrow the Funding Gap Teachers Count on Promised Pension Benefits

Projected Shortfall

Educators, school employers, the state Legislature and the California State Teachers' Retirement System (CalSTRS) have created one of the best run, well managed pension funds in the nation. Despite excellent money management, the pension system has a projected funding shortfall. This gap, or unfunded actuarial obligation, is the dollar amount CalSTRS will need in the future to pay benefits due to current members. As of June 30, 2006:

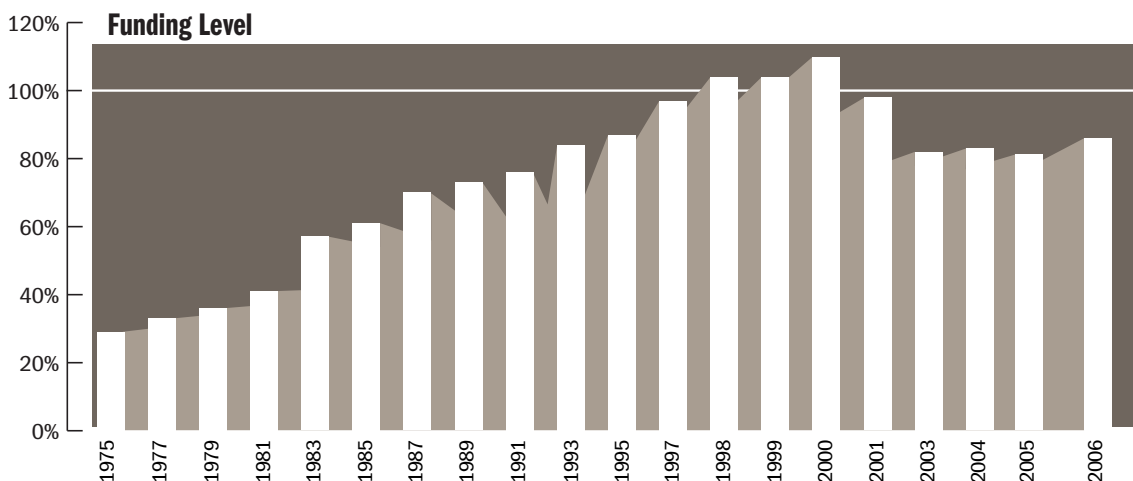
- Projected shortfall of \$19.6 billion
- Funded at 87 percent

The shortfall numbers are derived from an actuarial valuation, which is a snapshot of the fund's assets and liabilities.

What Sets CalSTRS Apart

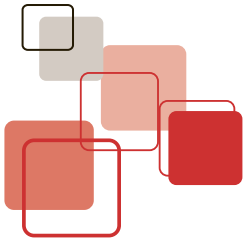
- No ability to set contribution rates: The Legislature must approve any change to CalSTRS contribution rates to address the changing economic environment. CalSTRS is unlike most other national pension plans which have the authority to set contributions independently.
- Benefits are based on a formula: Years of service, age at retirement and final salary determine retirement benefits. Local employers set salary and determine if health benefits are provided.
- Retired have no safety net:
 - » Cost of living adjustments are a flat rate—not based on inflation.
 - » Members do not receive Social Security for CalSTRS service.
 - » Most retired educators receive no or limited health care coverage through their employers.

Figure 1: Historically—Funding Levels Have Been Higher and Lower



CalSTRS is currently funded at 87 percent. Must CalSTRS be funded at 100 percent? A valuation is something like a home mortgage—there isn't a need to have all the money today, but we should have a plan in place to handle the debt.

Promises—and legal assurances—have been made to California's teachers.



CalSTRS Retirement is Based on a Formula

Members contribute time and money for their defined benefit. Their monthly pension is based on a formula:

$$\text{SERVICE CREDIT} \times \text{AGE FACTOR} \times \text{FINAL COMPENSATION} = \text{CalSTRS BENEFIT}$$

The longer one works and contributes to the pension fund and the fewer number of years one is expected to receive a pension check, the greater the monthly pension benefit.

