OVERVIEW

CALIFORNIA STATE
TEACHERS' RETIREMENT SYSTEM
AND RELATED ISSUES

JANUARY 1, 2002

OVERVIEW
OF THE CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM AND RELATED ISSUES

AS OF JANUARY 1, 2002

FOREWORD

The California State Teachers' Retirement System was created in 1913 to provide retirement benefits to California's public school educators.

This edition provides an overview of the retirement system, including a summary of benefits currently provided to members, a history of the system, an explanation of system financing, a glossary of terms commonly used in the retirement system and a summary of system statistics.

It is a source of information for questions that the reader may have from time to time on CalSTRS and retirement systems in general. In the event that the information in this publication conflicts with the actual statute, however, the statute takes precedence.

Questions regarding this publication can be directed to the Legislative Services Office at (916) 229-3727.

California STRS
State Teachers' Retirement System

OVERVIEW
OF THE CALIFORNIA STATE
TEACHERS' RETIREMENT SYSTEM
AND RELATATED ISSUES

JANUARY 1, 2002

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Normal Retirement Eligibility Requirement

Age 60 with five years of service credited to CalSTRS, which can include service from teaching in an out-of-state public school.

Benefit Formula

Two percent of final compensation for each year of credited service at age 60, increasing to 2.4 percent at age 63. For members with 30 or more years of credited service, an additional 0.2 percent of final compensation per year of credited service. The maximum benefit cannot exceed 2.4 percent.

A longevity bonus is added to the monthly unmodified retirement allowance of members who accumulate at least 30 years of service credit prior to January 1, 2011. The amount of the longevity bonus depends on the years of service credit at retirement. For 30 years of service credit, the member would receive a monthly increase of $200; for 31 years, an increase of $300; for 32 years, an increase of $400.

Final Compensation

Final compensation is the highest average annual salary earnable for any three consecutive years of credited California service. For members retiring on or after January 1, 2001, with 25 years or more of credited service, final compensation is the highest average salary earnable for any 12 consecutive months of credited California service.

For an eligible classroom teacher, final compensation may be the highest annual compensation earnable during any period of 12 consecutive months while a member of the DB Program if it is a part of a written collective bargaining agreement and associated costs are paid to CalSTRS. This provision only applies to a qualified classroom teacher, as defined, who is employed by an employer who has entered into a written agreement with an exclusive representative to make this provision applicable.

Final compensation may be the highest average annual compensation earnable during ANY three "nonconsecutive" years (one year is a period of 12 consecutive months) of membership in the program if the member's salary has been reduced because of a reduction in school funds.

Minimum Guarantee

Specified retired members under the DB Program, their option beneficiaries, and surviving spouses, receiving an allowance on January 1, 2000, are guaranteed a minimum allowance based on the member's years of credited service. The total annual amount payable to the member with 20 years of credited service generally will not be less than $15,000 increasing incrementally to $20,000 with 30 or more years of credited service.

Internal Revenue Code Section 415

Benefits paid under the DB Program are subject to limits imposed under Internal Revenue Code Section 415. In 2002, the limit is $160,000 for members who retired between ages 62 and 65. Benefits in excess of the limit are payable from the Replacement Benefits Program.

Early Retirement

Age 55 with Five Years Credited California Service
A 1/2 percent reduction in the age factor for each full month or partial month the member is younger than age 60.

30 and Out
Age 50 with 30 years of credited service. The standard 1/2 percent reduction from age 60 to 55 and a 1/4 percent reduction for each full or partial month the member is younger than age 55 are applied.

Limited Term Reduction
Age 55 and under age 60 with five years of credited California service. Under this alternative, a reduced allowance is paid equal to 1/2 the normal retirement allowance at age 60, based on the final compensation and service credit at the age of retirement. The reduced allowance continues until the amount paid after

age 60 equals the amount paid prior to age 60. Thereafter, the age 60 normal retirement allowance is paid.

Deferred Retirement

Any time after satisfying the minimum service requirement, a member may cease active service, leave the accumulated retirement contributions on deposit, and later retire upon attaining the minimum age requirement and filing an application to retire. No formal election is required to defer retirement; however, a written application must be made to the System in order to retire.

Mandatory Retirement

The System does NOT have any mandatory retirement age. However, federal law requires that a minimum distribution of retirement benefits begin no later than April 1 of the calendar year following the calendar year in which a member reaches age 70-1/2, if the member has not retired and is no longer performing creditable service subject to coverage by the Plan or is no longer employed in a position requiring or permitting membership in another California public retirement system. CalSTRS complies with the federal minimum distribution requirements.

Unused Sick Leave Service Credit

Service credit is granted for unused sick leave at the time of retirement.

Election of an Option

Any member who is eligible for service retirement may make a pre-retirement election prior to the effective date of retirement to receive a modified joint and survivor allowance payable at retirement in place of the unmodified allowance. If the member dies prior to retirement, the option beneficiary will receive a lifetime allowance based on the option selected. This election is available for those members who are eligible for but do not wish to retire, but want to ensure a monthly lifetime income to a beneficiary in the event death occurs prior to retirement. However, the pre-retirement election makes the member ineligible for a family or survivor benefit allowance unless the member cancels the option election prior to his or her death.

CalSTRS has seven joint and survivor benefit options:

Option 2:
Joint and 100 percent to beneficiary: Upon the retired member's death, the modified allowance will continue to be paid to the option beneficiary for life.

Option 3:
Joint and 50 percent to beneficiary. Upon the retired member's death, one-half of the modified allowance will continue to be paid to the option beneficiary for life.

Option 4:
Joint and 66 2/3 percent to survivor: Upon the death of either the retired member or the option beneficiary, two-thirds of the modified allowance will continue to be paid to the survivor for life.

Option 5:
Joint and 50 percent to survivor: Upon the death of either the retired member or the option beneficiary, one-half of the modified allowance will continue to be paid to the survivor for life.

Option 6:
Joint and 100 percent to beneficiary with "Pop Up." Upon the retired member's death, the modified allowance will continue to be paid to the option beneficiary for life. If the option beneficiary predeceases the retired member, the retired member's allowance will be raised or "pop up" to the unmodified allowance level.

Option 7:
Joint and 50 percent to beneficiary with "Pop Up." Upon the retired member's death, one-half of the modified allowance will continue to be paid to the option beneficiary for life. If the option beneficiary predeceases the retired member, the retired member's allowance will "pop up" to the unmodified allowance level.

Option 8:
Multiple option beneficiaries. Allows any member prior to the effective date of the member's retirement to designate multiple option beneficiaries. For each beneficiary designated, the member selects from options 2 through 7 that would provide a modified retirement allowance payable throughout the life of the member and his or her option beneficiary.

Post-Retirement Adjustments

Benefit Improvement Factor

There is a two percent simple increase on each September 1 following the first anniversary of the effective date of the allowance (the date on which the monthly allowance began to accrue). The annual two percent increase is applied to ALL continuing allowances.

Supplemental Increase

Revenue from the State General Fund and State School Lands restore purchasing power up to 80 percent of a benefit recipient's initial allowance. These supplemental payments are vested to the extent funds are available from the General Fund, with the General Fund providing an amount equal to 2.5 percent of the prior year payroll.

Post-Retirement Earnings Limitation

CalSTRS has no limitation on earnings outside the California public school system. There is a fiscal year limitation on earnings from creditable service within the California public school system for members who retired for service and did not have a break in covered service of 12 consecutive months after retirement. The allowance of a member retired for service will be reduced by the amount of any earnings in excess of the limitation, up to a member's annual allowance amount. The current earnings limitation is $22,880 and will be increased to $23,540 effective July 1, 2002. The limit is based on the annual increase in the All Urban California Consumer Price Index, using December 1999 as the base. (This differs from the earnings limitation imposed on disability allowances and disability retirement benefits. See the applicable section for a summary of those limitations.)

Exemptions to the Limitation

Post-retirement earnings are exempted from the limitation under specific circumstances, provided documentation for the exemption is submitted by the employer.

Exemptions are granted for:

- members who retired on or before January 1, 2000, and return to a K-12 classroom to provide direct classroom instruction or support or assess new teachers in the Beginning Teacher Support and Assessment Program; or provide support to individuals completing student teaching assignments in Pre-internment Teaching Program, alternative certification programs or in a School Paraprofessional Teacher Training Program.
- members who retired on or before July 1, 2000, and return to teaching to provide direct remedial education in a grade two-through-12 classroom.

Reinstatement

Members who retire for service, reinstate and perform creditable service for two years following reinstatement from a prior retirement receive a service retirement allowance by applying the benefit formula in effect at the time of the subsequent retirement to all the member's service.

Members who retire for service, reinstate and perform creditable service for less than two years following reinstatement from a prior retirement will receive an allowance equal to both of the following:

1) The amount equal to the last unmodified allowance received immediately before reinstatement (increased by the 2 percent COLA).
2) An amount based on service earned since the last reinstatement, age at subsequent retirement and final compensation.

Death Benefit for Retired Members

Designated beneficiaries of CalSTRS retired members receive a $6,010 lump-sum death payment. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Social Security

The CalSTRS Defined Benefit Program is not integrated with, coordinated with, or supplemented by the federal Social Security Program.

Termination of Membership

After termination of employment, a member may request a refund of the contributions and interest credited to the member's account. A refund terminates membership in and all rights to future benefits from the Program.

Re-Entry Into Plan After Refund

Individuals who have received a refund, and who subsequently become members of the Program, may redeposit all or a portion of contributions and interest previously refunded. In addition, regular interest from the date of the refund through the final date of payment must be paid in order to be credited with the related service. The member must, however, earn at least one year of credited service after re-entry before becoming eligible for any benefits from the Program.

Funding

Member Contribution
Members contribute a total of 8 percent of creditable compensation. From January 1, 2001, through 2010, 25 percent of the member's monthly contribution is credited to the member's Defined Benefit Supplement Account . (See following section, Defined Benefit Supplement Program, for more information.)

Employer Contribution
The rate is 8.25 percent of the total of the creditable compensation on which member contributions are based.

State Contribution
The State's quarterly contribution to CalSTRS in 2001-02 is 1.975 percent of creditable compensation of the prior calendar year upon which members' contributions are based.

Plus

Up to 1.505 percent of the total of the creditable compensation of the prior calendar year upon which members' contributions are based, which is contributed until the unfunded obligation and any normal cost deficit for the benefits in effect on July 1, 1990, is eliminated. Currently no contributions are being made for this purpose.

Disability Allowance-Coverage A

Effective Date

If CalSTRS membership was effective prior to October 15, 1992, members had the opportunity to elect Coverage A or B.

Eligibility

Age Limit: Under age 60.

Service Credit

Minimum of five years.

Employment Status

May apply for disability allowance while still performing creditable service.

Benefit Formula

Allowance
50 percent of final compensation

Or

5 percent of final compensation for each year of service credit if over age 45 with less than 10 years of service credit.

Children's Benefits

10 percent of final compensation for each eligible dependent child, up to a maximum of 40 percent of final compensation. The increment for each eligible child continues until the child attains age 22.

Offsets

Allowance, including children's increments, will be reduced by an amount equal to any benefits payable under other public systems for the same disability.

Employment

May be employed in a position to perform creditable service subject to coverage by the Program, or any other employment, subject to earnings limitations.

Earnings Limit

In a single month, the disability allowance (less amounts payable for children) plus employment earnings may not exceed 100 percent of indexed final compensation.

Or

For a six-month period, average earnings may not exceed 66-2/3 percent of indexed final compensation.

Conversion to Service Retirement

An allowance is payable for the duration of disability (unless the board limits the allowance to a 2-year period under certain circumstances) or until conversion to a service retirement allowance at age 60. The member's service retirement allowance will be based on projected final compensation and projected service to age 60; however, the service retirement allowance may not exceed the terminated disability allowance.

Death Benefit

A $6,010 lump-sum death payment is payable to the designated beneficiary upon the death of the disabled member. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Plus

If the member has not elected a pre-retirement option, a family allowance is payable to the surviving spouse who has children eligible for a children's benefit.

Or

If there are no eligible children, the spouse may elect to take a lump-sum refund of the contributions and interest remaining in the member's account or receive an Option 3 beneficiary allowance at age 60, or immediately with a reduction based on the member's and spouse's ages at the time the benefit begins.

Disability Retirement-Coverage B

Effective Date

If CalSTRS membership effective after October 15, 1992, Coverage B applies.

Eligibility Age Limit

None.

Service Credit

Minimum of five years.

Employment Status

May apply for disability retirement while still performing creditable service.

Benefit Formula Allowance Allowance

50 percent of final compensation regardless of age and service credit.

Plus

Children's Benefit: 10 percent of final compensation for each eligible dependent child, up to a maximum of 40 percent of final compensation. The increment for each eligible child continues until the child attains age 21, regardless of student, marital or employment status.

Option Election

A member may elect a joint and survivor option upon application for a disability retirement.

Offsets

The allowance (less amounts payable for children) will be reduced by an amount equal to any benefit payable for the same disability under a Workers' Compensation program.

Employment

A member may be employed to perform creditable service or any other employment but can not make contributions to the fund or accrue service credit based on earnings from any employment.

Earnings Limit

There is a calendar year limitation on earnings from all employment. The allowance of a member retired for disability will be reduced by the amount of any earnings in excess of the limitation. The 2002 earnings limitation is $21,000, effective July 1, 2002. The limit is based on the annual increase in the All Urban California Consumer Price Index, using December 1989 as the base.

Conversion To Service Retirement

No conversion; allowance is payable for the duration of the disability.

Death Benefit

A $6,010 lump-sum death payment is payable to the designated beneficiary upon the death of the disabled member. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Plus

If an option was selected at the time of Disability Retirement, a lifetime allowance is payable to the option beneficiary upon the member's death.

Or

If no option was selected, a lump-sum refund of the remaining contributions and interest in the member's account is payable to the designated beneficiary.

Survivor Benefit Coverage A

Eligibility

Member was actively employed, or receiving a disability allowance, at the time of death and had not elected a pre-retirement election of an option and had a minimum of one (1.000) year service credit.

Lump-Sum Death Payment

A $6,010 lump-sum death payment is payable to the designated beneficiary upon the death of the disabled member. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Basic Benefit

When there are eligible children, a family allowance will be paid. If there are no eligible children, the spouse may elect to receive an Option 3 beneficiary allowance at age 60 or immediately with a reduction based on the member's and spouse's ages at the time the benefit begins or take a lump-sum refund of the remaining contributions and interest in the member's account.

Surviving Spouse Eligibility

Married to the member for at least one year on the date of death.

Allowance

The surviving spouse with eligible children would receive 40 percent of the member's final compensation for as long as there is at least one eligible child. An additional 10 percent of final compensation is payable for each eligible child, up to a maximum benefit of 50 percent for the children's increment. To be eligible, dependent children must be unmarried and under age 22.

When there are no eligible children, the spouse may elect to receive an Option 3 beneficiary allowance or take a lump-sum refund of the remaining contributions and interest in the member's account.

If there is no surviving spouse, an allowance of 10 percent of the member's final compensation is payable for each eligible child up to a maximum of 50 percent of final compensation.

If there is neither a surviving spouse nor a dependent child, the member's dependent parents may elect to receive an Option 3 beneficiary allowance at age 60 or over, or take a lump-sum refund of the remaining contributions and interest in the member's account.

Contributions and Interest

If there is no surviving spouse, eligible children, or dependent parent, the contributions and interest are paid to the designated beneficiary.

Survivor Benefit Coverage B

Eligibility

Member was actively employed at the time of death, had not made a pre-retirement election of an option, and had a minimum of one (1.000) year service credit.

Lump-Sum Death Payment

A $24,040 lump-sum death payment is payable to the designated beneficiary if the member had one or more years of credited service. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Basic Benefit

The surviving spouse may elect to receive a monthly allowance or take a lump-sum return of the contributions and interest in the member's account.

Surviving Spouse Eligibility

Married to the member for at least one year on the date of death.

Spousal Allowance

If the surviving spouse elects not to take a lump-sum refund of the contributions and interest in the member's account, the surviving spouse would receive one half of the member's Option 3 allowance, beginning on the member's 60th birthday, or immediately with a reduction based on the member's and spouse's age at the time the benefit begins. The spousal allowance is payable whether or not there is a dependent child requirement.

Children's Allowance

If the surviving spouse elects a monthly allowance, an additional allowance is payable for each eligible dependent child equal to 10 percent of the member's final compensation, with a maximum benefit of 50 percent for five or more children. The benefit is dependent upon the spouse electing a monthly allowance. To be eligible, dependent children must be under age 21. Student, marital or employment status will not terminate the benefit.

If there is no surviving spouse, no children's benefits are payable.

Contributions and Interest

If there is no surviving spouse, the contributions and interest in the member's account are paid to the member's designated beneficiary.

Defined Benefit Supplement Program Summary

Description Of Program

The DBS Program is a means for the California State Teachers' Retirement System to increase, i.e., "supplement," the amount payable at retirement to members of the DB Program, which is the primary benefit program administered by CalSTRS for educators in the California public school system.

Plan Eligibility Requirements

All members of the DB Program who make contributions to CalSTRS on creditable compensation earned on and after January 1, 2001 will have an account under the DBS Program and will be eligible to receive a benefit under the DBS Program. Contributions to the DBS Program are not optional.

Contributions

Beginning January 1, 2001, each member of the DB program will continue to contribute 8 percent of his or her CalSTRS-covered salary towards retirement. However, 25 percent of those contributions (2 percent of salary) will be allocated to a DBS Program account established for the member and the remaining 6 percent of the contributions on creditable compensation earned by the member will go to the DB Program.

Contributions on creditable compensation will be credited to the DBS Program for a period of ten years. The balance of credits in the member's DBS Program account after ten years will depend on several factors, including the interest rate and the creditable compensation earned by the member during that period.

In addition, effective July 1, 2002, member and employer contributions will be allocated to the member's DBS account on compensation earned from service in one school year that exceeds the full-time equivalent for the position. This provision will not cease at the end of 2010.

Program Investments

Contributions to the DBS Program will be invested by CalSTRS, as are contributions to the DB Program and other funds received for member accounts. DBS Program contributions are invested at the direction of the Board in internally pooled portfolios of the Teachers' Retirement Fund. The DBS Program has ownership of units of these pooled portfolios, which reflect market fluctuations of underlying securities on a daily basis. Units are purchased using the current market value per unit. Unitized funds are accounted for on a multiple class level, which entails the sharing of one portfolio by two or more owners. Income and portfolio level expenses are distributed to each class level on a pro rata basis determined by the amount of units owned as a percentage of the total units of the portfolio.

Guaranteed Interest Rate

Funds in a member's DBS Program account will earn interest. The Teachers' Retirement Board will set a minimum interest rate each year for the DBS Program, and interest at that rate will be guaranteed. The interest rate is based on 30-year Treasury notes for the period from May to April immediately preceding the plan year. The rate in 2001-02 is 6 percent.

Voluntary Contributions To The DBS Program

Members may not make additional voluntary contributions under the DBS Program.

Gain and Loss Reserve

Funds accumulate in a Gain and Loss Reserve to credit interest to members' accounts during years when the rate of return on investments is less than the guaranteed interest rate. Annual additions to the Reserve are determined by the Board on earnings in excess of those needed to credit the guaranteed interest rate and pay administrative costs. The Gain and Loss Reserve will also be used to ensure adequate funds are available in the Annuitant Reserve, which is established to make monthly annuity payments.

Additional Earnings Credit

After the end of the plan year, when the total investment earnings for the immediately preceding plan year are known, the Board may declare an additional earnings credit. Any additional earnings credit will be applied to members' accounts as of June 30 of that plan year.

Retirement Eligibility

To retire, a member must terminate all creditable service under the Plan and retire for service under the DB Program. Distribution of a retirement benefit must begin by age 70 1/2, unless the member continues to perform creditable service.

Early Withdrawals

Both federal and California state tax codes provide for tax penalties for certain early withdrawals. A 10 percent federal and 2 1/2 percent state tax penalty may be assessed for early withdrawals, in addition to the normal tax liability.

Rollovers

Members are not permitted to transfer funds from eligible retirement plans into the DBS account. When a member becomes eligible for a distribution under the DBS Program, rollovers are allowable to a qualified plan under applicable federal and state laws and regulations.

Program Benefits

Retirement Benefit

A benefit is payable when retiring from the DB Program. At retirement, a member may:

◆ Choose to receive a lump-sum benefit equal to the balance of credits in member's account.

Or

◆ Choose one of the following five annuities, if the member's balance is $3,500 or more:

- single life annuity with a cash refund feature
- single life annuity without a cash refund feature
- 100 percent joint and survivor annuity
- 50 percent joint and survivor annuity
- period certain annuity

Or

◆ Choose a combination of a lump-sum benefit and annuity, provided the member's balance after the lump-sum benefit is $3,500 or more.

Reemployment after Retirement

If a member is employed to perform creditable service after commencing a monthly annuity, the annuity will be terminated and a credit balance will be applied to the member's account. The member must reapply for subsequent retirement.

Disability Eligibility

A member receives a DBS disability benefit when the member is receiving a DB disability benefit. All creditable service subject to coverage by the Plan must be terminated prior to the disability date. A disability benefit will become payable only upon determination by the Board that the member has a total and permanent disability.

Disability Benefit

The benefit amount is equal to the balance of contributions, interest and additional credits in the member's DBS account. There is also an annuity available in the same five retirement benefit options, provided the member's account balance is $3,500 or more. The member may also elect to receive a combination of a lump-sum benefit and an annuity, provided the amount available for the annuity, after a lump-sum benefit is paid, is $3,500 or more.

Death Benefit

Death Prior to Retirement

The balance of credits in the member's account is payable to the named beneficiary. If no valid beneficiary is designated, the lump-sum payment will be paid to the member's estate.

Beneficiary

A beneficiary to whom a death benefit is payable may elect to receive the benefit in the form of an annuity, provided the balance of credits in the member's account is $3,500 or more. The beneficiary may elect either a single life annuity, without a cash refund feature, or a period certain annuity.

Death of Member Receiving Annuity
Upon the death of a member, the annuity is payable in accordance with terms of the annuity elected by the member.

Note: There may not be a payment to a beneficiary.

Termination Benefit

Upon (1) termination of all creditable service subject to coverage under the Plan, for any reason other than death, disability, or retirement, and (2) withdrawal from the DB Program, a member must apply for a lump-sum termination benefit. The benefit amount is equal to the balance of credits in the member's DBS account.

Waiting Period
The termination benefit is payable after one calendar year has elapsed following the employment termination date. The application for the termination benefit will be automatically canceled if the member performs creditable service within one year following the employment termination.

Cash Balance Benefit Program Summary

Description of Program

The CalSTRS Cash Balance Benefit Program is a defined benefit plan that meets the requirements of the Internal Revenue Code. It is optional to school districts, community college districts or county offices of education as an alternative retirement plan. The CB Benefit Program is a primary retirement program for employees of California's public schools who are hired to perform creditable service for less than 50 percent of the full-time equivalent, or FTE, for the position.

Plan Eligibility Requirements

Employers may offer the CB Benefit Program to eligible employees. Employers must elect to offer the CB Benefit Program through formal school board action, exclusively, or in addition to other alternative plans, and/or Social Security.

When an employer first elects to offer the CB Benefit Program, employees employed to perform creditable service, and whose basis of employment (employees' formal contract) is less than 50 percent of the FTE for the position, become participants on the later of: (1) the first day in which creditable service is performed, or (2) the effective date of the employer's governing board's action to provide the CB Benefit Program.

Eligible employees who work for multiple employers may participate in the CB Benefit Program regardless of DB membership for employers offering the CB Benefit Program, or whether their other employers offer the Program. In addition, a person performing trustee service for an employer who has elected to participate in the CB Benefit Program may elect to participate for that service.

Elections

A member of the Defined Benefit Program who otherwise is eligible to participate in the CB Benefit Program may elect to participate in the CB Benefit Program.

Employees have the right to elect coverage under either Social Security, or an alternative plan in lieu of the CB Benefit Program if the employer's governing board's action provides for these options.

An election to participate in either Social Security or an alternative plan does not prevent an employee from electing to participate in the CB Benefit Program at a later date, as long as the CB Benefit Program is provided by the employer and the employee is eligible to participate in the program.

Discontinued Eligibility

Employees shall cease contributing to the CB Benefit Program and become mandatory members of the CalSTRS Defined Benefit Program when the basis of employment (formal contract) changes to 50 percent or more of full-time for the position,

Or

upon electing to be a member of the CalSTRS DB Program, which may occur at any time.

Contributions

Each employer contributes a minimum of 4 percent of salary on behalf of each participating employee. Through the collective bargaining process, employers are permitted to negotiate different levels of employee and employer contributions, as long as the following conditions are met:

- The sum of the employee and employer contributions equals or exceeds 8 percent of employee salary.

- The employee contribution rate may exceed the employer contribution rate but in no event may the employer contribution rate be less than 4 percent.
- The employee and employer contribution rates are the same for each participant employed by the employer.
- The contribution rates as determined under the collective bargaining agreement become effective on the first day of the plan year and remain in effect for at least one plan year.
- The employee and employer contribution rates shall be in one-quarter increments.

Vesting

A participant has an immediate vested right to a retirement benefit equal to the sum of the balance of contributions, including any compounded interest earned on his or her employee and employer accounts.

Program Investments

The CB Benefit Program is a separate benefit structure within the State Teachers' Retirement Plan. CB Benefit Program contributions are invested at the direction of the Board in internally pooled portfolios of the Teachers' Retirement Fund. The CB Benefit Program has ownership of units of these pooled portfolios, which reflect market fluctuations of underlying securities on a daily basis. Units are purchased using the current market value per unit. Unitized funds are accounted for on a multiple class level, which entails the sharing of one portfolio by two or more owners. Income and portfolio level expenses are distributed to each class level on a pro rata basis determined by the amount of units owned as a percentage of the total units of the portfolio.

Guaranteed Interest Rate

The CB Benefit Program has a guaranteed interest rate that is determined annually by the Teachers' Retirement Board. The rate is based on the average of 30-year U.S. Treasury notes for the period from May to April immediately preceding the plan year. The interest rate in 2001-02 is 6 percent.

Gain and Loss Reserve

Funds accumulate in a Gain and Loss Reserve to credit interest to members' employee and employer accounts during years when the rate of return on investments is less than the guaranteed interest rate. Annual additions to the Reserve are determined by the Board on earnings in excess of those needed to credit the guaranteed interest rate and pay administrative costs. The Gain and Loss Reserve will also be used to ensure adequate funds are available in the Annuitant Reserve, which is established to pay monthly annuity payments.

Additional Earnings Credit

After the end of the plan year, when the total investment earnings for the immediately preceding plan year are known, the Board may declare an additional earnings credit. Any additional earnings credit will be applied to participants' employee and employer accounts, equal to a percentage of the balance of the accounts as of June 30 of that plan year.

Retirement Eligibility

Normal retirement age is 60, and a participant may not retire earlier than age 55. To retire, a participant must terminate all creditable service in the CB Benefit Program and the DB Program, and apply for a retirement benefit. Distribution of a retirement benefit must begin by age 70 1/2, unless the participant continues to perform creditable service.

Early Withdrawals

Both federal and California state tax codes provide for tax penalties for certain early withdrawals. A 10 percent federal and 2 1/2 percent state tax penalty may be assessed for early withdrawals, in addition to the normal tax liability.

Rollovers

Participants may be permitted to transfer funds from eligible retirement plans into the CB Benefit Program, as long as the transfers are allowable under applicable federal and state income tax laws.

Cash Balance Benefit Program Benefits

Retirement Benefit

Normal retirement benefit is a lump-sum benefit equal to the balance of credits in participant's employee and employer accounts. All of the lump-sum payment may be eligible to roll over into an IRA, defined contribution plan, or other eligible retirement plan that accepts such a rollover.

Or

Participant may choose one of the following five annuities, if participant's balance is $3,500 or more: a single life annuity with a cash refund feature, a single life annuity without a cash refund feature, a 100 percent joint and survivor annuity, a 50 percent joint and survivor annuity, or a period certain annuity.

Reemployment After Retirement

If a participant is employed to perform creditable service subsequent to commencing a monthly annuity:

Within one year and prior to age 60: The annuity will be terminated and a credit balance will be applied to the participant's account. The participant must reapply for subsequent retirement.

After one year and age 60 or older: The annuity will continue and new contributions will be credited to a new participant's account. The participant must apply for subsequent retirement on the basis of the new account.

Disability Eligibility

A participant may apply for disability at any time. All creditable service subject to coverage by the CB Benefit and DB Programs must be terminated prior to the disability date. A disability benefit will become payable only upon determination by the Board that the participant has a total and permanent disability.

Disability Benefit

Normal distribution is a lump-sum benefit. The benefit amount is equal to the balance of contributions, interest and additional credits in the participant's employee and employer accounts. There is also an annuity available in the same five retirement benefit options as long as the participant's account balance is $3,500 or more.

Death Benefit

Death of Participant Prior to Retirement
Normal distribution is a lump-sum benefit. The sum of the balance of credits of the participant's employee and employer accounts is payable to the named beneficiary. If no valid beneficiary is designated, the lump-sum payment will be paid to the participant's estate.

Surviving Spouse
If a participant's surviving spouse is the only beneficiary to whom a death benefit is payable, the spouse may elect to receive the benefit in the form of an annuity, provided the sum of the balance of credits of the participant's employee and employer accounts equals or exceeds $3,500. The surviving spouse may elect either a single life annuity, without a cash refund feature, or a period certain annuity.

Death of Participant Receiving Annuity
Benefit payable in accordance with form of annuity elected by participant.

Termination Benefit (Refund)

Upon termination of all creditable service subject to coverage by the CB Benefit Program and the DB Program, for any reason other than death, disability, or retirement, a participant may apply for a lump-sum termination benefit. The benefit amount is equal to the sum of the employee and employer accounts, plus compounded interest as of the date the benefit is paid.

Waiting Period

The termination benefit is payable after one year has elapsed following the date of termination of employment. The application for the termination benefit will be automatically canceled if the participant performs creditable service within one year following the date of termination of employment.

Five-Year Rule

A participant may not apply for a termination benefit if less than five years has elapsed following the date that the most recent termination benefit was distributed to the participant.

Comparison

CalSTRS (DB PROGRAM)
CalPERS STATE EMPLOYEES - CalPERS CLASSIFIED SCHOOL EMPLOYEES (Tier I) - Non-Safety

	CalSTRS: DB Program	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier I)
Eligibility For Membership	- All certificated, charter school and community college faculty employees in public schools (K-14) whose basis of employment is 50% or more (mandatory membership) - Part-time and substitute certificated and faculty employees hired to work less than one-half time may elect to be a member	- Nonteaching, noncertificated school employees working one-half time or more - Part-time nonteaching employees working less than one-half time may not be a member	- Non-safety state employees working one-half time or more - Nonelected legislative employee - Employees working less than one-half time may not be a member
Normal Retirement Age	60	60	60
Vesting Requirement for:			
Service Retirement	5.000 years credited service Note: 30.000 years service credit required for retirement between ages 50-55	5.000 years credited service	5.000 years credited service
Disability Retirement Allowance	5.000 years credited service or 1.000 year credited service for disability resulting from a violent act perpetrated during the course of one's employment	5.000 years credited service; Less if eligible for reciprocity No vesting requirement for Industrial Disability	5.000 years credited service; Less if eligible for reciprocity No vesting requirement for Industrial Disability
Survivor Benefits	1.000 year service credit	5.000 years of service credit and age 50	5.000 years service credit and age 50 or 20 years service credit
Basic Death Benefit	A lump-sum death payment of $6,010 or $24,040 is payable to the designated beneficiary(ies) of active or disabled members who die before retirement and without pre-retirement option, depending on coverage. A lump-sum death payment of $6,010 to beneficiary(ies) of members dying after retirement or with pre-retirement election.	Active members: Return of member contributions plus interest, plus up to 6 months' salary prorated, 1 month per year of service Retired members: $2,000	Active members: Return of member contributions plus interest, plus up to 6 months' salary prorated, 1 month per year of service Retired members: $2,000

Comparison, cont'd.

	CalSTRS:	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier I)
Benefit Formula Prior to Normal Retirement Age (Service Retirement)	1.10@ age 50 1.16@ age 51 1.22@ age 52 1.28@ age 53 1.34@ age 54 1.40@ age 55 1.52@ age 56 1.64@ age 57 1.76@ age 58 1.88@ age 59	1.100@ age 50 1.280@ age 51 1.460@ age 52 1.640@ age 53 1.820@ age 54 2.000@ age 55 2.064@ age 56 2.126@ age 57 2.188@ age 58 2.250@ age 59	1.100@ age 50 1.280@ age 51 1.460@ age 52 1.640@ age 53 1.820@ age 54 2.000@ age 55 2.064@ age 56 2.126@ age 57 2.188@ age 58 2.250@ age 59
Benefit Formula at Normal Retirement Age (Service Retirement)	2% @ 60 (2 x Final Compensation x years of service credit)	2.314% @ 60 (2.314 x years of credited service x final compensation)	2.314% @ 60 (2/314 x years of credited service x final compensation)
Age Formula (Factor) (Service Retirement)	2.133 @ age 61 2.267 @ age 62 2.400 @ age 63	2.376 @ age 61 2.438 @ age 62 2.500 @ age 63	2.376 @ age 61 After Age 60 2.438 @ age62 2.500 @ age 63
Career Bonus			
-Career Factor	Additional .2% with 30 or more years of service	No	No
-Longevity Bonus	Additional $200 per month with 30 years of service, $300 with 31, $400 with 32 years	No	No
Final Compensation	Highest average compensation earnable for 12 consecutive months for members with 25 years service credit. Otherwise, highest three consecutive years unless district grants a one-year final compensation period.	Highest average compensation earnable for 12 consecutive months	Highest average compensation earnable for 12 consecutive months
Disability Formula	50% of final compensation (some exceptions in Coverage A)	1.8% x years of credited service x final compensation. Benefit may be improved to 33-1/3% for service credit between 10 and 18 1/2 years	1.8% x years of credited service x X final compensation earnable for 12 consecutive months. Benefits may be improved to 33-1/3% for service credit between 10 and 18 1/2 years.

Comparison, cont'd.

	CalSTRS:	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier I)
Automatic Cost-of Living Adjustment	Fixed 2% annual simple	Up to 2% annual compounded	Up to 2% annual compounded
Purchasing Power Adjustment	Up to 80%	Up to 75%	Up to 75%
Credit for Unused Sick Leave	Yes	Yes	Yes
Golden Handshake: 2 years Additional Service Credit	Yes, if governing board adopted resolution prior to 1/1/99	Yes, if approved by school district	Yes, by Governor's Executive Order
Health Benefits After Retirement	Provided only on a district by-district basis. Districts may choose to provide PEMHCA coverage	Provided only on a district-by-district basis. Districts may choose to provide PEMHCA coverage	Yes (If a member retires within 120 days of separation of employment with the requisite 5, 10 or 20 year vesting requirement)
Purchase of Service Credit			
- Out-of-State Service	Yes	No	No
- Nonqualified	Yes	No	No
- Military	Yes	Yes	Yes
- Redeposit of Withdrawn Contributions	Yes	Yes	Yes
Miscellaneous Issue			
- Board Ability to Adjust Employer Contribution Rate	No	Yes	Yes
- Current Contribution Rates			
- Employee	8%*	7% of salary	Normal is 5% of salary over $513. Reduced contribution currently in affect for many employees until July, 2004.
- Employer	8.25%	0% for 2001-02	4.166% for 2001-02
- Member participation in Social Security	No	Yes	Yes

*****_Note:_ 25% of the member's contribution to the DB Program will be credited for the next 10 years to a separate nominal account in the DBS Program with no change to the retirement benefit formula.

History of CalSTRS Funding and Benefits

Chapter 694, Statutes of 1913 (AB 1263) established the Public School Teachers' Retirement Salary Fund as a function of the State Board of Education, effective July 1, 1913. CalSTRS was created to provide California teachers with a secure financial future during their retirement years and also to provide an incentive for them to stay in teaching their entire working careers.

Membership in the CalSTRS DB Program includes all employees in California public schools in positions requiring membership, from kindergarten through community college. With more than 687,000 members and benefit recipients, CalSTRS is the nation's largest public teachers' pension organization and the third largest public fund in terms of the Fund's market value. As of June 30, 2001, the Fund market value was $102.8 billion.

Funding History

1913

◆ When the retirement plan was founded in 1913, the California public school teachers were granted retirement service credit for the service they had performed prior to that date. No contributions were required from either teachers or employers for the retirement credit that was granted for service performed prior to the establishment of the System. This caused the retirement plan to have an unfunded obligation from the very beginning.

◆ Members were required to contribute $12 per year.

◆ Employers made no contribution.

◆ State contributed 5 percent of the inheritance tax revenue for each fiscal year.

1935

◆ Member contributions were increased to $24 per year.

◆ Employers commenced a contribution of $12 per year per employee.

◆ State continued to pay 5 percent of the inheritance tax.

1944

◆ Member contribution changed to a percentage of salary depending on gender and age at 7/1/44 or later membership. The rate varied from 2.53 percent to 4.85 percent.

◆ Employer contribution rate continued at $12 per year per employee.

◆ State's contribution rate was replaced by a pay-as-you-go funding mechanism. Under this approach, the State annually appropriated the amount needed over and above the current years' employer contribution to pay the pension portion of all allowances currently being paid.

1950, 1951 and 1955

◆ Member contribution rates were increased in these years up to a range of 5.77 percent to 10.15 percent.

◆ Employer contributions remained unchanged.

◆ State pay-as-you-go funding remained unchanged.

1956

◆ Member contributions were increased to a range of 9.53 percent to 13.52 percent.

◆ Employer contribution rate of $12 per year per employee was augmented by a 3 percent of salary contribution to be used on a pay-as-you-go basis to pay for current benefits. (The 3 percent contribution was limited by the assessed valuation of the school district. Because salaries grew faster than the assessed valuation, the percentage of payroll declined year by year.)

◆ State's pay-as-you-go funding remained unchanged.

1959

◆ Member contributions decreased to a range from 7.46 percent to 12.72 percent.

◆ Employer contributions remained unchanged.

◆ State's pay-as-you-go funding remained unchanged.

1962

◆ Member contribution rate decreased to a range from 6.13 percent to 11.86 percent.

◆ Employer contribution remained unchanged.

◆ State's pay-as-you-go funding remained unchanged.

◆ The unfunded actuarial obligation was up to $3.6 billion.

1972 - E. Richard Barnes Act

◆ In 1970, estimates indicated that the State's pay-as-you-go annual appropriation would grow from $71 million for fiscal year 1967-68 to $245 million for 1979-80 and $635 million in 1989-90. As the allowance rolls grew at an accelerating rate, it was believed that the System could not look forward with any certainty to continued receipt of the ever-increasing State appropriation. Legislation, effective July 1, 1972, established the E. Richard Barnes Act and radically changed the funding of CalSTRS to long-range reserve funding (pre-funded basis).

◆ Members' variable contribution rate, which was averaging 7.4 percent, was changed to a flat 8 percent of salary.

◆ Employer contribution rate was averaging 2 percent in 1971-72 because of the assessed valuation limitation. The contribution rate was changed to a matching 8 percent of salary level.

◆ It was anticipated that this 16 percent total employee-employer contribution would fund future service in the redesigned program. However, to obtain passage of the program, the employer contribution was graded-in from 3.2 percent in 1972-73 up to the full 8 percent in 1978-79. This alone reduced the System's long term income by $1.8 billion.

◆ State's pay-as-you-go contribution was replaced with a level $130 million per year for 30 years to amortize the cost of benefits in force as of June 30, 1972. The cost of all prior service for current members was not funded and resulted in the System's unfunded actuarial obligation at that time.

◆ Another $5 million for 30 years was added to the $130 million to repay the CalSTRS reserves for a shortage in the 1971-72 State contribution.

1976

◆ Member contribution rate remained at 8 percent.

◆ Employer graded-in contribution rate remained unchanged.

◆ A $9.3 million state appropriation was added to the $135 million appropriation for a total $144.3 million annual appropriation. This increase was specifically tied to an ad hoc benefit increase.

1979

◆ As part of a major education financing bill in 1979, AB 8, by Assemblyman Leroy Greene, addressed the funding of the CalSTRS unfunded actuarial obligation. First, the state's limited term $144.3 million annual appropriation was changed to a perpetual appropriation which was to be cumulatively increased or decreased beginning with the 1980-81 fiscal year by an amount which reflects the change in the California Consumer Price Index in the preceding fiscal year.

◆ The second component was an ever-increasing appropriation of $10 million in 1980-81 graded-up to $280 million in 1994-95. The $280 million would then be indexed by the CCPI starting in 1994-95. Initially the new funding was to have been $100 million commencing in 1980-81 with CCPI indexing beginning in the 1981-82 fiscal year. It was necessary, however, to change to the graded-in appropriation to obtain Legislative approval of the unfunded obligation funding.

◆ In 1990-91, AB 8 contributions totaled approximately $475 million; $275 million from the first component and an additional $200 million from the second component. This represented approximately 4.6 percent of payroll at that time; however, future years' contributions were a declining percentage of payroll estimated to be just above 2 percent by fiscal year 2032-33.

1980

◆ 0.307 percent paid directly to CalSTRS from the General Fund to fund an ad hoc benefit increase for pre-6-30-73 retirees. No sunset date on funding was established.

1981

◆ 0.108 percent paid directly to CalSTRS from General Fund to fund an ad hoc benefit increase for pre-1-1-80 retirees. A funding sunset date 12-31-96 was established.

1985

◆ Permanent funding of 0.25 percent was provided for unused sick leave. The General Fund appropriated the funds to the Teachers' Retirement Fund directly, in lieu of being contributed by the districts.

1989

◆ A funding stream from the General Fund equal to 2.5 percent of prior year teacher payroll is established to provide for supplemental payments to maintain 68.2 percent of the purchasing power of allowances.

1990

◆ Another "fix" was viewed as critical to stem the ever-growing unfunded actuarial obligation. When AB 8 was enacted in 1979, it was an attempt to improve the funding of CalSTRS, specifically a reduction in the unfunded actuarial obligation. CalSTRS, however, continued to operate with a normal cost deficit that was at 0.94 percent or approximately $130 million in 1990. The normal cost deficit had, for years, continued to roll new debt into the unfunded actuarial obligation.