Secure Retirement Attracts and Retains Teachers

Because of an aging population, the California Department of Education estimates that California could stand to lose over 98,000 teachers—32% of the workforce—over the next ten years. Coupled with a shortage of teachers in all disciplines, California must seek ways to attract people to the teaching profession.

The fulfilled promise of a fair, secure retirement is one way to accomplish this goal.

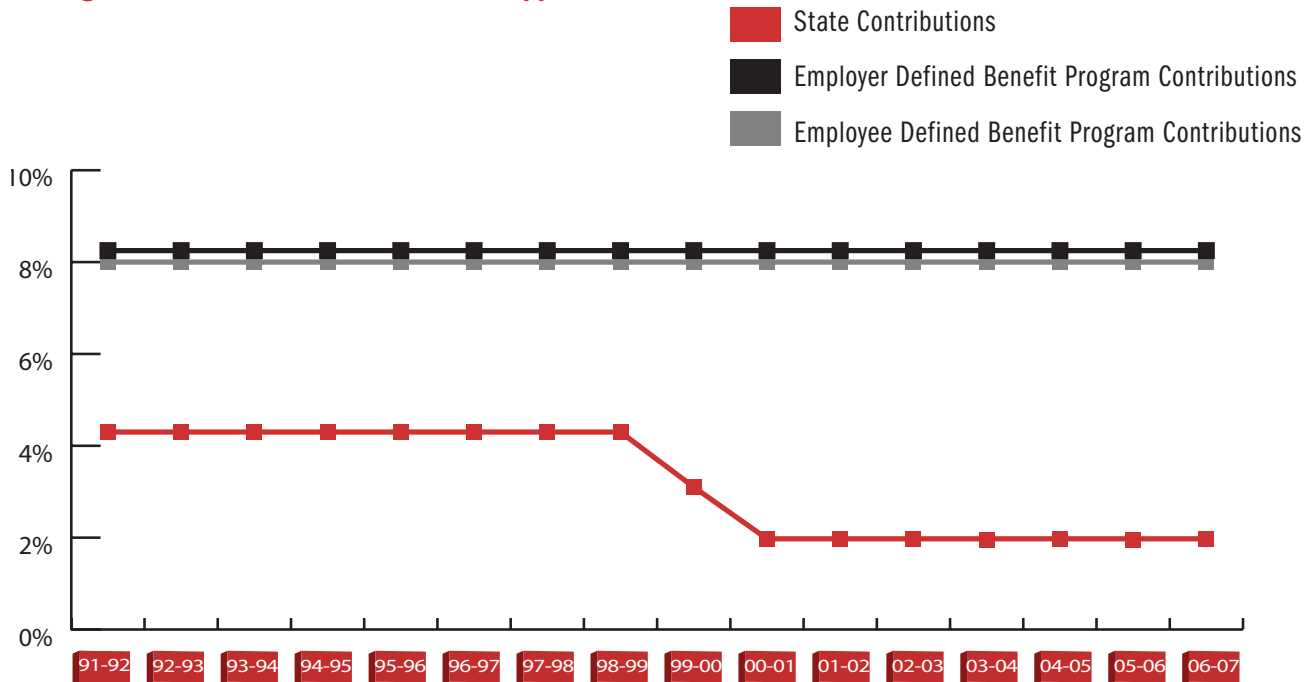
Classroom Longevity Has Its Rewards

Members may be rewarded with extra dollars added to their monthly pension if they work at least thirty years. The longevity bonus has encouraged educators to continue working longer, helping to alleviate a growing need for teachers.



At age 60 with 24.250 years of service and a final compensation of \$3,888.89 per month, Mary calculates her monthly benefit at \$1,886.11. She receives no Social Security and gets health care only if her school district offers it to retirees.