◆ The CalSTRS consulting actuary in 1990 recommended the Board support legislation to change the indexing of the then AB 8 contributions from the CCPI to the ratio of total teacher payroll in the previous year's payroll. Projections conducted by the actuary at that time indicated that the AB 8 indexing to CCPI methodology would allow the unfunded actuarial obligation to grow without limit. If indexing were changed to teacher payroll, the unfunded actuarial obligation would continue to grow for about 25 years but at a slower rate, then begin to decline and be eliminated in about the 39th year.

◆ Calculations conducted in 1990 indicated a level 4.2 percent of prior teacher payroll would be sufficient to fund the unfunded actuarial obligation within a reasonable period - 45 years - and stem the normal cost deficit. Negotiations in the deliberation of the new indexing resulted in suspending all General Fund contributions for one year (1990-91); therefore, the General Fund contribution was increased to 4.3 percent to fund the additional liability without further extending the funding period.

◆ The Legislature passed and the Governor signed into law the Elder State Teachers' Retirement Full Funding Act to provide a General Fund appropriation of 4.3 percent of prior year payroll to fund first the normal cost deficit then any remaining unfunded actuarial obligation.

1998

◆ In March of 1998, the CalSTRS actuary completed its actuarial valuation of the Retirement Fund and determined that the fund assets represented 97 percent of its liabilities. In addition, if the Board's assumptions were realized, the unfunded liability would be eliminated by June 30, 2000. Once the unfunded liability was eliminated, the 4.3 percent of payroll used for this purpose would decline by .25 percent per year to fund any normal cost deficit, and would decline at that rate to 0 percent if there was no normal cost deficit. In addition, a .25 percent contribution rate by employers for unused sick leave and a rate of .307 percent of payroll paid by the General Fund for an ad hoc benefit would no longer be needed.

◆ As a result of this finding, an opportunity existed to use the General Fund money that had been appropriated to the Teachers' Retirement Fund for purposes of retiring the unfunded liability for improved benefits. Following an analysis of CalSTRS existing benefits and the benefits available to other retirement systems, the administration agreed to use a portion of the General Fund contribution for benefits which were designed to recruit and retain teachers to accommodate increased demands for teachers. Specifically, the administration agreed that 65 percent of the 4.3 percent of payroll could be applied for that purpose. In addition, the .25 percent of payroll that had been levied on employers for unused sick leave credit and the .307 percent of payroll to fund an ad hoc benefit would continue to assist in funding the new benefits.

◆ In addition to these changes, funding would continue from the General Fund to eliminate the current remaining unfunded liability in the fund. The actuary determined that the unfunded liability would be eliminated in 30 years, if the contribution for that purpose were reduced to .524 percent of payroll.

◆ AB 2804 enacted all the changes in the funding for the retirement fund agreed to by the administration. Specifically, an amount equal to 3.102 percent (65 percent of 4.3 percent, or 2.795 percent, plus .307 percent) is transferred each year from the General Fund to the Teachers' Retirement Fund to fund increased benefits. The .25 percent contribution by employers also is continued to fund the conversion of unused sick leave to service credit for all employees. Finally, if there is an unfunded liability associated with the benefits in effect as of June 30, 1990, an additional amount, initially equal to .524 percent of payroll is transferred from the General Fund. Once that unfunded liability and the normal cost deficit attributable to benefits in effect as of July 1, 1990, are eliminated, the transfer is eliminated. If the unfunded liability should return, a transfer from the General Fund is resumed, increasing at the rate of .25 percent of payroll per year, up to a maximum of 1.505 percent (4.3 percent less the 2.79 percent being used for benefits).

2000

◆ AB 2700 reduced the General Fund appropriation to the DB Program from 3.102 percent of creditable compensation in the prior calendar year to 2.5385 percent in 2000-01 and 1.975 percent in 2001-02. This reduces the General Fund transfer to the DB Program by 35 percent beginning January 1, 2001. This reduced contribution rate is equal to the current normal cost of benefits that became effective January 1, 1999. In addition, the DB Program will continue to be protected against adverse experience in the pre-1990 benefits.

Membership

All certificated public school teachers, teaching superintendents, "supervising executives, or educational administrators" automatically became members of the retirement system when it was first established.

Benefit Structure

1913

◆ The initial retirement pension was $500 per year, and was paid in quarterly installments of $125.

◆ A teacher was required to have 30 years of teaching service—at least half of which, including the 10 years prior to retirement, was in California schools.

◆ Eligibility for disability benefits required 15 years of California teaching service and benefits were prorated for actual years of service.

◆ Survivor benefits were not provided under the original benefit structure.

1935

◆ Retirement benefits increased to $600 a year.

1944

The first of several major redesigns to the System resulted from legislation passed in 1944:

◆ Disability benefits were improved and all retirees with 30 years of credited service were guaranteed a minimum retirement allowance of $60 per month.

◆ Age 63 was established as the normal retirement age with specified reductions for early retirement starting at age 58.

◆ Vesting changed from 30 years to 10 years of service.

1950s

Benefits were broadened in the 1950s:

◆ Normal retirement age was dropped from 63 to 60, and the early retirement age from 58 to 55.

◆ First death benefit program established, with benefits fixed at one month's salary for every year of service (up to a maximum of six months salary/six years of service).

◆ In 1953 the minimum retirement allowance was raised from $60 to $170 per month (for those who retired at age 60 or older with 30 years of credited service).

◆ The second major redesign occurred in 1956:

◆ Benefits were now calculated based on a fixed percentage (1.667 percent) of final compensation for each year of credited service rather than on accumulated earnings. The new calculation method tied benefits to changing economic conditions (final compensation) and not fixed-dollar values (amount of accumulated contributions).

◆ In 1958, vesting was reduced from 10 years to its present five-year minimum.

◆ In 1959, the first Survivor Benefits program to provide continuing benefits for the dependent children and spouses of deceased members was established.

1960s

◆ No benefit increases were implemented. However, significant administrative efficiencies were accomplished. The first CalSTRS tax-sheltered annuity program was created in 1963.

1970s

◆ Benefit rolls grew at a rapid pace, but benefit values fell and CalSTRS was faced with a $3.6 billion accrued liability. Dramatic change was needed, and the E. Richard Barnes Act was established.

◆ The Barnes Act established the basic benefit structure as summarized below.

- Benefit formula: 2 percent of final compensation at age 60.
- $2,000 lump sum death benefit.
- Family Allowance program.
- Disability benefit: 50 percent of final compensation.
- 2 percent simple cost-of-living-adjustment.

◆ In 1979, an ad hoc benefit increase was provided for members who retired prior to June 30, 1973.

1980s

◆ The minimum unmodified allowance was provided to guarantee no less than $16/month for each year of service credit for pre-1-1-81 retirees.

◆ In 1981, a minimum unmodified allowance was provided to guarantee no less than $18/month for each year of service credit for pre-1-1-82 retirees.

1986

◆ Convert to unisex option factors.

1989

◆ A funding stream for 68.2 percent purchasing power benefits was established.

1992

◆ CalSTRS' Disability and Survivor Benefits programs were restructured to comply with the federal Older Workers Benefit Protection Act (also known as "Betts"):

Survivor Benefits
Lump Sum Death Benefit (Coverage A): A $5,000 lump-sum death payment, to be increased following each biennial actuarial valuation based on changes in the All Urban California Consumer Price Index.

Survivor Benefit (Coverage B): A $20,000 lump-sum death payment upon the death of an active member, to be increased following each biennial actuarial valuation based on changes in the All Urban California Consumer Price Index.

◆ In addition to a $5,000 lump sum death payment, the surviving spouse may receive either a monthly allowance or a return of the member's contributions plus interest.

Disability Allowance (Coverage A): Member who qualifies for a disability allowance receives the allowance as long as the disability exists up to age 60. At age 60, the allowance is terminated and the member is eligible to apply for service retirement. A disability allowance may continue beyond age 60 only if there are eligible children and the member remains disabled.

Disability Retirement (Coverage B): Is applicable to all DB Program members hired on and after October 16, 1992. A member who qualifies for a disability retirement allowance is considered retired and receives the allowance as long as the disability remains, without respect to age. Upon return to full-time employment or if the member is found to be no longer disabled, the allowance is stopped and the member is reinstated to active status.

1997 and 1998

◆ The level of purchasing power protection was increased to 75 percent.

◆ The age factor in the retirement benefit formula for members who retired on or after January 1, 1999, was increased to a maximum of 2.4 percent at age 63. In addition, members with 30 or more years of credited service received an increase of .2 percent in the formula, up to the maximum age factor of 2.4 percent.

◆ Members retiring on or after January 1, 1999, could convert their unused sick leave to service credit when retiring, regardless of when they became members.

◆ Members who taught in a public school in another state or territory were allowed to purchase up to 10 years of service associated with that prior service, beginning in 1999. In addition, vested members can buy up to five years of additional credit, without regard to any prior service.

1999

◆ The minimum allowance for members who retired prior to January 1, 2000, was increased to $15,000 per year with 20 years of credited service, increasing annually to $20,000 with 30 years of credited service.

◆ CalSTRS is required to develop a program to provide health care benefits to members and the beneficiaries, children, and parents, as specified.

2000

◆ Defined Benefit Supplement Program: Beginning January 1, 2001, through January 1, 2011, 25 percent of a member's contribution was allocated to the member's CalSTRS Defined Benefit Supplement account. At retirement, the contributions, plus interest, will be available to the members as a lump sum or annuity.

◆ For members retiring on or after January 1, 2001, with 30 or more years of service credit by January 1, 2011, a longevity bonus was applied to their monthly allowance. The amount of the bonus is $200 with 30 years of service; $300 with 31 years of service; and $400 with 32 or more years of service.

◆ Members with 25 or more years of service credit have their benefit calculated on the single highest period of 12 consecutive months of compensation. For members with fewer than 25 years of service credit, the highest 36 months of compensation continues to be used.

◆ CalSTRS pays Medicare Part A premiums, and any applicable surcharges, for members who retired prior to January 1, 2001, if they do not otherwise qualify for it. The Teachers' Retirement Board may extend this benefit to eligible active members who retire after January 1, 2001.

◆ Members who retire after April 1, 2002, can receive a partial lump-sum distribution of benefit, subject to an actuarial reduction the monthly allowance. The amount of the resulting reduction in monthly amount cannot exceed 15 percent.

◆ The post-retirement earnings limitation increased to $22,000 per fiscal year. Exemptions to the limitation now include:

- a member who returns to teaching without performing CalSTRS-covered service for at least one year after the retirement date (exemption ends January 1, 2008)
- a member who retired prior to July 1, 2001, and returned to teaching to provide remedial education in a 2-12 classroom
- a member who returns to teaching to provide direct classroom instruction in a K-12 class or provides support or assesses new teachers in Beginning Teacher Support and Assessment Program or provides support to individuals completing student teaching assignments in Pre-internment Teaching Program or School Para-professional Teacher training Program is exempt from the limitation from July 1,2000, through July 1, 2005.

2001

◆ The level of purchasing power protection increased from 75 percent to 80 percent.

◆ Members who retire for service, reinstate and perform creditable service for two years following reinstatement from a prior retirement receive a service retirement allowance by applying the benefit formula in effect at the time of the subsequent retirement to all the member's service.

General Fund Contributions to CalSTRS

The state has contributed money to CalSTRS since the Plan's inception in 1913. Until 1972, contributions by the state were on a pay-as-you-go basis. In 1972, as part of a major reform in the plan, the contribution was changed to pre-fund the plan liabilities. The basis of the state's contribution was changed again in 1990. Since 1990, General Fund contributions have been based on the prior year's payroll covered by CalSTRS.

Education Code Section 22955 provides that the General Fund contribute 1.975 percent in 2001-02 and 2002-03 of the creditable compensation of the immediately preceding calendar year upon which members' contributions are based. Beginning in 2003-04, the General Fund contribution will be 2.017 percent of total creditable compensation of the fiscal year ending in the prior calendar year (i.e., the creditable compensation in 2001-02 for the 2003-04 fiscal year). This continuous appropriation is calculated annually on October 1, and deposited quarterly into the Teachers' Retirement Fund to finance the 1998 legislated benefit increases payable under the Defined Benefit Program. Up to an additional 1.505 percent of calendar year payroll is transferred to the TRF to amortize the unfunded actuarial obligation and to eliminate any normal cost deficit attributable to benefits in effect as of July 1, 1990. The normal cost deficit is the difference between the normal cost rate and member and employer contributions, which equal 16.25 percent of creditable compensation. Based on the most recent actuarial valuation, as of June 30, 2000, there is no normal cost deficit for benefits in effect as of July 1, 1990.

In October, the CalSTRS Accounting Office obtains the creditable earnings from the monthly reports of retirement contributions submitted by employers to the Reporting section at CalSTRS. Accounting totals the prior calendar year and the current calendar year payrolls and provides this information to the CalSTRS Budget Office. The Budget Officer then shares both totals with the Department of Finance analyst.

The DOF Analyst then estimates the amount to be appropriated to the TRF for inclusion in the Governor's budget and adjusts the previous calendar year's total.

A May revision is completed due to the fact that the additional data are available. The DOF analyst makes a final adjustment based on the additional payroll data.

In June, the Budget Officer prepares a "Transfer Of Funds" letter to the State Controller's Office. The DOF directs the SCO to transfer the funds to the TRF regardless of whether or not the budget has been signed. The SCO will deposit funds into the TRF quarterly.

The Accounting Office works with the SCO to follow-up to ensure that the transfers are made. A final adjustment is made immediately prior to the October 1 transfer since complete data are then available.

Supplemental Payments

Purchasing Power
Inflation can significantly deteriorate a person's ability to maintain a consistent standard of living after retirement. Inflation is generally measured by changes in the average prices of selected goods and services. As inflation rises, the value of money decreases because it purchases fewer goods and services. A decline in the purchasing power of money is another way to define inflation.

The higher the rate of inflation, the greater the drop in the purchasing power of money. For example, if wages remain the same but prices double, the current purchasing power of wages is only 50 percent of the purchasing power of those same wages prior to the price increases. In this situation, wages must double to maintain the same purchasing power.

The California State Teachers' Retirement System (CalSTRS) measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index (CCPI) published by the Department of Industrial Relations, Bureau of Labor Statistics. The cumulative change in the CCPI from each year in which benefits have become effective since 1955 is displayed in Attachment A.

Two Percent Simple Benefit Adjustment (Education Code Sections 22140, 22141 and 24402)
The CalSTRS Defined Benefit Program provides an automatic 2 percent simple benefit adjustment to allowances payable to all benefit recipients to provide some protection against the effects of inflation. This annual "benefit improvement factor" is applied September 1 of each year following the first anniversary of the effective date of the benefit.

There are two other sources of funds that provide additional purchasing power protection for CalSTRS benefit recipients through "supplemental benefit payments". These are School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Supplemental benefit payments are made quarterly from these funds on October 1st, January 1st, April 1st and July 1st. It is important to remember that these payments are not guaranteed and will continue only as long as funds are available.

School Lands Revenue (Education Code Sections 24412 and 24413)
Since 1983, it had been the intent of the Legislature and the Teachers' Retirement Board to maintain the level of purchasing power of CalSTRS allowances to a minimum of 75 percent of the purchasing power of the initial allowance. To fulfill this intention, revenue generated from the use of State School Lands (land granted to California by the federal government to support schools) and Lieu Lands (properties purchased with the proceeds from the sale of school lands) during the prior year is transferred to CalSTRS each year for the purpose of providing annual supplemental benefit payments in quarterly installments. In 1997, legislation was enacted to provide 75 percent purchasing power. Chapter 840, Statutes of 2001 was enacted to provide 80 percent purchasing power.

This revenue is distributed on a pro-rata basis to all benefit recipients whose initial allowances have fallen below the 80 percent purchasing power level. Because the revenue from School Lands does not generate enough income to bring the purchasing power of all CalSTRS allowances to at least 80 percent, the available revenue is distributed on a proportional basis to all eligible benefit recipients. The amount of the School Lands payment for each benefit recipient depends on the:

- amount of money available from School Lands that year;
- number of benefit recipients whose allowance purchasing power is below 80 percent; and

- increase in the CCPI.

For example, if School Lands revenue is only sufficient to provide 5 percent of the amount needed to bring all allowances up to a minimum of 80 percent of the purchasing power of the initial allowance, each eligible benefit recipient will receive from School Lands revenue 5 percent of the amount needed to restore their purchasing power to 80 percent.

In 2001-2002, School Lands revenue is providing only 3.1 percent of the amount needed to restore the purchasing power of allowances payable to all benefit recipients to a minimum of 80 percent. Therefore, each eligible benefit recipient receives a supplemental benefit payment paid from School Lands revenue equal to 3.1 percent of the amount necessary to raise the purchasing power of the allowance to 80 percent.

Since School Lands revenue for 2001-2002 is not sufficient to raise the purchasing power of each CalSTRS allowance to a minimum of 80 percent of the purchasing power of the initial allowance, the SBMA is used to increase the purchasing power of each allowance to a minimum of 80 percent of the purchasing power of the initial allowance.

Supplemental Benefit Maintenance Account

An amount equal to 2.5 percent of the prior calendar year covered CalSTRS' member payroll is transferred each year from the State of California General Fund to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund. The SBMA provides annual supplemental benefit payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 80 percent of the purchasing power of the initial allowance, as long as funds are available.

Both the School Lands revenue and SBMA provide authority to make supplemental payments sufficient to bring purchasing power up to 80 percent of the purchasing power of the original allowance, and, the funding from the General Fund equal to 2.5 percent of payroll is guaranteed. The 80 percent level of supplemental payments, however, is not vested. This means that if the combined funding from both sources is not sufficient to bring purchasing power up to the 80 percent level, supplemental payments may have to be paid at a lower level. However, based upon our assumptions the funding for an 80 percent supplemental payment is sufficient for well in excess of 30 years. The amount of the supplemental payment for each benefit recipient depends on: 1) the extent to which the benefit recipient's allowance has fallen below 80 percent of the purchasing power of the initial allowance; and (2) the amount of the supplemental payment provided from School Lands Revenue.

Estimation of Supplemental Benefit Payments

A benefit recipient can estimate his or her supplemental benefit payments. It is first necessary to calculate the purchasing power of the current CalSTRS allowance. This may be accomplished by using the following information:

Initial Allowance (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)

Benefit Effective Date (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)

Current Allowance (the sum of your Normal Allow and COLA); **and**

Changes in the California Consumer Price Index (CCPI) is determined by dividing the CCPI for June of 2001 by the CCPI for June of the calendar year of retirement. (See Attachment A to obtain the CCPI factors from 1955-2001.)

Purchasing Power Percentage of the Current Allowance

Example
The example will use the following data to calculate the current purchasing power percentage:

Initial Allowance: $1,000

Benefit Effective Date: July 1, 1975

Current Allowance: $1,520

CCPI Factor: 3.523

In this example, the benefit effective year is 1975, and the corresponding CCPI factor is 3.523. Change in CCPI is determined by dividing the CCPI for June of 2001 by the CCPI for June of the calendar year of retirement.

The purchasing power of the current allowance is determined as follows:

A. Obtain the CCPI Factor for the benefit effective year: 3.523

B. Multiply the initial allowance by the CCPI Factor to obtain the Fully Adjusted Allowance. This is what the current allowance amount would be if it had been adjusted to keep pace with inflation since the Benefit Effective Date.

$1,000 x 3.523 = 3,523.00

C. Divide the Current Allowance by the Fully Adjusted Allowance to calculate the **Current Purchasing Power Percentage**.

$1,520.00 / $3,523.00 = 43.14%

Note: If the Current Purchasing Power Allowance percentage is greater than 80 percent, no supplemental benefit payments will be received.

Total Quarterly Supplemental Payment

The total supplemental payment is determined as follows:

A. Multiply the fully Adjusted Allowance by .80 to calculate the 80 percent Purchasing Power Amount equal to 80 percent of the initial allowance. (Includes both School Lands and SBMA)

$3,523.00 x .80 = $2,818.40

B. Subtract the Current Allowance from the 80 percent Purchasing Power Amount to determine the Supplemental Benefit Monthly Amount, the monthly payment amount that would be needed to restore the purchasing power allowance to the 80 percent level.

$2,818.40 - $1,520.00 = $1,298.40

C. Multiply Supplemental Benefit Monthly Amount by three (3) months to determine the Total Quarterly Supplemental Payment.

$1,298.40 x 3 = $3,895.20

Funding Components of the Supplemental Benefit Payments

The funding components of the Supplemental Payments are the portion from School Lands Revenue and the portion from the SBMA.

A. Supplemental Payment - School Lands Revenue (80 Percent Purchasing Power)

The portion of the supplemental payment that is derived from School Lands Revenue is calculated as follows:

In 2001-2002, School Lands revenue is providing only 3.1 percent of the amount needed to restore purchasing power of the allowances payable to all eligible benefit recipients to 80 percent of the purchasing power of the initial allowance.
Multiply the **Total Quarterly Supplemental Payment** by 3.1 percent to calculate the **School Lands Quarterly Component**.

$3,895.20 x 3.1% (.031) = $120.75

Note: This benefit recipient would receive an amount equal to $120.75 per quarter from School Lands revenue in 2001-2002. The actual amount payable to each eligible benefit recipient will differ.

B. Supplemental Payment - SBMA (80 Percent Purchasing Power)

The portion of the supplemental benefit payment derived from the SBMA is calculated as follows:

Subtract the **School Lands Quarterly Component** from the **Total Quarterly Supplemental Payment** to obtain the quarterly payment amount that would be needed to restore the allowance purchasing power level to 80 percent.

$3,895.20 – $120.75 = $3,774.45

Factors for Calculating 2001-2002 Purchasing Power - All Urban CA Consumer Price Index

Estimation Worksheet
Quarterly Payments

■ Current Allowance Purchasing Power Percentage

1.	______________	x	____________________	=	______________
	Initial Allowance Monthly Amount		CCPI Factor: June of the Benefit Effective Year		Fully Adjusted Allowance (a)
2.	______________	/	____________________	=	______________
	Current Allowance Monthly Amount		Fully Adjusted Allowance (a)		Current Purchasing Power Percentage (Must be less than 80% to proceed)

■ Total Supplemental Benefit Payment

1.	______________	x	.80	=	______________
	Fully Adjusted Allowance (a)		Purchasing Power Percentage		Total Purchasing Power Amount
2.	______________	–	______________	=	______________
	Total Purchasing Power Amount		Currently Allowance Monthly Amount		Supplemental Benefit Monthly Amount
3.	______________	x	3	=	______________
	Supplemental Benefit Monthly Amount		Number of months in a quarter of a year		Total Quarterly Supplemental Payment (b)

■ Funding Components of Supplemental Benefit Payments

School Lands Component (80% Purchasing Power)

Note: The amount available from School Lands to raise purchasing power to 80 percent in the current year is 3.1 percent. The percentage available to raise purchasing power to 80 percent will vary from year to year.

______________	x	.031	=	______________
Total Quarterly Supplemental Payment (b)		Percentage available for 80% Purchasing Power		School Lands Quarterly Component (c)

SBMA Component (80 Percent Purchasing Power)

______________	–	______________	=	______________
Total Quarterly Supplemental Payment (b)		School Lands Quarterly Component (c)		SBMA Quarterly Component (d)

California State Teachers' Retirement System
Supplemental Payments
Factors for Calculating 2001/02 Purchasing Power
All Urban California Consumer Price Index
Attachment A

Year	June CCPI	Purchasing Power Factor*
1955	25.7	7.128
1956	26.2	6.992
1957	27.1	6.760
1958	28.1	6.520
1959	28.5	6.428
1960	29.1	6.296
1961	29.5	6.210
1962	30.0	6.107
1963	30.2	6.066
1964	30.8	5.948
1965	31.6	5.797
1966	32.1	5.707
1967	32.9	5.568
1968	34.3	5.341
1969	36.0	5.089
1970	37.9	4.834
1971	39.4	4.650
1972	40.5	4.523
1973	42.7	4.290
1974	47.1	3.890
1975	52.0	3.523
1976	55.2	3.319
1977	59.5	3.079
1978	64.6	2.836
1979	71.0	2.580
1980	83.3	2.199
1981	90.1	2.033
1982	98.5	1.860
1983	99.1	1.849
1984	103.6	1.768
1985	108.4	1.690
1986	112.2	1.633
1987	116.3	1.575
1988	121.7	1.505
1989	128.2	1.429
1990	134.3	1.364
1991	140.1	1.308
1992	145.2	1.262
1993	148.9	1.230
1994	150.7	1.216
1995	154.2	1.188
1996	156.6	1.170
1997	160.0	1.145
1998	163.6	1.120
1999	167.8	1.092
2000	174.0	1.053
2001	183.2	1.000

*The Purchasing Power Factor is obtained by dividing the CCPI for dividing the CCPI for June of 2001 by the CCPI for June of the calendar year of retirement.

Status of the School Land Bank Fund

(Prepared by State Lands Commission staff in 2000)

Background

Upon achieving statehood, the federal government granted approximately 5.5 million acres of land to California to be used for the support of schools. This land consisted of the sixteenth and thirty-sixth section of each township. Approximately 90 percent of the school lands have been sold. Proceeds were used primarily to pay for school construction. In 1984, the California Legislature directed that school lands be retained and managed by the State Lands Commission to generate revenue to provide cost-of-living increases for retired teachers.

The school lands are difficult to manage because they are broken up into noncontiguous, square-mile parcels. The Legislature found that "consolidation of school land parcels into contiguous holdings is essential to sound and effective management" (Section 8702 of the Public Resources Code). Consequently, the Legislature authorized the State Lands Commission to sell school lands and use the funds from the sales to purchase real property that will generate additional revenues to benefit California's retired teachers. Proceeds from sales are required to be held in trust by the Commission for the teachers and are deposited in the School Land Bank Fund.

School Land Bank Fund Balance

The SLBF has accumulated over $34.8 million. The Commission has made limited purchases of land to date for three reasons:

◆ The Commission school lands staff has been required to respond to the California Desert Protection Act which was passed by Congress in 1994 (Public Law 103-433) to set aside and protect areas of natural, cultural, scenic and historical importance in the California desert. The CDPA will eventually involve the sale or exchange of 266,000 acres of school lands located in the newly designated desert wilderness area.

◆ The SLBF has only recently reached the funding level necessary to acquire property which is appropriately sized for management. Purchase of smaller properties would not fulfill the legislative mandate to consolidate school lands for management efficiency.

◆ Staff continues to believe that having a larger capital base will provide for more flexibility in pursuing a sound investment strategy. Following the passage of the CDPA the strategy to increase the size of the SLBF was discussed and supported by the staff of the State Teachers' Retirement System and representatives of the California Retired Teachers Association.

Anticipated Growth in SLBF Balance

School lands within the desert wilderness area designated by the CDPA have been valued at approximately $44 million. As implementation of the CDPA continues to occur, proceeds from the sale of school lands to the federal government will drastically increase the size of the SLBF.

The first two CDPA transactions approved by the Commission brought over $1.1 million into the SLBF. The third, an innovative land exchange with the federal government, allowed the Commission to obtain a 100-acre parcel in Los Angeles County, which it later sold to the city of Pomona, carrying a note secured by a deed of trust. Payments made by the city on the principal are deposited into the SLBF, while interest payments are transferred to State Teachers' Retirement System for cost-of-living increases to retired teachers.

To date, the Commission has completed three CDPA land exchange transactions involving 64,000 acres of school lands valued at $14.3 million. Future transactions will involve both exchanges of school lands for federal property and purchases of school lands by the federal government, leading to further increases in the SLBF balance.

Commission Procedures for SLBF Purchases

As the SLBF balance reaches an amount which will allow the Commission to carry out its legislative mandate to consolidate and improve the overall management of school lands, the Commission intends to proceed expeditiously with land acquisitions using the procedures and criteria previously adopted by the SLC. Land exchanges with the federal government will also assist the Commission in consolidating school lands in desert areas not affected by the CDPA.

Sale of Elk Hills Naval Petroleum Reserve # 1

What is Elk Hills?

School lands that were granted by the Federal Government when California entered the Union in 1850.

◆ One of three naval petroleum reserves set up by the Government before World War 1.

◆ Sits on 47,000 acres located 28 miles west of Bakersfield, California.

◆ Produces 60,000 barrels of oil and 390 million cubic feet of natural gas each day.

◆ Holds 600 million barrels of oil and 1.9 trillion cubic feet of natural gas in reserve.

◆ Chapter 68, Statutes of 1996 (SJR 27, Costa) memorialized the President and the Congress of the U.S. to sell the Elk Hills Naval Petroleum Reserve Number 1 while recognizing the State's valid claim to two school land sections within the Reserve, and to compensate the State's retired teachers for their interest.

What is CalSTRS' interest in Elk Hills?

◆ The state of California and federal government had 78 percent interest in this Reserve (school lands), and the remaining 22 percent of the Reserve was owned by Chevron Corporation in San Francisco.

◆ CalSTRS sold their 9 percent interest of the net proceeds to benefit California's retired teachers.

What are the terms of the sale?

◆ Occidental Petroleum purchased the Reserve October 6, 1997 for $3.65 billion (an all-cash deal); Occidental will sell their interest in MidCon for $3 billion, of which $2 billion will fund the Reserve acquisition. Expenses of the sale are estimated at $50 million; the deadline for the close of the sale was February 10, 1998, as mandated.

◆ A settlement agreement was reached between California, the U.S. Department of Energy and Occidental Petroleum to ensure the State's interests are properly protected in the event Congress fails to appropriate all installments due to the State, which would result in the state renouncing its 9 percent settlement with DOE and suing Occidental Petroleum for the state's claim.

◆ This agreement was subject to:

- A Justice Department antitrust review
- Completion of the environmental impact assessment process
- A 31-day Congressional review period

The State should receive, in each of the Federal Government's fiscal years, or FFY, approximately $320 million payable to the Teachers' Retirement Fund in seven annual installments under the terms of the settlement (due by the later of the 180th day of the fiscal year or 60 days after the funds are appropriated by Congress and become available) between the state and DOE as follows:

FFY	*AMOUNT*
1999	$36 million (paid)
2000	$36 million (paid)
2001	$36 million (paid)
2002	$36 million (appropriated)
2003	$36 million (proposed in President's budget)
2004	$72 million
2005	$72 million

The $324 million has been set aside in an escrow account for California as Congress directed. CalSTRS role is to:

- ensure that these appropriations for the settlement payments are included in the President's budget that he submits to Congress in January of each year prior to the year that the payments are due (the Secretary of Energy, is contractually obligated to request this from the President);

And

- pursue efforts to gain attention from members of the House Appropriations Committee to strongly push to ensure that the appropriation for the annual installments of the state's compensation claim moves through the House and Senate.

How does the sale benefit retired teachers?

As directed by the California Legislature, school lands revenue supports "purchasing power" protection for retired teachers. The increase in school land revenue attributable to the sale of the reserve permitted an increase in purchasing power protection. This increase was authorized in Chapter 939, Statutes of 1997 (SB 1026, Schiff), which provides purchasing power protection of up to 75 percent of a retired member's purchasing power from the 2.5 percent annual General Fund contribution. Purchasing power protection was again increased to 80 percent with the enactment of Chapter 840, Statutes of 2001 (AB 135, Havice).

What is the current status of the sales proceeds?

The federal government has collected the $3.65 billion sales proceeds from Occidental and stands to save an estimated $84 million (direct operational savings that have simply evaporated from the budget baseline) in FY 1999. The Defense Authorization Act requires that 9 percent of the sales proceeds be held in an escrow account for use in paying the State's claim. However, from Congress' standpoint, the compensation payment is being treated as a new spending program that must compete for funds along with other existing programs. The agreed upon funding was approved for the 2002 fiscal year in the FY 2002 interim appropriations legislation which provided funding for the fourth $36 million Elk Hills installment, due October 21, 2002. With this fourth installment, CalSTRS will have collected $144 million of the $320 million due to CalSTRS.

A Review of Actuarial Principles and the Valuation Process

The California State Teachers' Retirement System has its actuary prepare an actuarial valuation as of June 30 of each odd-numbered year. Historically, this valuation has only been concerned with the Defined Benefit Program administered by CalSTRS. Since June 30, 1997, however, the Cash Balance Benefit Program has also been subject to an actuarial valuation.

Since there tends to be some confusion and mystery surrounding actuarial results and valuation reports, the intent of this discussion is to try to make the process and the results more meaningful and useful. While most of the discussion will focus on the much larger DB Program, these issues and concepts are generally equally applicable to the CB Benefit Program.

Actuarial Liabilities

Actuarial liabilities are created by a promise to pay a specified benefit if certain events occur or certain conditions are met. Actuarial liabilities are not the same thing as accounting liabilities. For an accounting liability, the only question is generally "when." For an actuarial liability, on the other hand, the question is not only "when," but also "if," and "how much." Actuarial liabilities are therefore said to be "contingent." This means they are dependent upon one of several possible events occurring.

To evaluate the potential actuarial liabilities, the actuary must make three estimates:

- if a benefit will start
- when that benefit will begin, and
- what the benefit amount will be

Money is paid out of the retirement system if one of four events occur: death, termination, disability or retirement.

The amount of any benefit that is to be paid generally depends upon both current and future service and on the extent of future pay increases. While the system is waiting to pay the benefit, it invests its funds and it earns investment income to supplement contributions that are made by teachers, their employers and the state. To evaluate the plan's potential liabilities, the actuary studies the system's experience and recommends certain assumptions to the Board. The assumptions are split between demographic (or noneconomic) assumptions and economic assumptions.

There are four major demographic assumptions for active members: death, termination, disability, and retirement. For retired members and survivors, the only assumption is the likelihood of death. For disabled members, the demographic assumption covers both death and recovery from disability.

There are also four major economic assumptions. These are the assumed inflation rate, the salary scale, the investment return assumption and the payroll growth rate.

The Concept of Actuarial Cost

Over the long term, the employers' cost of the plan is going to be equal to the difference between the sum of benefits, refunds and expenses paid out over the sum of employee contributions and investment earnings. Because contributions of the state, employers and members remain constant from year to year and are set by law, poorer investment returns will either decrease the current actuarial surplus or create an unfounded liability. Conversely, greater investment returns will increase the current actuarial surplus. In order to properly pre-fund a defined benefit plan, it is necessary to determine the appropriate amount of employer and state contributions to be made to the plan. This is the function of an actuarial cost method. The goal of an actuarial cost method is to produce a pattern of contributions that meet the goal and requirements of a defined benefit plan.

There are two components to the actuarial cost of an existing benefit structure or from adding a benefit enhancement. These are the "normal cost" and the amortization charge for funding the unfounded actuarial obligation. The unfounded actuarial obligation is usually referred to as the:

- UL or unfounded liability
- UAL or unfounded actuarial accrued liability
- UAL or unfounded accrued liability

The number of years that it will take the current contribution schedule to fully amortize the unfounded liability is referred to as the plan's "funding period."

The normal cost may be thought of as the ongoing cost of the plan, if there were no unfounded liability. It is the annual cost for the benefits that will be earned by the average new entrant over his/her career, if the actuarial assumptions are exactly met and if there is no change in the benefit level.

The amortization charge for the UAAL is the annual rate that this unfounded liability is being paid off, or "funded."

The technical definition of the UAAL depends on the specific actuarial cost methods utilized in the valuation. Different cost methods assign different parts of the total actuarial liability for all future benefits to past years (the actuarial accrued liability), to the current year (the normal cost), and the future years (future normal cost). In a way, this is similar to the existence of different inventory evaluation methods in accounting (for example, LIFO or FIFO).

Different actuarial cost methods spread the incidence of actuarial cost in different ways. One approach is to spread cost on the basis o the benefit formula itself (the projected credit unit method). Another approach spreads the incidence of cost on a level dollar basis. Others spread the cost on a level percentage of payroll basis. There is even one method (the aggregate valuation method) that does not create any unfounded liability at all.

CalSTRS uses the entry age actuarial cost method for valuing the DB and DBS Programs. This is the most common method used for public plans. Its popularity is due to the fact that it spreads the cost as a level percentage of pay, and, therefore, it does the best job of creating equitable treatment among successive generations of taxpayers.

The CB Benefit Program used the traditional unit credit cost method. It is a method best suited to the type of plan design evident by the CB Benefit Program.

Unfunded Liability

The unfunded liability is calculated as the actuarial present value of all future benefits less the actuarial present value of all future normal costs less the current actuarial value of assets. The resulting unfunded liability may either be positive (underfunded) or negative (overfunded).

The unfunded liability is not an accounting liability. It is also not the actuarial liability if the plan is terminated or frozen.

The unfunded liability is the actuarial liability associated with prior years under the entry age cost method, assuming that the plan will continue into the future. It reflects expected future pay increases for current members and expected future service for those members.

There are many reasons why a retirement plan like the CalSTRS DB Program may have ended a prior year with an unfunded liability. As was the situation in CalSTRS' case, a part of the unfunded liability is due to those years in which the full actuarial cost was not contributed, i.e., the years before Elder Full Funding. Unfunded liability can also be created by plan improvements such as increases in the multiplier and retiree benefit increases.

Actuarial gains and losses will also impact the unfunded liability. Gains and losses represent the difference between the actual experience of the plan and the plan's assumed experience. The most dramatic example of actuarial gains during the years 1995-1999 has been the very favorable investment performance achieved by the plan.

Changes in actuarial assumptions and/or methods also impact the unfunded liability. Such was the case for CalSTRS as a result of the last experience study.

It is important to remember that the creation of an unfunded liability is a natural by-product of the entry age methodology. Whenever benefit improvements are granted, the entry age method will cause an increase in the UAAL.

There is nothing wrong or bad about having an unfunded liability. What is important is whether or not the plan is making systematic progress in amortizing that unfunded liability over a reasonable period of time. There is also nothing wrong with a benefit enhancement that increases the unfunded liability, as long as that benefit enhancement is properly funded to begin with.

If, however, the Board sees a consistent pattern of actuarial experience losses from one year to the next, they should have their actuary perform an experience study to determine whether or not the current assumptions need adjustment.

In addition, if they see a consistent pattern of deterioration in the funded level of the plan, they need to begin an education process to alert the legislature and plan members to the potential dangers of underfunding the plan. The creation of Elder Full Funding is an example of this course of action.

Actuarial Assumptions

Because of the long time horizon of a DB Plan, actuarial assumptions are necessary. The actuary's role is to study and recommend actuarial assumptions. The Board then accepts, rejects, or modifies those recommendations. This action represents a fiduciary decision on the part of the Board.

If the Board and the actuary are too optimistic in establishing the assumptions, the long-term ability of the plan to meet its emerging liabilities may be impaired. Consider two examples:

In the first example, let's say that the Board assumes that the plan will earn 9.5 percent, but in reality the plan only averages 8 percent in investment return. The true value of the liabilities will be greater than what is being assumed in the actuarial valuation process since the actual return is less than expected. This means that more money will be required to pay the benefits than planned on. Therefore, over the long-term the system may have problems paying its benefits in the future.

As a second example, let's say that the Board sets retirement rates to assume that members will retire on average at age 63. In reality, let's say that they actually retire at age 60. While the benefit may be less for retirement at age 60 than at age 63, it is payable for more years into the future. In addition, and maybe even more significantly, the plan has lost three years of contributions that it was counting on receiving.

Because the setting of the assumptions is so critical, the following discussion outlines the nature and impact of each major assumption.

Mortality Assumptions

The active member mortality assumption is not a major actuarial assumption as it relates to the size of the actuarial liabilities. This may be illustrated by comparing the size of the active member mortality rates versus the withdrawal and retirement rates. It is also illustrated by the size of the active-member death benefit liability compared to the retirement benefit liability. The 2000 valuation of CalSTRS showed the following present value of future benefits for active member death benefits versus retirement benefits ($ millions)

Type of Benefit	Active Member	Retired Member
Death benefits	$1,350	$1,882
Present value of future retirement benefits.	$85,917	$33,230

In contrast to the active member mortality assumption, retired member mortality is a major assumption in determining the overall actuarial condition of the plan. The longer the life expectancy in retirement, the longer benefits will be paid. From the plan's viewpoint, favorable experience would occur if there are more deaths among retirees than expected. This is because not as many benefits are being paid out as anticipated being paid out. Therefore the unfunded liability will not grow as fast as assumed.

Rates of Disability

As with the active member mortality assumption, the assumption as to rates of disability is not a major actuarial assumption. Again this may be seen by comparing the size of the disability rates versus the size of the withdrawal and retirement rates. Using the 2000 valuation results, the relative importance of the benefit is seen if the present value of future benefits for future disabilities is compared to the present value of future retirement benefits:

Type of Member Benefit	Active Member Benefit	Retired Member Benefit
Disabled	$2,152	$1,126
Retired	$85,917	$33,230

In general, fewer disabilities than expected would be viewed as favorable experience. If actual experience exhibits fewer disabilities than expected, then not as many disability benefits will be paid out as anticipated by the unfunded liability.

Withdrawal Rates

The assumption as to withdrawal rates is a major actuarial assumption. It determines the likelihood of members staying in service to draw a retirement benefit. Favorable experience relative to withdrawal rates would be more terminations than expected by the assumptions. If there are more terminations, there will not be as many retirement benefits actually paid as expected and the benefits that are paid will not be as large as expected.

For CalSTRS, the withdrawal rates are a function of both age and service. This type of structure of assumptions is known as “select and ultimate rates.” This structure reflects the fact that both age and service affect the likelihood of staying in active employment.

Retirement Rates

The assumption as to retirement rates is also a major actuarial assumption in the valuation process. This assumption determines when the retirement benefits are expected to become payable. Favorable experience would occur if there are fewer retirements than expected. In this scenario, CalSTRS has its funds longer than expected, it gets its contributions longer than expected, and it pays out benefits for fewer years than expected.

Disabled Life Mortality

The mortality assumption for disabled lives is not a major actuarial assumption. This is due to the size of disabled life liabilities compared to retired life liabilities.

Favorable experience would occur if there are more deaths or recoveries than expected by the assumption. This would mean that not as many disability benefits are being paid out relative to the assumed pay out.