Figure 2: State's Contribution Has Dropped



Source: CalSTRS, July 2007

Defined Benefit contributions are among the lowest in the United States. The state of California now pays half of what it paid in 1991 into the teachers' retirement fund. Before that year, the state contributed a set dollar amount, rather than a percentage. Teachers have contributed a steady 8 percent and school districts a steady 8.25 percent for more than 15 years.

Contribution Rates

- Members: 8 percent of their salary
- School districts: 8.25 percent of each member's salary
- State of California: 2.017 percent of each member's salary

Quick Terms

Actuarial valuation: Provides a snapshot of the fund's assets and liabilities.

Defined Benefit: A retirement benefit in which the benefit is guaranteed and generally based on a formula.

Higher risk, higher return investments: Shifting dollars to real estate and alternative investments.

Portfolio: CalSTRS' collection of investments.

Projected shortfall/unfunded actuarial obligation/funding gap: The dollar amount CalSTRS will need in the future to pay benefits due to current members.

CalSTRS Benefit Recipient at a Glance

Among the 181,833 members who receive a pension benefit:

- Median Pension: \$2,431
- Median Service Years: 28
- Median Age at Retirement: 60
- Median Pension Replaces: 53 percent of salary
- 64 percent are women
 - » Of those, 58 percent are unmarried
- Retired members do not receive Social Security for CalSTRS years
- 62 percent of members 65 and older do not receive health care coverage from employers

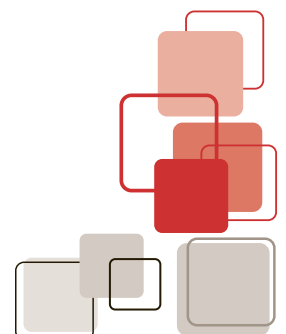
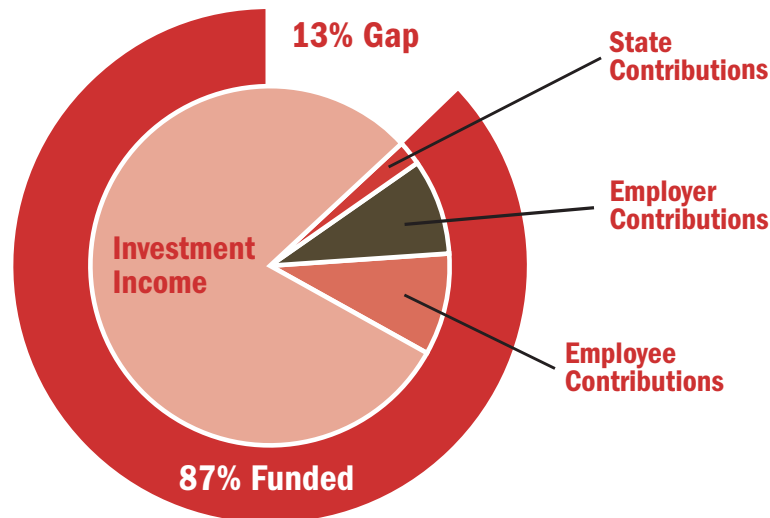


Figure 3: Investments Make Up the Bulk of CalSTRS Paid Benefits



Source: CalSTRS, July 2007

As of June 30, 2006, CalSTRS paid benefits are 87% funded with a projected future shortfall of \$19.6 billion.

We Can't Invest Our Way Out

Lower than expected returns helped to get us here. Despite extraordinary stock market performance the last three years, positive investments alone cannot be expected to get us out. Because market fluctuations are inevitable, this situation will continue.

- \$172 billion in our portfolio
- Second largest public pension fund in the U.S.
- More than 75 percent of paid benefits comes from investments and member contributions
- Additional contributions come from the state, employers and employees
- The current gap is due in part to a downturn in the market

Waiting Makes It Worse

The longer we wait, the more difficult and costly the gap will be to solve. If we don't address the situation now, it will only worsen.

CalSTRS Actions

- Moved to a higher risk, higher return investment mix in 2006
- Engaging all parties affected: members, employers and state government
- Building stakeholder understanding of the issue
- Providing supplemental retirement savings plans to teachers

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