Inflation Assumption

The inflation assumption is a key economic assumption. It is not, however, affected by CalSTRS experience.

The importance of this assumption is that it links the assets and the liabilities. This is because it is a component of both the salary scale and the investment return assumption. The current CalSTRS assumption for inflation is 3.5 percent.

Salary Scale Assumption

The salary scale assumption is a major assumption from an actuarial standpoint. It helps determine the amount of the expected benefits to be paid by CalSTRS.

Favorable experience occurs when salaries go up slower than expected, producing smaller actual benefits than anticipated by the actuarial calculations. Salary gains have been common in many state retirement systems over the last few years.

There are three components to the salary scale. The first component is inflation. The second component is the productivity component. This component measures how much general salary increases exceed inflation. This is over and above any age- or service-related salary increases.

The final component of the salary scale is the promotional component. For CalSTRS, it is a function of both age and service. It reflects increases in the salary schedule that occur due to an additional year of service or experience. It also reflects the adjustment that occurs in salary for additional degrees or for promotions.

Currently, the salary scale for CalSTRS includes the inflation component of 3.50 percent, a productivity component of .75 percent, and a promotional component that is a function of age and service and ranges from .7 percent to 5.7 percent.

Investment Return Assumption

The investment return assumption is the most visible actuarial assumption and, needless to say, it is a major assumption. It determines the discounted value of future benefits, and it determines how fast assets are expected to accumulate through the investment process.

It should come as no surprise to state that favorable experience relative to this assumption occurs when the invested assets earn a higher rate of return than expected. This would be illustrated by the investment performance that has been achieved during the plan years between fiscal years 1995 and 2000.

There are two components to the investment return assumption. Like the salary scale assumption, the first component is inflation. This component is not affected by the plan's asset allocation. The second component is the real rate of return net of investment expenses. This assumption is affected by asset allocation, market forces, and manager performance.

The current investment return assumption for CalSTRS is 8 percent. This is the most common rate used by large public plans. Because the inflation component is 3.50 percent, this means that the current real rate of return assumption is 4.50 percent, net of investment expenses.

If the inflation component is changed and there is no change in the expected real rate of return, the amount of the change will be equal to the change in the inflation assumption. If, on the other hand, the inflation component is changed, <u>but there is no change</u> in the total (nominal) investment return assumption, this implies that there has been an increase in the assumed real rate of return. The increase in the assumed real rate of return will equal the decrease in the inflation assumption.

Because of the common inflation component in these two assumptions, changes in the salary scale and the investment return assumptions should be viewed together to evaluate their reasonableness. The linkage of these two elements may be analyzed in an asset/liability modeling study.

The Actuarial Valuation

The primary purpose of the actuarial valuation for the CalSTRS DB Program is to determine the adequacy of the current contribution structure. This adequacy is measured in terms of the funding period. There are, however, several other purposes of the valuation. These include:

- Tracing the change in the funding period from the last valuation to the current valuation.
- Calculating the actuarial gains and losses for the two-year period between valuations.
- Providing a biennial snapshot of the status of the plan.

For the Cash Balance Benefit Program, the valuation process evaluates how the plan net assets match-up with the sum of the nominal account balances, the Gain and Loss Reserve, and any Annuitant Reserve. It also determines how to allocate that year's investment earnings among minimum interest credits, additional earnings credits, additional annuity credits, and the Gain and Loss Reserve.

As with everything the CalSTRS actuary does, all results in these valuations are based on the assumptions and methods adopted by the Board.

A great deal of information is derived from the valuation report. As noted above, the primary focus of the DB valuation is to determine the funding period for amortizing the unfunded liability, based on the current contribution schedule.

The valuation will also provide information on any assets and/or liability gains or losses, the size of the unfunded liability itself, the plan's current funded status, an estimate of investment returns based on the actuarial value of assets, numerous member statistics, and the external cash flow during the two-year period.

How to View and Interpret Valuation Results

A number of issues contribute to the perception that actuarial concepts are difficult to understand. These include the long-term nature of the actuarial liabilities themselves. It also reflects the large number of actuarial variables that are present in the valuation. Yet another complicating feature is the existence of complex benefit provisions.

The valuation report contains a multitude of numbers and amounts. In trying to understand the significance of the valuation, readers of the report should not just focus on the numbers in isolation.

In order to understand the meaning of the valuation results, it is helpful to put the actuarial results in perspective by looking at trends and comparisons:

- Is the funded ratio changing from year to year? If so, is it increasing or decreasing from one valuation to the next?
- Is the unfunded liability growing or declining as a percent of payroll? The unfunded liability may be increasing in total dollar amount simply because the active membership is growing. By looking at it relative to payroll, it is possible to evaluate whether or not the unfunded liability is growing faster or slower than the system as a whole.
- It is important to observe any pattern of actuarial gains or losses from one valuation to the next. If there are changes in the unfunded liability, can those changes be explained by benefit enhancements or by changes, in assumptions?
- Is the funding period increasing or decreasing from one valuation to the next?

These are the types of reviews and analysis that the actuary performs when evaluating the valuation results.

Concluding Remarks

While the technical meaning of the numbers and terms can be very imposing in an actuarial valuation, it is possible to gain understanding by focusing more on trends and patterns rather than the individual numbers themselves.

Investment Management Plan

Executive Summary

The California State Teachers' Retirement Board (Board) believes that to manage growth of assets in a prudent manner, it is necessary to establish a planning statement in the form of an Investment Management Plan under which the Investment Branch will operate. The Board has sole and exclusive fiduciary responsibility to administer the investment assets in a manner that will assure the prompt delivery of benefits and related services to the plan participants and their beneficiaries. As a public pension fund, the California State Teachers' Retirement System (CalSTRS) is not subject to ERISA that governs corporate pension plans. CalSTRS investment decision making criteria is based on the "prudent expert" standard for which the ERISA prudence standards serve as a basis. Additionally, The California Constitution requires diversification of risk across asset classes and minimization of employer costs.

This document represents the most recent update of CalSTRS' Investment Management Plan. The Investment Management Plan was developed within the context of the significant events that have occurred during CalSTRS' eighty-five year history. The CalSTRS Investment Management Plan is updated to reflect the changes that have occurred in the investment strategy and policy as a result of implementing approved programs. In addition, the Investment Management Plan is updated to ensure that the factors that impacted initial decisions are still relevant in the current environment.

This document addresses general objectives governing the policies of the investment function and specific performance objectives. The general objectives are meant to provide a framework for the operation of the investment function. CalSTRS' performance objectives can be divided into objectives for the overall investment function and objectives for investment managers.

The asset allocation decision governs the allocation of CalSTRS' assets between public and private, fixed income and equity. Strategic allocation of CalSTRS' assets is the most important factor in the determination of the realized total rate of return. The investment staff and the general consultants worked together to create a variety of optimal asset allocation alternatives.

Strategic asset allocation targets are established in a variety of asset categories to achieve the identified performance objectives. In conjunction with the strategic asset allocation targets, tactical ranges provides flexibility to adapt to changing market conditions.

Subsequent to the establishment of strategic asset allocation targets, an investment structure was designed to guide and direct investment decisions. Investment related issues addressed included:

◆ The relative amount of active and passive management

◆ The relative amount of internal and external management

◆ The appropriate direct and indirect costs of each asset category

◆ The appropriate reporting standards and time horizons

General Investment Guidelines

One goal for The California State Teachers' Retirement System is to "maintain a financially sound Retirement System". Within this context, the following general investment objectives are designed to establish a framework for the operation of the investment.

◆ CalSTRS' investment program must provide the means to pay benefits to its participants and their beneficiaries in the amounts and at the times called for through the investment of contributions and other fund assets.

◆ Assets will be invested to produce expected returns on investments based on levels of liquidity and investment risk that are prudent and reasonable under diverse circumstances. Such circumstances will change, as new investment vehicles become available.

◆ The reduction of CalSTRS' funding costs, within prudent levels of risk, is a consideration in the organization and structure of the investment portfolio.

◆ Investment performance will be compared to other private and public pension funds with special emphasis on comparisons with other large public funds.

◆ Management fees, trading costs, and other expenses will be aggressively monitored and controlled. Reduction of the cost of managing CalSTRS’ assets will increase portfolio return over time.

◆ The Investment Branch will conduct an annual planning session including an updated financial projection highlighting any modifications to the performance objectives.

◆ CalSTRS’ investment program must operate in compliance with all applicable State and Federal laws as well as regulations concerning the investment of pension assets.

◆ The asset structure must provide for diversification of risk between asset classes to manage the risk/return relationship through strategic asset allocation.

Investment Performance Benchmarks

The general investment objectives designed a framework for the operation of the investment function. The performance objectives can be divided into two components: (1) performance objectives for the overall investment portfolio, and (2) performance objectives for the individual investment managers. CalSTRS incorporates both levels of analysis in its monitoring of the investment portfolio performance.

There are four performance objectives identified for the overall investment portfolio:

1. Relative to Strategic Asset Allocation Targets

2. Relative to Inflation

3. Relative to the Actuarial Rate of Interest

4. Relative to CalSTRS' Liabilities

The first objective identifies a comparative benchmark that reflects CalSTRS' unique asset allocation policy. This performance objective is a composite of the target weighting for each asset category multiplied by the performance benchmark's return for that category. This performance number is compared to the actual asset allocation and actual total rate of return. This comparison identifies the contribution or detriment to performance caused by manager performance, market timing, and tactical asset allocation decisions.

The inflation related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index (CPI) plus 3.5 percent. The Consumer Price Index is used in the calculation of the estimated salary increases for the members (teachers). The inflation measure provides a link to CalSTRS' liabilities.

The actuarial rate of interest is reviewed and monitored as a measure of the long-term rate of growth of CalSTRS' assets. The current actuarial rate of interest is 8.0 percent. When adopting the actuarial rate of interest, the Board anticipates the investment portfolio may achieve higher returns in some years and lower returns in other years.

The liability related performance objective recognizes that liabilities must be paid in full and in a timely manner. The liabilities are future claims of the CalSTRS' participants. The actuarial rate of interest is used to discount the future value of the CalSTRS' liabilities to calculate the funded ratio.

Performance Benchmark

To facilitate the periodic reporting to the Investment Committee and to provide a relative measure to gauge success, custom performance benchmarks are approved by the Board. The approved custom performance benchmarks are shown below:

Total Public Equity	- Weighted Russell 3000 Index and MSCI AC ex US Index MSCI AC ex US Index
Domestic Equity	- S&P 500 Index (large cap stocks)
	- Russell 2500 Special Index (small cap stocks)
International Equity	- MSCI AC ex US Index
Total Public Debt	- Salomon Large Pension Fund Index
Domestic Debt	- Salomon Large Pension Fund Index
Private Equity	- Weighted NCREIF Property Index and Custom Alternative Investment Index
Real Estate	- NCREIF Property Index
Alternative Inv.	- Custom Alternative Investment Index

Each investment manager, for domestic and international, equity and fixed income, has an individualized benchmark designed to measure its performance relative to the objective identified in its investment guidelines.

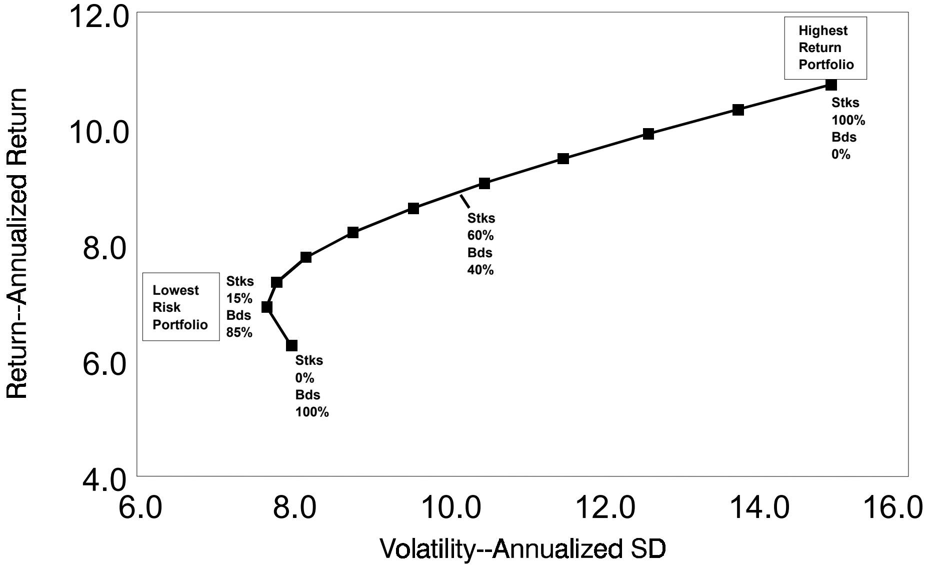
Asset Allocation

A Review of Asset Allocation

A diversified investment portfolio consists of multiple asset classes whose investment returns respond differently to varying economic scenarios. Diversified portfolios are attractive because the combination of various asset classes can reduce expected risk while maintaining expected return. Combining assets having different return patterns can produce a portfolio that has much lower volatility (risk) than any individual asset while producing returns that are competitive. Maximizing return while reducing risk increases the probability of meeting a specified return objective.

Efficient frontier analysis is a widely accepted method of analyzing the tradeoff between risk and return across portfolios having different mixes of assets. Through this quantitative technique (which relies on several critical assumptions), an optimization process identifies portfolios of assets providing the highest expected return, given a specified level of risk. The procedure continues to determine ideal portfolios at varying levels of risk until an entire range of ideal portfolios (termed an "efficient frontier") is identified below.

An Efficient Frontier for a Stock and Bond Portfolio



Asset Class	Expected Annual Return	Expected Annual Volatility
Domestic Stocks:	10.75%	15.0%
Domestic Bonds:	6.25%	8.0%
Stock-Bond Correlation	0.30	

In selecting certain combinations of assets (such as domestic equity and fixed income) any rational investor will always consider the tradeoff between changes in return and changes in risk. At a minimum, investors should expect to receive a higher rate of return for an incremental increase in investment risk.

Each mix of assets is, in itself, a unique asset having its own return vs. risk tradeoff. As highlighted above, these asset portfolios can exhibit return patterns that differ greatly from any underlying asset. Depending on the extent of how individual assets move in relationship to each other (measured by correlation), certain mixes of assets could enhance the return-risk tradeoffs over investing in any single asset.

The curve-point in the curve in the efficient frontier chart shows when adding a certain proportion of stocks ceases to add value (simultaneously adding return and reducing risk). This point comes when stocks become 13 percent of the portfolio. Beyond this point, the only way to increase return is to increase risk incrementally. For those points along the line past the curve point, the only decision one has to make is how much incremental risk one is willing to accept. The only way to increase return will be to accept incremental increases in investment risk (uncertainty). The line between the curve-point and the "100% stocks" point is termed the "efficient frontier." Any point along the efficient frontier represents that unique portfolio that offers the highest return for the given amount of risk.

The Asset Allocation Process

The key goal of the asset allocation process is develop an asset allocation policy that maximizes the likelihood that an investment portfolio's assets will, over the planning horizon, fund Plan benefits.

Steps Involved in Setting Asset Allocation Policy

Overview and Planning Steps

1. Review rationale for policy.
- importance of diversification

2. Review financial condition of Plan.
- assets versus projected liabilities (balance sheet)
- projected contributions versus projected benefits

Investment Related Steps

3. Review rationale for investment asset classes in light of plan financial requirements.

4. Develop expectations for asset class investment performance (returns, risks, correlations).

5. Identify investor-specific constraints that might limit investment strategies (e.g., liquidity).

6. Create model portfolios, incorporating objectives, assumptions, and constraints.

7. Isolate investor-specific model portfolio to represent an investor's asset allocation policy.

8. Perform additional sensitivity analyses to quantify impact of specific issues.
- adjustments to required rate of return
- shift in financial condition of Plan due to funding

Once the rationale for undertaking an asset allocation study is understood, a review of the financial condition of the plan becomes imperative. A key component of reviewing a plan's financial condition is studying the actuarial requirements of the plan. These requirements represent the plan's long-term liabilities and, when combined with the plan's investment portfolio, constitute a pension plan's balance sheet. Understanding what factors (such as changes in interest rates, benefit structures, and plan demographics) influence these liabilities is important. Changes in these and other underlying factors may, in fact, alter a plan's liability structure. Such shifts could, in turn, impact the plan's financial condition. CalSTRS' were studied and considered as part of this asset allocation review.

Selecting Asset Classes for Portfolio Investment

As discussed earlier, there are three components required to model investment returns: (1) asset class expected returns, (2) asset class risks, and (3) correlations among asset classes. Investment consultants develop these components, which are then used to develop efficient frontiers quantitatively. CalSTRS' current long-term expected returns and risks for various assets classes range from 4.0 percent to 15.0 percent per year.

Total Return and Risk Estimates

Assumed inflation level: 3.0% per year

Asset Class	Expected Annual Return	Expected Risk (Annlzd. SD)
Cash	4.50	1.5
Domestic Bonds	6.25	8.0
Global Bonds	6.13	8.0
Domestic Stocks	10.75	15.0
International Stocks	10.50	18.0
Private Markets	12.50	16.0
Emerging Markets	14.00	30.0

These return and volatility estimates reflect several basic relationships:

- Investors or lenders of capital require an incremental real return premium as a reward for making capital available.
- Equity-oriented investment should, over long periods, produce return premiums that are higher than their fixed-income counterparts.
- The private markets asset class is a combination of both real estate and alternative investments.
- The return assumptions for the publicly traded asset classes do not account for added value opportunities within each asset class.

Review of Asset Allocation Policy

Over the last thirteen years, CalSTRS' asset allocation policy has shifted modestly.

CalSTRS Asset Allocation Policy Trends (in %)

Asset Class	Current	1995	1993	1986
Domestic Equities	41	34	33	40
Foreign Equities	21	18	18	15
Public Equity	62	52	51	55
Realty	6	5	10	10
Venture	5	3	7	5
Total Equity	73	60	68	70
Global	0	5	1	---
Fixed-Income	26	34	30	30
Cash	1	1	1	0
Stable Assets	27	35	31	30
Total	100	100	100	100

CalSTRS' investment policy has remained consistent from an equity/stable asset allocation viewpoint. In 1986, CalSTRS had a strategic allocation of 70 percent equities and 30 percent stable assets. In 1997, CalSTRS' Board adopted a similar policy (73 percent equity and 27 percent stable assets).

Strategic Asset Allocation

The System's asset allocation strategy utilizes a design for today's needs, while anticipating the future capacity and growth of the investment portfolio. A strategic asset allocation target for public equity, private equity, liquidity, and public debt was last established in 1997 after reviewing a comprehensive asset allocation analysis completed by Pension Consulting Alliance. In conjunction with the strategic target, a range for each asset category has been established to provide flexibility designed to reduce rebalancing costs and allow flexibility to adapt to changing market conditions. To control the risk and return relationship each asset category must be rebalanced to the strategic target occasionally. Rebalancing latitude is important and can significantly affect the performance of the portfolio. Blind adherence to narrow ranges increases transaction costs without a documented increase in performance. A rebalancing range that is too wide may cause undesired changes in the asset allocation. The range is plus or minus three percent around the strategic target for the major asset categories (domestic equity, international equity, and fixed income). The range is plus or minus two percent around the strategic target for the other asset categories (private equity and cash). The two or three percent range refers to the market value of the total investment portfolio.

CalSTRS Policy Target and Ranges

	Strategic	Target Range
Domestic Equity	41%	38% to 44%
International Equity	21%	18% to 24%
Total Public Equity	62%	56% to 68%
Private Equity*	5%	1% to 10%
Total Equity	**67%**	**57% to 78%**
Debt	26%	23% to 29%
Cash	1%	0% to 3%
Total Public Debt	**27%**	**23% to 32%**
Real Estate	**6%**	**0% to 9%**
Total Asset Allocation	**100%**	

Please note that the allocated not funded portion of the private equity will be invested in the S&P 500 Indexed portfolio. This amount will be shown as private equity – S&P 500 Index.

Asset Allocation Structure

- Based on academic studies, it has been determined that 91 percent of the total return is attributable to the asset allocation decision. Consequently, each asset category shall remain within the tactical range approved in the strategic asset allocation adopted by the Board.
- Control of the cash flow is critical to the success of long-term investment strategies. Estimated cash flows shall be provided to the Investment Committee annually.
- Each month the Chief Investment Officer will complete a report identifying the salient aspects of the investments including a section on compliance with approved asset allocation targets.

Equity Structure

- The domestic equity portfolio will be managed using both passive (80 percent target) and active (20 percent target) strategies. The passive component may have both internal and external managers. The active component will be managed externally. The Investment Committee limits the number of active domestic equity managers.
- The non-U.S. equity markets are assumed to be more inefficient, allowing active management to add value. The target will be an equal amount of active management (50 percent) and passive management (50 percent) strategies. Emerging markets will be utilized to enhance return and diversification. The passive component may have both internal and external managers. The active component will be managed externally. The Investment Committee limits the number of active non-U.S. equity managers.

Fixed Income Structure

- The long-term fixed income portfolio shall be comprised of investment grade securities using an enhanced indexing strategy. The internally managed portfolio will emphasize tracking the risk characteristics of the performance benchmark.
- Short term fixed income, including the cash portion of equity portfolios, shall be managed internally with emphasis on safety and liquidity. The portfolio shall be comprised of investment grade securities, A1/P1 rated short-term debt, and other appropriate securities as approved in the policies and procedures.

Alternative Investment Structure

- The alternative investment portfolio will be comprised of limited partnerships and co-investments focusing on commitments to domestic and international partnerships as identified in the Alternative Investment policy. The alternative investment advisor and staff will analyze each partnership and conduct appropriate due diligence with the objective of achieving upper quartile performance, as identified by Venture Economics.
- Private equity investments have substantial fees and costs, consequently, emphasis will be placed on negotiating, monitoring, and controlling the direct and indirect costs of each limited partnership investment.

Real Estate Structure

- The real estate portfolio will be comprised of direct real estate investments and commingled funds (opportunistic funds) with adopted targets of 50 percent to low-risk, 25 percent to moderate-risk and 25 percent to high-risk investments.
- To more closely align the interests of the plan sponsor and real estate manager, emphasis will be placed on negotiating, monitoring, and controlling the cash flow (both income and expense) associated with each property.

Social Security Benefits and CalSTRS Members

(Updated excerpt from Teachers' Retirement Board material for September 11, 1997)

Revised January 2002

Mandatory Social Security For New Employees

Introduction

In recent years, efforts to improve the financing of Social Security has included proposals to extend Social Security coverage to all new state and local government employees. The enactment of such a proposal would have a major fiscal impact on new California teachers and employers and on the State Teachers' Retirement System. Currently, members and employers are paying 16 percent of creditable compensation toward the System's total cost rate of 16.001 percent of payroll. The required tax for Social Security coverage of new hires would be 6.20 percent of payroll from both new hires and their employers. Adding the new Social Security tax of 12.40 percent on top of the CalSTRS 19.876 percent total cost rate would create a total required contribution rate of 32.276 percent of payroll for new hires.

The CalSTRS Defined Benefit Program is designed as a fully independent program with a 2 percent at age 60 retirement benefit plus ancillary disability and survivor benefits. The addition of Social Security on top of this program will create an overlap of disability and survivor benefits and create a joint benefit which could be considered excessive by many. Therefore, mandatory Social Security coverage for new teachers could necessitate the closure of the current CalSTRS Defined Benefit program to new members and the enactment of a new, lower cost CalSTRS program which would complement the benefits under Social Security. (It should be noted that while in some states, including California, there are judicial or constitutional guarantees against reductions in retirement benefits for public employees, these guarantees would not necessarily apply to "new hires.")

In 1980, in a report commissioned by Congress, the Universal Social Security Coverage Study Group established that mandatory Social Security coverage would result in the transfer of significantly higher retirement costs to state and local governments. The report included a study by 13 independent actuaries, which analyzed retirement plans of independent state systems, and proposed new benefits and costs for those systems coordinated with social security. The overall actuarial costs of the proposed plans, including social security taxes and assuming approximately equal benefits, would have increased on the average of 5 percent to 8 percent of payroll.

However, mandating Social Security on public employees is a recurring threat because Congress sees mandatory coverage as a way to reduce federal budget deficits. While Social Security and Medicare are considered trust funds, payroll taxes for those programs are considered revenues when measuring the federal budget deficit.

This paper provides a historical background, a review of a previously completed alternative retirement plan study, some consequences of mandating Social Security on new hires, a summary of two Social Security benefit "offset" provisions and a review of Medicare issues

Background

1935

Social Security was established originally as the Old Age and Survivors Insurance program, or OASI, and was intended to be a modest retirement system for employees of private industry. Employees of state and local government were excluded from coverage when Congress passed the Social Security Act. This was because of the constitutional question of levying the employer portion of the Social Security tax on state and local government.

1951

Public employees who were not in positions covered by a state or local retirement system were given the option of joining Social Security. Eight states overcame the restriction of no coverage in a retirement system by dissolving the existing retirement system, obtaining Social Security coverage for the jurisdictions' public employees and then reinstating the retirement system with either the same or revised provisions. Coverage under the new state system was usually mandatory for new hires in the eight states.

1954

The Social Security program was again amended to make coverage voluntary to public employees even if they were covered by a state plan. The choice was up to the states, subject to a majority vote of the members of the plan. If Social Security coverage was elected, it was an all or nothing choice; that is to say all employees either would be included or excluded.

1955

In California, an every-member vote was conducted by the California Teachers Association (CTA). (It should be noted that in 1955 the makeup of employee organizations was much different than it is today. e.g., administrators were members of CTA.) Teachers as a group rejected Social Security coverage by 4 to 1.

1956

Entry into Social Security was made even easier. Coverage could be extended to employees who wanted the coverage, while those who did not desire coverage could be excluded, if all newly hired employees were automatically covered. This provision was eventually extended to 20 states, including California (State legislation was passed for school classified and state employees to be covered under this provision in 1959 and 1961, respectively).

Also in 1956, the Disability Insurance program was added to provide income to disabled workers. Since then, the program has been referred to as the Old-Age, Survivors, and Disability Insurance program, or OASDI.

1967

Title XVIII - Medical Enrollment Act of 1967 established medical coverage for persons age 65 and older.

1977

Legislation was passed establishing the "Government Pension Offset" which reduces Social Security benefits under certain circumstances if there is a pension based on employment that was not covered by Social Security. The pension offset of spousal benefit, if the spouse also receives a public retirement benefit, did not take effect until 1982 and is applied only if the spouse was not eligible for retirement as of that date.

1983

Legislation was passed establishing the "Windfall Elimination Provision." This offset provides for an alternate calculation of an individual's Social Security benefit, resulting in a lower Social Security benefit, for retirees who primarily worked in employment not covered by Social Security, and who had other jobs where they paid Social Security payroll taxes long enough to become eligible for a benefit from Social Security.

1985

Mandatory Medicare for new hires of state and local governments became law as part of the Consolidated Omnibus Budget Reconciliation Act of 1985, or COBRA. All new hires in California public schools after April 1, 1986, are subject to a payroll tax equal to 1.4 percent of salary and, in return, they are covered by Medicare.

1986

The Tax Reform Act of 1986 made extensive amendments to Internal Revenue Code Section 401 concerning the integration of qualified retirement plans with Social Security. The integration requirements were further complicated by modifications to the general plan "nondiscrimination" regulations. Integration with Social Security subjects plans to complex Internal Revenue Service regulations. Because of administrative complexities involved in the integration of Social Security, it is generally recommended that integration be avoided and that "supplemental" plans totally independent of Social Security be developed if necessary.

1988

As a result of Congressional consideration of mandatory Social Security for new hires, Chapter 743 (AB 147—Elder) which required CalSTRS to develop and submit to the Legislature an actuarially sound and funded alternative retirement plan that, when coupled with Social Security, would provide a member of CalSTRS with adequate retirement benefits.

1989

State legislation was passed which made it optional for public school employers to hold elections for Medicare coverage for active employees hired before April 1, 1986. Individual employees could choose Medicare coverage if the employer offered the election. The effective date of the Medicare coverage could not be earlier than January 1, 1997.

1990

As part of the Omnibus Budget Reconciliation Act of 1990 (OBRA), Congress enacted a law requiring all public employees not covered by a state or local retirement plan meeting specified standards to be covered by Social Security. This led to the development of the CalSTRS Cash Balance Benefit Program for part-time teachers.

1997

A Social Security-Advisory Council composed of 13 members recruited from business, labor and "think tanks" issued reports on the current state and future of Social Security. The Council members had widely differing views on how to solve the ongoing funding problems. One area of agreement was that all newly hired state and local government workers should be required to pay into the program. It has been estimated that mandating Social Security coverage on new hires would raise about $16.3 billion over a five-year period.

Alternative Retirement Plan Study

There have been several studies of Social Security and CalSTRS over the years. The most thorough study related to the potential impact of mandating Social Security on the membership of CalSTRS was completed in 1989. Chapter 743, Statutes of 1988 (AB 147—Elder) specifically required the Teachers' Retirement Board to recommend an "alternative retirement plan" that would: 1) provide an "adequate retirement benefit" when coupled with Social Security, and 2) be actuarially sound and funded within the rates presently being contributed by the employer and employee to CalSTRS.

Factors Considered

Many factors were considered in the design of the alternative plan(s), including:

- The Social Security program structures and benefit levels;
- Employee and employer organizations' concerns that were submitted to the task force;
- "A target replacement ratio" which is the percentage of a given pre-retirement gross salary that will produce the same post-retirement disposable income (i.e., the same standard of living) that was available immediately prior to retirement;
- Federal government requirements in the area of pension plans, such as the applicable IRS provisions, the Employee Retirement Income Security Act (ERISA) and rulings by the Equal Employment Opportunity Commission (EEOC);
- The benefit program structures of twelve other state retirement system plans that provide benefits to public school teachers eligible for Social Security benefits; and
- Guidance from legislative staff which indicated a preference for a CalSTRS plan that would be fully funded within the 8.35 percent of members' creditable compensation currently contributed by the employer. (This led to the development of alternatives that would cost between from 8 and 10 percent of members' salaries to supplement Social Security.)

The target replacement ratio to produce an equivalent benefit level was calculated at about 60 percent of the member's final salary prior to retirement. The total cost of the four alternatives developed ranged from about 23 to 26 percent of payroll when the cost of the 8 to 10 percent alternatives was added to the cost of Social Security. Therefore there would have been a cost increase for an equivalent benefit level of from 3 to 6 percent of payroll for new hires under the alternative plan options developed by the task force to meet the “target replacement ratio.”

In 2001, the CalSTRS Consulting Actuary estimated the cost of a retirement plan which supplemented Social Security benefits to provide a total benefit equal to that currently provided by CalSTRS alone. In that analysis, the Consulting Actuary estimated that the additional combined cost to employers and employees would equal 7.389 percent of payroll, a 45 percent increase in costs from the levels currently being paid by employees and employers for CalSTRS-covered service.

Adoption of an alternative plan would require resolution of numerous plan design questions and funding issues. Such plan design issues include whether or not the supplemental CalSTRS plan should provide ancillary disability and death benefits to augment those provided by Social Security. Also, since Social Security has a normal retirement age of 65, increasing to 67, should CalSTRS raise the normal retirement age and should new adjustment factors be developed for early retirement? A great deal of research, plan design and costing would have to be conducted before any reasonable recommendations concerning an approach to coordination with mandatory Social Security could be made.

Arguments in Opposition and Support of Requiring Social Security for State and Local Governments and Their New Hires

Arguments in opposition:

- The additional 12.40 percent cost for new members (6.20 percent for the employer plus 6.20 percent for the new member) would create a financial burden for California public schools and newly hired employees. The average annual additional cost for a new hire would be at least $1,600 each for the employer and the employee. Statewide the employer portion of the cost for new hires would be at least $24 million a year. The additional required member-employer contribution of 12.40 percent approaches the normal cost of the current CalSTRS program (16.001 percent as of June 30, 2000), leaving little room for the design of a supplemental retirement tier, unless new funding can be found. In 1999, the CalSTRS consulting actuary estimated that providing a retirement program that is coordinated with Social Security would require a 75 percent reduction in CalSTRS benefits to limit the cost of benefits for current CalSTRS members. This could result in the need to develop a two-tier system with new hires being covered by both Social Security and a lower cost CalSTRS retirement plan.
- Because the Social Security program offers disability and survivor coverage components, it is unlikely that the excellent CalSTRS disability and survivor coverage could be provided to new hires if a new retirement plan were to be designed.
- State and local government plans are much more soundly funded than Social Security and provide better benefits. State and local retirement plans are able to invest in securities providing a higher return than the bonds held by Social Security. If Social Security is substituted for a large part of employees’ retirement plan benefits, contributions will have to increase to fund the same level of benefits.
- The 1990 federal mandate required state and local employees be covered under a plan comparable to OASDI, if they are not covered by OASDI. This resulted in the impression that coverage outside Social Security was desirable.
- Coverage of new state and local workers would increase revenues to the Social Security fund for several years. However, Social Security does not have a short-term problem. Social Security has a long-term funding problem because excess short-term revenues are not being saved and invested to pay the accruing liabilities attributable to those revenues. If the cost of providing benefits exceeds the funding available to

provide the benefits, adding more people to the system will make matters worse, not better.

- CalSTRS would lose some element of control to the federal government. The federal government controls the benefits and costs of the Social Security program. For example, benefits can and have been changed which have adversely impacted those eligible to receive as well as those receiving social security benefits. The future of the Social Security program is in doubt.

Arguments in support:

- The portability of Social Security benefits could be desirable for teachers who leave public school employment prior to vesting with CalSTRS or who have past or future employment in a state in which Social Security coverage is mandatory.
- There are various program features that may appeal to some members, e.g., Social Security automatically provides a spousal benefit to married couples.
- The Social Security cost-of-living adjustment has a greater value than the CalSTRS improvement factor.

Social Security Program Benefit Reduction Provisions

There are two provisions that may reduce benefits for many state and local government employees who are also eligible for Social Security based on private sector employment. CalSTRS has received many complaints from retired members about these federal program "offset" provisions.

Windfall Elimination Provision

The first provision is the "Windfall Elimination Provision" (WEP) which was enacted by Congress in 1983. This provision primarily affects people who spend much of their working lives in employment that is not covered by Social Security, and who also have other jobs where they pay Social Security taxes long enough to become eligible for covered benefits. The formula used to calculate the Social Security benefit amount for these individuals is modified, resulting in a lower Social Security benefit.

The modified formula is applied if the individual reached age 62 or became disabled after 1985 and first became eligible after 1985 for a monthly pension based on work not covered by Social Security. This provision has a complex formula and affects people in different ways depending on when a person becomes eligible for a pension and whether the person has "substantial" Social Security earnings for specified years. One example of how the "Windfall Elimination Provision" will be applied in 2002 follows:

Example

Robert - Born in 1937 with Average Indexed Monthly Earnings of $712 under Social Security

Benefit Without WEP:	
90% of first $592	$533
32% of next $2,975 ($120)	38
15% of any remainder over $3,567	0
Social Security Benefit Amount	**$571**

Benefit Under WEP:	
40% of first $592	$237
32% of next $2,975($120)	38
15% of any remainder over $3,567	0
Social Security Benefit Amount	**$275**

Government Pension Offset

The second provision that can reduce the Social Security benefits of some CalSTRS retirees is the Government Pension Offset (GPO). Before the GPO was enacted, many state and local government employees qualified for both their pension and for a spouse's benefit from Social Security. Under the GPO, two-thirds of the government pension is counted to offset (reduce) the Social Security benefit. An example of the Government Pension Offset is as follows:

Example

Spousal Benefit Under GPO

John - Age 65, $1,000 - monthly Social Security benefit

Mary - Age 65, $500 - monthly Social Security benefit

(Spousal Benefit is 50% of $1,000, or $500)

GPO Offset—because Mary receives a CalSTRS pension:

$1,200 - Per month CalSTRS Pension
x 2/3
$ 800 - To be offset

$500 - Spouse's Social Security benefit
- 800 - Pension offset
$ 0 - Payable in Social Security Spousal Benefits.

Widow's Benefit Under GPO—Mary is a teacher and becomes a widow:

$1,000 - Social Security benefit
- $800 - 2/3 of CalSTRS Pension (Offset)
$ 200 - Payable in Social Security Widow's Benefits

The National Education Association worked during the last several years to change the Social Security benefit reductions as applied to retired state and local government employees. Because of the high cost of complete repeal of the "offsets," the NEA is pursuing an approach that would exempt some modest amount of Social Security benefits from the offset provisions to protect low and middle income state and local government retirees.

Mandatory Medicare

Retired teachers in California are in very dissimilar health insurance circumstances, depending on such factors as their former employer's policies for covering retirees, whether they have Medicare eligibility, age at retirement, etc. For example, only a few districts offer vested health insurance benefits for retired employees. Some districts provide health benefits to retirees until the retiree reaches age 65 or until they receive Medicare. Many districts do not provide benefits to retirees except to offer them coverage in a separate "pool" from active employees and require that retirees pay the full premium. Therefore, the most viable option for some retired teachers is securing some form of private health insurance or paying full Medicare Part A and B premiums themselves. (The Budget Reconciliation Bill enacted in August 1997 included a provision that individuals who have not qualified for Medicare coverage and must personally pay for Medicare Part A premiums, will not to purchase Medicare after premiums are paid for seven years. Individuals who have already made payments for seven years are not required to pay Medicare Part A premiums.)

Over the past few years, CalSTRS has supported legislation to study alternatives for providing health care. After a number of prior vetoes, legislation authorizing such a study was enacted in 1998. CalSTRS participated in an unsuccessful effort to make it easier for school districts to participate in the health insurance programs offered by the Public Employees' Retirement System (CalPERS). CalSTRS supported and help draft successful legislation sponsored by CTA and supported by CalSTRS-affiliated employee organizations to make it optional for school districts to hold individual elections for members to join Medicare. (Approximately 800 school districts have made Medicare coverage available to CalSTRS members.)

Medicare Premium Payment Program

Chapter 1032, Statutes of 2000 (Senate Bill 1435—Johnston) established the CalSTRS Medicare Premium Payment (MPP) Program. Under the MPP Program, CalSTRS pays the federal Medicare Part A premiums for retired Defined Benefit (DB) Program members who are not eligible to receive Medicare Part A coverage premium-free, either through their own employment or through the employment of their spouses. These payments by CalSTRS began July 2001. As a convenience to retired DB Program members, CalSTRS will also deduct Medicare Part B premiums from the members' allowance and forward the payments to the Center for Medicare and Medicaid Services (CMS), the federal agency that administers Medicare.

Originally the MPP Program covered only retired DB Program members who retired prior to January 1, 2001. In the May 2001 meeting, the Teachers' Retirement Board extended the program to retired DB Program members who retire prior to January 1, 2006, provided that the DB members retire from districts that have completed or are in the process of completing a

Medicare Division. Active DB Program members who are less than age 58 at the time of the 10-day election period are required to elect to be covered by Medicare to be eligible for the CalSTRS MPP Program. Active DB Program members age 58 or older are not required to elect to be covered by Medicare during the 10-day election period.

Because DB Program members hired on or after April 1, 1986, are required to pay the Medicare tax, the Medicare Division applies only to those members hired prior to that date.

As of January 2002, CalSTRS pays the Medicare Part A premiums for approximately 5,000 retired DB Program members. The mean age of these retired DB Program members is 72 with the oldest being 98 years old. CalSTRS also deducts the Medicare Part B premiums for approximately 9,500 retired DB Program members. The mean age of these retired DB Program members is 70 years with the oldest being 110 years old.

Legislated Benefit Improvements

The following represents State and federal legislation that CalSTRS has actively pursued to improve benefits for members and their beneficiaries. Some of these proposals have taken two years for the Teachers' Retirement Board to carry through the legislative process. It has taken longer for federal proposals. The TRB has sponsored, co-sponsored or supported other sponsors on these initiatives that significantly affect the level of benefits or benefit structure enabling CalSTRS to either enhance or provide a promised benefit. It should also be noted, some attempts to make significant changes to benefit levels or the funding structure have not been approved by the Governor.

2001

State

◆ Increased benefits for members who retired for service, reinstate and perform creditable service for two years following reinstatement from a prior retirement; SB 334.

◆ Eliminated sunset for eligibility of dependent children under Coverage A; Authorizes conversion of Cash Balance Program participation to Defined Benefit Program service credit; Raises Home Loan Program loan limit; SB 499.

◆ Increased purchasing power protection from 75 to 80 percent for retired members; AB 135.

Federal

◆ Elk Hills Naval Petroleum Reserve -- $36 million appropriated as the fourth installment from CalSTRS' share of the proceeds from the sale of the reserve.

◆ Increased contribution limits and improves the portability of funds among different types of retirement plans, including 401(k), 403(b) and 457 plan, IRAs and retirement plans, such as the State Teachers' Retirement Plan; (EGTRRA).

2000

State

◆ Expanded earnings limit exemption for administrative positions; AB 141.

◆ Provided ad hoc increase to current benefit recipients; AB 429.

◆ Permitted some state employees to elect CalSTRS coverage and authorizes certain state employees to converts educational leave to service credit; AB 649.

◆ Permitted partial redeposits of withdrawn contributions by members and nonmember spouses; purchase of previously excluded service; naming of new spouse by a retired member with an unmodified allowance; trustee participation in Cash Balance Benefit Program; AB 820.

◆ Based final compensation on highest 12 consecutive months with 25 years of credited service; AB 821.

◆ Established the Defined Benefit Supplement Program and redirects members contributions to program; AB 1509.

◆ Eliminated the post-retirement earnings limitation until 2008 for members who are retired for at least one year and increases limitations for others; AB 1733.

◆ Waived the earnings limitation for members retiring before 7/1/00 for direct remedial education for grades 2-12; AB 1736.

◆ Established longevity bonus; AB 1933.

◆ Expanded eligibility under Public Employees Medical and Hospital Care Act (PEMHCA) for part-time employees and requires CalSTRS to report on prescription drug and retiree health program; AB 2383.

◆ Permitted portion of retirement allowance to be paid in lump sum; AB 2456.

◆ Expanded compensation creditable to CalSTRS; AB 2700.

◆ Required CalSTRS to pay Medicare premiums for eligible members; SB 1435.

- ◆ Extended minimum allowance; SB 1505.
- ◆ Exempted members who retired on or before 1/1/2000 from earnings limitation if return to K-12 classroom; SB 1666.
- ◆ Permitted some state employees to elect CalSTRS/CalPERS membership; SB 1694.

Federal

- ◆ Elk Hills Naval Petroleum Reserve - $36 million appropriated as the third installment from CalSTRS' share of the proceeds from the sale of the reserve.
- ◆ Congressional relief from the Medicare late enrollment penalty for the CalSTRS Medicare Part A premium payment program.

1999

State

- ◆ Extended earnings limit waiver for all class-size reduction teachers; AB 335.
- ◆ Enacted program to comply with Internal Revenue Code Section 415; AB 819.
- ◆ Encouraged U.S. Congress and President to exclude state and local employees from mandatory Social Security; AJR 9.
- ◆ Required to develop CalSTRS health care benefits; SB 159.
- ◆ Restored surviving spouse benefits eliminated due to remarriage; SB 437.
- ◆ Increased minimum allowance for career members; SB 713.

Federal

- ◆ Elk Hills Naval Petroleum Reserve - $36 million appropriated as the second installment from CalSTRS' share of the proceeds from the sale of the reserve.
- ◆ Mandatory Social Security for new hires. CalSTRS is actively involved in grassroots and national efforts to oppose the proposed solutions due to its overall impact to CalSTRS members.

1998

State

- ◆ Extended eligibility and eliminated the restriction on credit for unused sick leave; established a career bonus for members with 30 or more years of service; guaranteed funding stream for purchasing power protection payments; AB 1102.
- ◆ Incrementally increased the benefit factor from 2 percent at age 60 to 2.4 percent at age 63; AB 1150.
- ◆ Extended earnings exemption for class size reduction and the sunset date to January 1, 2005, for certain Medicare coverage; AB 2765.
- ◆ Reamortized the unfunded liability over 30 years; provide 65 percent of Elder Full Funding to pay for benefits; AB 2804.
- ◆ Authorized the TRB to study providing health care benefits to members and families; SB 1528.
- ◆ Established 100 percent financing Member Home Loan Program, as specified; SB 1945.
- ◆ Modified SB 1027/1997 regarding the purchase of permissive and out-of-state service credit, as specified; Permitted the purchase of "nonqualified" service; SB 2126.
- ◆ Added Option 8 to allow for multiple option beneficiaries and modified existing options, as specified; SB 2047.
- ◆ Provided for the return to an unmodified allowance for certain members, as specified; SB 2224.

Federal

- ◆ Elk Hills Naval Petroleum Reserve - $36 million appropriated as the first installment from CalSTRS' share of the proceeds from the sale of the reserve.
- ◆ Mandatory Social Security for new hires. CalSTRS is actively involved in grassroots and national efforts to oppose the proposed solutions due to its overall impact to CalSTRS members.
- ◆ Implemented premium free Medicare Part A (Hospital Insurance) for individuals who may qualify under specified conditions as identified by the Social Security Administration; significant for nearly 400 individuals currently paying premiums in excess of $300 each month.

1997

State

◆ Enacted earnings limit exemption for teachers participating in the class size reduction program; AB 18.

◆ Expanded disability benefits to victims of an unlawful act, as specified; SB 629.

◆ Extended the post-retirement earnings limit exemption (Golden Handshake); AB 686.

◆ Increased purchasing power protection from 68.2 percent to 75 percent, as specified; SB 1026.

◆ Authorized members to redeposit contributions withdrawn by a nonmember spouse; and purchase additional service credit for out-of-state public school employment; SB 1027.

Federal

◆ Elk Hills Naval Petroleum Reserve sold and net proceeds to benefit 75 percent purchasing power protection; National Defense Authorization Act.

◆ President signed the Taxpayer Relief Act of 1997, which made permanent the present moratorium on the application of the nondiscrimination tax rules; made changes in procedures related to the application of the Simplified General Rule; allows for portability of permissive service credit under governmental pension plans; and other relief from the IRC Section 415 defined contribution limits.

1996

State

◆ Facilitated employers' option to offer the Cash Balance Plan to part-time employees; AB 2673.

◆ Eliminated the requirement for dependent children to maintain full-time student status to remain eligible for disability or family allowance under Coverage A; AB 3032.

◆ Federal compliance with the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA); SB 1877.

◆ 1992 settlement claim relating to interest payments on the Elder Full Funding appropriation of $540,000; SB 2095.

Federal

◆ President signed the National Defense Authorization Act, which granted California's claim for compensation for two school land sections known as Elk Hills Naval Petroleum Reserve.

◆ Signed amendment to Title 4 of the U.S. Code, which prevented California and other States from imposing a source tax on the payment of pension plans, as specified.

◆ President signed the Small Business Job Protection Act of 1996, which provided pension simplification for governmental plans, such as CalSTRS, and IRC Section 415 provisions.

1995

State

◆ Extended the post-retirement earnings limit exemption to certain members under specified conditions; AB 948.

◆ Established minimum standards for full-time employment for all classes of employees for crediting service; AB 1122.

◆ Established the Cash Balance Plan to be administered by CalSTRS for part-time public school employees; AB 1298.

◆ Modified pre-retirement options elections for survivor benefits; AB 1441.

1994

State

◆ Repealed the administrative fee for processing a refund to a member; AB 2550.

◆ Required CalSTRS employers to inform part-time teachers of their right to elect membership in CalSTRS; AB 2554.

◆ Extended membership in CalSTRS to part-time and substitute adult education teachers; AB 2647.

◆ Required CalSTRS to offer a Tax Sheltered Annuity (TSA) program; AB 3064.

◆ Required CalSTRS to offer a mid-career retirement planning information program; AB 3407.

◆ Allowed CalSTRS to develop one or more deferred compensation plans; AB 3705.

◆ Governor vetoed this initiative, which would have allowed CalSTRS to offer health benefits to active and retired members; SB 192.

◆ Reestablished the Golden Handshake additional 2 years service credit program through December 31, 1998; SB 858.

Federal

❖ President signed USERRA, which allowed make-up pension accruals of returning military veterans, as specified.

1993

State

◆ Modified direct deposit process regarding benefit arrangements for members, as requested by members; AB 798.

◆ "Float Suit" settlement ($8.9 million) that recovered investment earnings in the State's Pooled Money Investment Account; SB 77.

◆ Allows salary preservation by using three non-consecutive years for determining final compensation; SB 698. Allows a retired member to change options, as specified; SB 754.

◆ Extends the CalPERS Long-Term Health Care Program to CalSTRS members; SB 857.

1992

State

◆ Allows members to purchase service credit for time spent on approved family care leave; AB 2538.

◆ Federal compliance that authorizes CalSTRS to make rollovers directly to another eligible retirement plan; AB 2721

◆ Betts established a new survivor benefits and disability program for all new members, allowed persons already members of CalSTRS to elect to participate in the new program, and other changes to bring CalSTRS into federal compliance with the Older Workers' Benefit Protection Act (OWBPA); SB 1884, SB 1885 and SB 1886. Following are significant features:

- Members eligible for lifetime disability at 50 percent of final comp
- Increased lump sum death payment from $2,000 to $5,000 or $20,000 as appropriate, and included automatic index
- Automatic children's benefit to age 21, if eligible
- Reduced offsets
- Eliminated remarriage penalty

Federal

◆ Mandatory Social Security for public employees who are not members of a retirement system that provides a minimum level of retirement benefits; IRS regulations.

◆ President signed the Unemployment Compensation Amendments Act of 1992 to allow for rollovers.

1991

State

◆ Grants family care leave for up to four months, as specified; AB 77.

◆ Allowed for the purchase of time spent in the Persian Gulf; SB 1171.

1990

State

◆ Extended sunset date of the Golden Handshake Program to December 31, 1993, as specified, allowed disabled and inactive members to participate in the Dave Elder CalSTRS Home Loan Program, and allowed service credit for the time spent in the Persian Gulf; AB 2609.

◆ Increased the post retirement earnings limit to $15,000, adjusted annually according to the CCPI; AB 4048.

◆ Modified calculations used in post disability service retirement allowances for those members who retired after reinstatement from disability; AB 4284.

◆ Authorized CalSTRS to establish a loan program to assist with natural disaster situations; AB 53X.

◆ Memorialized Congress to establish a process by which CalSTRS retirees could purchase the quarters needed to meet Medicare Part A eligibility; AJR 71.

◆ Added Options 6 and 7 settlements to allow a retiree return to the unmodified, as specified; SB 682.

◆ Elder CalSTRS Full Funding Act - revised the annual General Fund contribution to a level that provides full funding of normal cost and provided amortization of the CalSTRS unfunded obligation; SB 1370.

◆ Equity Study appropriated funds to study the equity of benefits available under CalSTRS. The study was completed in 1991 and staff provided a report to the Legislature on the following inequities; SB 2469:

- Family allowance discontinues when spouse remarries – completed
- Refund of contributions to the surviving spouse of a deceased active member when the spouse remarries
- Payment of allowances to dependent children age 18 to 22 - completed
- Payment of allowances to dependent children age 18 to 22 - completed
- Service credit for part-time service - completed
- Sick leave service credit on pre-retirement death of a member- completed
- Eligibility to elect the pre-retirement option is not the same as eligibility to retire
- Service retirement allowance formula for reinstated disabled member
- Allow beneficiary of deceased member to continue redepositing previously refunded contributions
- Payment of quarterly supplement following the death of a retired member
- Cost basis for purchase of service credit
- Eligibility for family allowance is different for reinstatement versus rehire
- Service credit under the reduced workload program
- Various other issues

Federal

◆ President signed the Older Workers Benefit Protection Act (OWBPA), which required CalSTRS to enact new disability benefit programs that do not discriminate on the basis of age.

1989

State

◆ Federal compliance on IRC Section 415 "grandfather" benefit limitations; AB 50.

◆ Extended interest payments to option beneficiaries for late monthly allowance payments; SB 686.

◆ Modified post-retirement earnings limit from 50 percent to 100 percent of the change in the CCPI; SB 1039.

◆ Established a funding mechanism, Supplemental Benefit Maintenance Account (SBMA) to restore purchasing power of CalSTRS benefits; SB 1407.

◆ Required annual distribution of the proceeds of the SBMA at 68.2 percent of the original purchasing power to members and their beneficiaries to restore benefit levels; SB 1513.

1988

State

◆ Defined the initial effective date for purposes of applying post-retirement benefit increases when converting from disability to service retirement allowance; AB 2042.

◆ Authorized certain retirees of CalSTRS to elect to purchase up to four years of military service credit; AB 3195.

◆ Established separate accounts for service credit, contributions and interest awarded a non-member spouse; SB 1190.

◆ Exemption from Probate Code to expedite death claim payments under certain conditions; SB 2080.

◆ Modified membership qualifications for substitutes and part-time employees; SB 2082.

Federal

- President signed the Technical and Miscellaneous Revenue Act of 1988 (TAMRA), which modified limitations for Section 415(b) of the 1986 IRC for government plans.

1987

State

- Extended sunset date for the Golden Handshake Program to June 30, 1990; AB 960.
- Authorized concurrent retirement for CalSTRS members who move to employment covered by the Legislator's Retirement System, as specified; SB 990.

History of Legislation

The "History of Legislation" summarizes a fifteen-year history, beginning with 1987, of state legislation actively pursued by the Teachers' Retirement Board for the benefit of CalSTRS members and beneficiaries. These legislative efforts are consistent with CalSTRS goals to provide: 1) a financially sound retirement system; 2) continuous improvement in the delivery of benefits and services to its membership; and 3) a maximum level of benefits and services within available funding. This chapter is also intended as a historical reference for interested parties.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CalSTRS) HISTORY OF LEGISLATION			
2001 STATE LEGISLATION (2001-02 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 135 (Havice) Intro 1/23/01	Purchasing Power Protection	Increases purchasing power protection from 75 percent to 85 percent	840 (10/13/01)
AB 607 (Negrete McLeod) Intro 2/22/01	Career Factor	Increases current 2.4 percent limit on combined age factor and career factor for members who retire on or after January 1, 2002 to 2.6 percent.	Died in Assembly
AB 649 (Negrete McLeod) Intro 2/22/01	Alternative Retirement Plans For Part-Time Community College Employees	In previous version, requires community college districts to offer Social Security coverage and an alternative retirement plan to their part-time employees and allows part-time classified community college employees to participate in CB Benefit Program, if offered by employer.	364 (9/27/01); effective 9/27/01; Provisions deleted and replaced with provisions to ratify memorandum of understanding between state and state employees.
AB 804 (Strom-Martin) Intro 2/22/01	Notification Of CBEST Requirements	Requires that the Board notify members about the time constraints and possible requirements for passing the California basic educational skills test (CBEST) if the individual wants to return to the classroom after 39 months	734 (10/11/01)
AB 906 (Salinas) Intro 2/23/01	Contribution Rates	Provides legislative ratification of collective bargaining agreements reached between the State and Bargaining Units 10, 12, 13, 16, 18, and 19, and includes benefit enhancements for specified state employees not represented by an employee organization.	365 (9/27/01); effective 9/27/01
AJR 3 (Leonard) Intro 2/16/01	Repeal of the Social Security GPO and WEP	Requests that Congress repeal the Government Pension Offset and the Windfall Elimination Provision on Social Security benefits.	R66 (6/21/01)
AJR 6 (Canciamilla) Intro 3/5/01	Federal Retirement Security and Savings Act	Requests that Congress enact legislation similar to last year's H.R. 1102, to raise contribution limits and expand pension portability among various types of public and private pension and retirement plans.	Died in Senate

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 165 (O'Connell) Intro 2/1/01	CalPERS/ CalSTRS Election	Permits a vested member of CalPERS not employed in an education-related position who accepts employment to perform creditable service covered by the DB Program, to elect to be excluded from CalSTRS and retain membership in CalPERS.	77 (7/19/01)
SB 191 (Karnette) Intro 2/28/01	Retirement and Health Benefits	Requires CalSTRS to make annual contributions to members' DB Supplement accounts until 7/1/11 based on their years of credited service. Requires CalSTRS to pay the Medicare Part B premiums of active and retired DB members who are at least 55 years of age on 1/1/02. Requires CalSTRS to establish nominal accounts and credit each with $600 per year to pay healthcare insurance premiums for DB members who retired before 1/1/01.	Died in Senate
SB 334 (Ortiz) Intro 2/20/01	Teachers' Retirement Benefits Following Reinstatement	Increases benefits for members who retired for service, reinstate and perform creditable service for two years following reinstatement from a prior retirement. (Urgency statute)	800 (10/13/01); effective 10/13/01
SB 499 (Soto) Intro 2/22/01	CalSTRS Program Adjustments	Eliminates future education requirements for dependent children receiving a disability or family allowance under Coverage A; increases loan limits for the home loan program; allows DB members who were former CB Benefit Program participants to purchase their prior CB service credit.	802 (10/13/01)
SB 501 (PE&R) Intro	CalSTRS Technical Housekeeping	Makes a variety of technical changes to the Teachers' Retirement Law to improve system administration.	803 (10/13/01)
SJR 4 (Soto) Intro 2/21/01	Elimination of the Social Security GPO and WEP	Requests that Congress eliminate the application of the Government Pension Offset and the Windfall Elimination Provision on Social Security benefits.	R94 (7/26/01)

2000 STATE LEGISLATION (1999-2000 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 107 (Knox) Intro 12/22/98	Tobacco Divestment	Would have prohibited new or additional investments in tobacco companies by the CalSTRS and CalPERS on and after January 1, 2001, and would have required the divestment of existing tobacco investments by July 1, 2002. Also would have provided indemnification for board members.	Died in Assembly
AB 141 (Knox) Intro 1/11/99	Earnings Limit Exemption	Extends a current exemption from the earnings limitation for retired members of CalSTRS who are employed under specified conditions to fill an administrative position vacated due to circumstances beyond the control of the employer. The extension could equal one-half of a full-time equivalent for the position, and applies to the 1999-2000 school year and the 2000-2001 school year through December 31, 2000.	22 (5/19/00); effective 6/1/00
AB 429 (Correa) Intro 2/12/99	Ad hoc Payment	Provides an ad hoc increase of one to six percent to the annual allowance for current benefit recipients.	1027 (9/30/00)
AB 649 (Machado) Intro 2/23/99	Public Pension Reciprocity	Allows CalSTRS members who became employed by the state and eligible for CalPERS membership to elect to retain CalSTRS membership	402 (9/11/00)
AB 684 (Honda) Intro 2/23/99	Compounded COLA	Would have changed the annual improvement factor applied to benefit payments from the CalSTRS DB Program from a 2 percent simple cost-of-living adjustment (COLA) to a 2 percent compounded COLA.	Died in Assembly
AB 816 (PER&SS) Intro 2/24/99	CalSTRS Technical Housekeeping	Annual CalSTRS technical housekeeping bill with various technical and conforming changes to the Teachers' Retirement Law.	1025 (9/30/00)
AB 820 (PER&SS) Intro 2/24/99	Minor Improvements To The State Teachers' Retirement Plan	Authorizes a CalSTRS member to redeposit a portion of previously refunded contributions. Permits purchase of previously excluded service. Allows naming of new spouse by unmodified retired member. Expands participation in CB Benefit Program by trustees of governing boards.	1020 (9/30/00)
AB 821 (PER&SS) Intro 2/24/99	One-Year Final Compensation	Bases "final compensation" on the highest average annual compensation earnable by a member during a consecutive 12 month period of employment rather than highest three consecutive years for members with at least 25 years of credited service	1028 (9/30/00)
AB 1509 (Machado) Intro 2/26/99	Defined Benefit Supplement Program	Requires that 25 percent of the contributions of members of the DB Program be credited for the next 10 years to a separate nominal account in the Defined Benefit Supplement Program.	74 (7/5/00)
AB 1733 (Wildman) Intro 1/6/00	Earnings Limit Exemption	Temporarily eliminates earnings limit exemption for members who return to work more than one year after retirement and increases limitation for other retired members.	896 (9/29/00)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 1736 (Ducheny) Intro 1/6/00	Earnings Limit Exemption	Exempts from the earnings limit members who retired before 7/1/ 2000 and returns to service to provide direct remedial instruction in grades 2-12, inclusive.	351 (9/8/00)
AB 1933 (Strom-Martin) Intro 2/15/00	Longevity Bonus	Pays a "longevity bonus" of $200 to $400 per month for members who retire after 2000 and accrue at least 30 years of credited service by 2011.	1029 (9/30/00)
AB 2118 (Bock) Intro 2/22/00	CalSTRS/ CalPERS Merger Study	Would have required CalSTRS and CalPERS to prepare and submit a report to the Legislature on the consequences of a merger of the Systems.	Died in Senate
AB 2201 (Honda) Intro 2/24/00	Final Compensation Purchasing Power Board Elections	Would have calculated final compensation on the highest 12 consecutive months. Would have increased retirement formula to 2 percent at age 55, provided a compounded COLA, increased purchasing power protection from 75 percent to 80 percent, and required the election of board members to the Teachers' Retirement Board.	Died in Assembly
AB 2383 (Keeley) Intro 2/24/00	PEMHCA Eligibility and Health Benefits Study	Expands eligibility under Public Employees Medical and Hospital Care Act (PEMHCA) to authorize contracting agencies and school employers to include certain part-time employees in coverage under PEMHCA. It also requires CalSTRS to report on specified health benefits by April 1, 2001.	874 (9/29/00)
AB 2456 (Wright) Intro 2/24/00	Lump Sum Payments	Allows members of the DB Program to elect to receive a lump sum payment and a reduced monthly allowance who retire on or after January 1, 2002 and before 2011.	897 (9/29/00)
AB 2700 (Lempert) Intro 2/25/00	Creditable Compensation	Makes all compensation for creditable service creditable to the State Teachers' Retirement System and credits member and employer contributions for service in excess of 1.000 years of service per school year to the Defined Benefit Supplement Program	1021 (9/30/00); effective 1/1/02 & 7/1/02
AB 2745 (Kaloogian) Intro 2/25/00	Investments	Would have required CalSTRS and CalPERS to investigate and report to the Legislature with respect to investments in foreign companies that pose a threat to national security.	Died in Assembly
AB 2839 (Firebaugh) Intro3/2/00	CalSTRS Retirement Formula	Would have increased the retirement formula to 2 percent at age 55, for CalSTRS members who retire on or after January 1, 2001	Died in Assembly
SB 39 (Alpert) Intro 12/7/98	Career Bonus Benefit Enhancement	Would have increased the career bonus for members with 29 or more years of credited service who retire on or after January 1, 2000.	Died in Senate
SB 318 (Burton) Intro 2/8/99	Repeal Of Multiple Employer Restriction In Cash Balance Benefit Program (CBBP)	Would have repealed provisions of current law that prohibit a members of the DB Benefit Plan who is employed to perform less than 50 percent of the full-time equivalent for more than one employer from electing to participate in CBBP unless all of that member's employers participate in CBBP.	Died in Senate
SB 473 (Ortiz) Intro 2/17/99	Employer Purchase Of Nonqualified Service Credit	Would have authorized a school district, community college district, or count office of education to pay all or part of a member's costs for nonqualified service credit (airtime).	Died in Senate

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 1435 (Johnston) Intro 2/7/00	Health Benefits	Requires CalSTRS to pay the premium of Medicare Part A for retired members of the DB Program not otherwise eligible for coverage without payment of premium.	1032 (9/30/00)
SB 1505 (Burton) Intro 2/15/00	Minimum Allowance Extension	Extends eligibility for the minimum guaranteed allowance enacted in Chapter 632, Statutes of 1999 (SB 713-Burton) that is paid to CalSTRS members, their option beneficiaries and surviving spouses, in varying amounts according to the member's years of credited service.	1026 (9/30/00); effective 6/1/00
SB 1666 (Alarcon) Intro 2/22/00	Earnings Limit Exemption	Exempts from the earnings limit a member who retire for service on or before January 1, 2000, if the member returns to provide direct classroom instruction to pupils in K-12, or to provide support to (1) new teachers, (2) individuals completing student teaching assignments or (3) participating in (a) the Pre-internship Teaching Program, (b) an alternative certification program, or (c) the School Paraprofessional Teacher Training Program.	70 (7/5/00); effective 7/1/00
SB 1692 (Ortiz) Intro 2/22/00	Return to Service	Would have enhanced retirement benefits for retirees who reinstate for one year and re-retire.	Governor Veto (9/28/00)
SB 1693 (Ortiz) Intro 2/22/00	Purchasing Power	Would have increased purchasing power protection payments from 75 percent of the initial allowance to 80 percent.	Died in Senate
SB 1694 (Ortiz) Intro 2/22/00	CalSTRS/ CalPERS Membership Election For State Employees	Permits state members of CalPERS who perform service creditable to CalSTRS to remain in CalPERS. Permits CalSTRS members who work for state to remain in CalSTRS.	880 (9/29/00)
SB 1928 (Haynes) Intro 2/24/00	Investments	Would have required CalSTRS and CalPERS to investigate and report to the Legislature with respect to investments in foreign companies that pose a threat to national security.	Died in Assembly
SB 2105 (Lewis) Intro 2/25/00	Reporting for Charter Schools	Requires a school district or county office of education, as a chartering authority, to create any reports required of a charter school by CalSTRS or CalPERS.	466 (9/18/00)
SB 2122 (Ortiz) Intro 2/25/00	Investment Information	Encourages CalSTRS and CalPERS to cooperate and share information developing investment strategies and specifies that the confidential information and documents of each system will be preserved in the process.	320 (9/7/00)
SCA 16 (Burton) Intro 3/6/00	Budgetary Authority	Would have required that CalSTRS and CalPERS administrative and personnel budgets be approved in the annual Budget Act, and authorized the Governor or the Legislature, once every five years, to cause an independent actuarial review to be conducted of CalSTRS.	Died in Senate
OTHER SIGNIFICANT LEGISLATIVE ISSUES (1999)			
Proposition 38 – School Vouchers: would have required the state to offer an annual scholarship, i.e., a voucher, to every school age child in California. The vouchers, estimated to be $4,000 per year, could have been cashed by parents to pay tuition and other educational fees at eligible private schools. It also would have required the scholarship redeeming schools to administer the same standardized tests required of public schools for measuring academic achievement relative to pupils nationally.			Failed Passage (11/7/2000)

1999 STATE LEGISLATION (1999-2000 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 29 (Pacheco) Intro 12/7/98	Suspension And Expulsion Of Pupils	Provided an exemption to the earnings limit for retired teachers returning to work to meet the objectives of the proposed Grade 10 Class Size Reduction Program established in the bill. Was amended to address expulsion of pupils - No impact on CalSTRS	345 (9/8/00)
AB 81 (Cuneen) Intro 12/9/98	Income Tax Credits For Donation Of Teachers To High Schools	Authorizes a 50 percent tax credit through 2003 for taxpayers for qualified expenses incurred in lending qualified employees to public high schools, community colleges or vocation institutions for the purpose of teaching math and science.	Died in Assembly
AB 311 (Honda) Intro 2/8/99	California State Teachers Retirement Board	Would have revised the composition of the Board to require five members of the Board to be elected, at an election provided for by the Board, by the members f the group to which they belong for four-year terms. The terms would have commenced on January 1, 2001 or on January 1, 2002.	Governor Veto (10/10/99)
AB 335 (Mazzoni) Intro 2/11/99	CalSTRS Earnings Limit Waiver For Class Size Reduction	Clarifies and conforms the existing earnings limitation exemption for retired teachers who returned to the classroom as a result of the K-3 Class Size Reduction Program to include the recently authorized Grade 9 Class Size Reduction Program, and the future expansions of the Class Size Reduction Programs authorized by Part 28 of the Education Code.	40 (6/28/99)
AB 596 (Honda) Intro 2/19/99	Retirement: Service Credit	Member purchase of credit for Peace Corps and VISTA service (amended to exclude CalSTRS)	834 (10/10/99)
AB 724 (Dutra) Intro 2/24/99	"Y2K" Remediation By State Agencies	Y2K remediation by state agencies (amended to exclude CalSTRS)	784 (10/10/99)
AB 819 (PER&SS) Intro 2/24/99	Internal Revenue Code 415 compliance	Establishes the Replacements Benefit Program in compliance with federal law. Rescinds the election CalSTRS made exempting certain members from existing federal limitations on benefit payments, and requires CalSTRS to restore benefits to certain members previously limited by federal law.	465 (9/23/99)
AB 12X (Runner) Intro 1/19/99	Rule of 85	Would have permitted a member of CalSTRS to retire for service on or after 7/1/00 at age 55 or older without age-related allowance reduction if the sum of the member's age and credited service is at least 85.	Died in Assembly
AJR 9 (Correa) Intro 3/3/99	Mandatory Social Security	Encourages U.S. Congress and President to exclude state and local employees from mandatory social security.	R40 (5/26/99)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 73 (Murray) Intro 12/9/98	State Contracts; Participation Goals For Small Business	State contracts; participation goals for small businesses (amended to exclude CalSTRS)	Governor Veto (10/10/99)
SB 105 (Burton) Intro 12/10/98	CalSTRS and CalPERS Investments In Northern Ireland	Requires CalSTRS and CalPERS to investigate the extent to which U.S. and International Corporations operate in Northern Ireland.	341 (9/7/99)
SB 159 (Johnston) Intro 1/7/99	CalSTRS Health Care Benefits; Program Design	Requires CalSTRS to develop a program to provide health benefits for members, beneficiaries, children and dependent parents and appropriates $625,000 to develop the program.	740 (10/10/99)
SB 437 (Rainey) Intro 2/16/99	Restoration Of Surviving Spouse Benefits Due To Remarriage	Restores benefits paid to a surviving spouse of a deceased member of CalSTRS if the surviving spouse previously lost entitlement to survivor benefits due to remarriage prior to 10/16/92.	432 (9/16/99)
SB 713 (Burton) Intro 2/24/99	Calstrs Minimum Allowance For Career Members	Establishes minimum annual allowances payable to specified retired members of CalSTRS, their option beneficiaries and surviving spouses in varied amounts according to the member's years of credited service.	632 (10/10/99)
SB 833 (Ortiz) Intro 2/25/99	Application Of 1999 Enhanced Benefits To Existing Retired Members	Would have provided to CalSTRS members who retired in 1998 or received their first check in 1998, the benefit enhancements currently available to members who retired after 1999. The bill would also have increased the benefits of those members who are currently retired, but return to service for one year and whose total credited service equals of exceeds 30 years to reflect the "career bonus" in their entire allowance.	Governor Veto (10/10/99)
SB 1074 (PE&R) Intro 2/26/99	CalSTRS Technical Housekeeping	Annual CalSTRS technical housekeeping bill with various technical and conforming changes to the TRL.	939 (10/10/99)
SB 1245 (Hayden) Intro 2/26/99	CalSTRS and CalPERS Investments In Corporations Owing Compensation For Using Slave And Forced Labor In World War II	Authorizes any World War II slave labor victim or World War II forced labor victim, or heir of the victim to bring a court action in California, until 12/31/10, to recover compensation for labor performed against any entity or successor in interest who received the benefit that labor. Requires CalSTRS to monitor and report on investments in companies that do business in California that owe compensation to victims of slave labor from 1929 to 1945.	216 (7/28/99)

1998 STATE LEGISLATION (1997-1998 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 88 (Baca) Intro 12/30/96	Rule of 85	Would allow a member of CalSTRS, who is 55 years of age or older to retire on or after 7/1/98, with full retirement benefits if the member's age plus years of credited service equals or exceeds 85.	Governor Veto (9/13/98)
AB 884 (Honda) Intro 2/27/97	Compounded Cola	Would have required that the 2 percent improvement factor applied to benefit payments from the CalSTRS Defined Benefit Program be compounded, beginning 9/1/99.	Died in Senate
AB 1102 (Knox) Intro 2/27/97	Service Credit (Unused Sick Leave)	Would: 1) extend eligibility to receive credit at retirement for unused sick leave to members of CalSTRS DB Plan who became members on and after 7/1/80, and who retire on or after 1/1/98; and 2) eliminate the restriction that currently prohibits a CalSTRS member who reinstates from service retirement from receiving credit at a subsequent retirement for unused sick leave accrued after termination of the original retirement.	1006 (9/30/98)
AB 1150 (Prenter) Intro 2/28/97	CalSTRS Benefits	Incrementally increased the benefit factor from 2 percent at age 60 to 2.4 percent at age 63.	966 (9/29/98)
AB 1166 (House) Intro 2/28/97	Community College Counselors and Librarians, Part Time and Adult Education	Establishes a minimum standard of 175 days or 1,050 hours for full-time service and compensation for California community college counselors and librarians. Modifies the minimum standard service for adult education programs, and part-time credit and non-credit and adult education community college instructors.	678 (9/22/98)
AB 1744 (Knox, et al) Intro 2/3/98	Tobacco Investments	Would have: 1) prohibited new or additional investments by the TRF and the PERF in tobacco companies on and after January 1, 1999; 2) required phased divestment of one-third of current holdings each year beginning January 1, 2000, and continuing until January 1, 2002; 3) required the Board to make specified investment valuations at specified intervals; declare that specified results of such valuations be considered as a normal cost deficit pursuant to Section 22955 (Elder Full Funding); and 4) required both STRS and PERS to report to the Legislature on or after January 1, 2002 regarding the effect of the divestiture on employer contribution rates. The bill provides for indemnification for Board members and their agents and employees in the event of lawsuit.	Died in Assembly
AB 2765 (PER&SS) Intro 2/26/98	CalSTRS Technical Housekeeping	Make various technical and conforming changes to the TRL. Extends the sunset date on earnings exemption for retirees teaching in class size reduction. Deletes requirement for quarterly asset reports to the Legislature. Extends the sunset date to January 1, 2005, for electing Medicare coverage.	965 (9/29/98)
AB 2766 (PER&SS) Intro 2/26/98	Final Compensation for LAUSD	Would have revised the definition of final compensation for specified LAUSD members who retired in the early 1990's. Funding would be at least partially provided by LAUSD.	Died in Senate

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 2768 (PER&SS) Intro 2/26/98	Board Elections	Would have required that the four "teacher" members of the TRB be elected to the Board from their respective constituencies rather than appointed by the Governor.	Governor Veto (9/13/98)
AB 2804 (PER&SS) Intro 3/12/98	Public Retirement Systems Benefits	Reamortized the unfunded liability over 30 years; provide 65 percent of Elder Full Funding to pay for benefits.	967 (9/29/98)
AJR 63 (Prenter) Intro 4/2/98	Elk Hills Naval Petroleum Reserve	Memorializes the President and Congress to approve the appropriation of specified funds from the sale of the Elk Hills Naval Petroleum Reserve for the benefit of retired members of the CalSTRS.	R82 (7/2/98)
SB 610 (O'Connell) Intro 2/25/97	Reciprocity for '37 Act Counties	Extends reciprocal rights and limitations, which are applicable to members of CalPERS, to members of the '37 Act Counties retirement system who are also members of the CalSTRS Defined Benefit Plan.	1077 (9/30/98)
SB 1021 (PE&R) Intro 2/27/97	Federal Compliance (Pension Simplification)	Would amend the TRL to bring CalSTRS into compliance with federal changes applicable to the CalSTRS Defined Benefit Plan enacted by Congress under the Pension Simplification Act of 1996 and Taxpayers Relief Act of 1997.	1074 (9/30/98)
SB 1433 (Hayden) Intro (1/26/98)	Tobacco Investments	Would have prohibited new or additional investments by CalSTRS and CalPERS in tobacco companies on and after January 1, 1999. Provides partial compensation to CalSTRS for investment earnings losses if there is a normal cost deficit.	Died in Assembly
SB 1486 (Rainey) Intro 2/4/98	New Option Beneficiary	Permits a retired member to designate a new spouse as his or her new option beneficiary, under specified circumstances.	262 (8/6/98)
SB 1528 (Schiff) Intro 2/10/98	Health Care Study	Requires the Board to conduct a study on health insurance, including vision and dental care, for active and retired CalSTRS members, beneficiaries, children, and dependent parents.	968 (9/29/98)
SB 1753 (Schiff) Intro 2/18/98	Board Investment Decisions	Prescribes procedures for (1) the consideration of specified financial matters involving vendors and contractors in closed sessions of the Board and the CalPERS Board of Administration and (2) the disclosure of gifts and campaign contributions within 12 months. Prohibits specified board member communications.	923 (9/28/98)
SB 1945 (Karnette) Intro 2/19/98	CalSTRS Home Loan Program	Established a 100 percent financing home loan program providing CalSTRS to loan up to 5 percent of the home's purchase price/value using up to 50 percent of the members'/buyers' retirement contributions as collateral.	419 (8/31/98)
SB 2047 (Lewis) Intro 2/20/98	Change in Option	Provided (1) a new Option 8 allowing a member to select more than one option beneficiary, effective January 1, 2000; (2) for a change from Option 4 or 5 to Option 6 or 7 under specified circumstances; and (3) members upon retirement under an option with the greater of the benefit determined under the option factors in place at the time of retirement or in place at the time of election of a pre-retirement election of an option.	349 (8/24/98)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 2085 (Burton) Intro 2/20/98	CalSTRS Cash Balance Plan	Merged the CB and the DB Plans and their respective trusts into the TRF.	1048 (9/30/98)
SB 2126 (Schiff) Intro 2/20/98	Repurchase of Service Credit	Permitted (1) CalSTRS members to take up to 120 months to pay for permissive service purchases consistent with the payback period for out-of-state service credit; (2) the purchased out-of-state service credit to count toward vesting; (3) the purchase of nonqualified service; and (4) expands the existing CalSTRS credit enhancement program.	1076 (9/30/98)
SB 2224 (Alpert) Intro 2/20/98	Return to Unmodified	Increases to an unmodified allowance the allowance paid to certain members who retired prior to 1991 under specified conditions. Funding for benefit from 1997-98 normal cost surplus.	832 (9/25/98)

1997 STATE LEGISLATION (1997-1998 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 18 (Mazzoni) Intro 12/2/96	Class Size Reduction (Earnings Limit Exemption)	As an urgency measure, allows the earnings limitation exemption enacted by Chapter 948/96 (AB-1068—Mazzoni) to become operative.	1 (2/11/97); retroactive to 7/1/96
AB 206 (Hertzberg) Intro 2/4/97	Citizen Complaints to the State via Internet	Requires State agencies to make available on their Internet web sites on or before 7/1/98, a plain-language form through which residents of CA can register complaints relating to the performance of that agency, and requires agencies to provide certain information, as specified.	416 (9/21/97)
AB 373 (Morrissey) Intro 2/4/97	Extension of Post-Retirement Earnings Limit Exemption (Golden Handshake)	Would extend eligibility for an exemption from the post-retirement earnings limitation to retired members who received additional service credit at retirement under the Golden Handshake provisions, subject only to a one-year waiting period.	Provisions of this bill were amended into AB 686
AB 686 (Baugh) Intro 2/26/97	Establish Classification (Special Education Instructors); Extension of Post-Retirement Earnings Limit Exemption (Golden Handshake)	1) Provides authority for any County Office of Education, under specified circumstances, to establish two classes of employees for members of CalSTRS' DB Plan who are employed in a special education program, as determined by the number of days required of employees in each class for full-time service; and 2) extends eligibility for an exemption from the post-retirement earnings limitation to retired members who received additional service credit at retirement under the Golden Handshake provisions, subject only to a one-year waiting period.	572 (9/29/97)
AB 885 (Honda) Intro 2/27/97	Elected CalSTRS Board	Would have required that the four "teacher" members of the TRB be elected to the TRB from their respective constituencies rather than appointed by the Governor.	Governor Veto (9/29/97)
AB 1421 (Lempert) Intro 2/28/97	Nonmember Spouse Final Compensation	Would amend the TRL and require that a nonmember spouse's service retirement allowance be calculated based on the member's earnable compensation as of the effective date of the nonmember spouse's retirement, and propose a similar change to CalPERS Law.	Died in Assembly
AB 1597 (PER&SS) Intro 3/20/97	TRL Technical Housekeeping	1) Would have made various technical and conforming changes to the TRL; and 2) would have extended the Golden Handshake Program to 2004. Note: Due to a chaptering out problem with SB 629, the Governor vetoed the bill at the author's request; however, the author has agreed to reintroduce the bill next year. If the Governor had signed this legislation, it would have voided out the provisions contained in SB 629.	Governor Veto (10/10/97); Author agreed to pursue next legislative session
ACR 4 (Perata) Intro 1/13/97	Investments (Tobacco Advertisement Restriction)	Urges the shareholders of R.J. Reynolds Tobacco Company to vote to discontinue the use of the character "Joe Camel" in its advertising.	91 (9/2/97)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 227 (Solis) Intro 1/30/97	CalSTRS and CalPERS elections; Chancellor's Office employee, change in status	1) Permits members of CalSTRS who are employed by a community college district who subsequently becomes employed by a state agency, as specified, that requires membership in a different retirement system (e.g., CalPERS) to elect to remain in CalSTRS under specified conditions; 2) similarly allows a member of CalPERS under specified conditions to elect to remain in CalPERS; 3) permits specified institutions and organizations to enter into an agreement for the loan or assignment of a chancellor's office employee, as specified; 4) provides for specified CalPERS members to elect by 3/1/98 to return to CalSTRS under certain conditions; and 5) requires a member who makes such an election to purchase the CalPERS service. In addition, CalPERS would transfer the actuarial present value of the assets of the person to CalSTRS. *Sponsored by the Chancellor's Office, California Community Colleges*	838 (10/10/97)
SB 471 (Burton) Intro 2/19/97	CalSTRS annual Technical Housekeeping Bill	Makes minor technical changes to the definition of "compensation", and related technical changes to other sections of the TRL.	482 (9/24/97)
SB 629 (Karnette) Intro 2/25/97	Expand Disability Benefits	Expands eligibility for disability benefits by eliminating the minimum service credit requirement for members applying for a Disability Allowance or Disability Retirement because they were a victim of an unlawful act of bodily injury while performing their official duties.	386 (8/26/97)
SB 1026 (Schiff) Intro 2/27/97	75 percent Purchasing Power Protection	1) Provides purchasing power protection of up to 75 percent of the benefit recipient's original purchasing power from the 2.5 percent annual General Fund contribution for as long as it could support that level of funding; and 2) allows the TRB to a) transfer funds from the TRF, b) increase employer contributions of c) decrease the benefit when the 2.5 percent annual General Fund contribution is insufficient to support 75 percent purchasing power.	939 (10/12/97)
SB 1027 (Schiff) Intro 2/27/97	Member Redeposit of Nonmember Spouse Refund; Out-of-State Service Credit	Authorizes members of CalSTRS to: 1) redeposit contributions withdrawn by a nonmember spouse; and 2) purchase additional service credit for out-of-state public school employment without any date restriction.	569 (9/28/97)

1996 STATE LEGISLATION (1995-1996 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 166 (Cannella) Intro 1/19/95	Medicare (Extend Bargaining Period)	As an urgency measure, extends to 7/1/99, the current bargaining window for CalSTRS-covered employees to elect Medicare coverage. Repeals the provision on 1/1/2000. Includes urgency provision. *Sponsored by CTA*	318 (7/29/96); effective 7/30/96;
AB 430 (Cannella) Intro 2/15/95	Options Benefit	Would have allowed any member who retired prior to 1/1/91, under Option 2 or 3 and whose beneficiary has died prior to 1/1/95, and no new option beneficiary has been named by the retired member, to return to the unmodified allowance and provides funding for increased program costs. *Sponsored by CRTA*	Died in Assembly
AB 850 (Morrissey) Intro 2/22/95	Federal Compliance (Source Tax Exclusion for Non CA Residents)	As an urgency measure, adds provisions to the Revenue and Taxation Code that "qualified retirement income" from sources within CA are excluded from the gross income of a non-resident for state income tax purposes. Nonresidents who earn income other than pensions from work in CA will still remain subject to tax on their CA earnings.	506 (9/14/96); effective 7/1/96
AB 978 (Thompson) Intro 2/23/95	Education Code Revision	Would have: 1) established a 21 member commission on 1/1/97 to revise the Education Code; 2) repealed effective 1/1/99 most of Title 1 and 2 of the Education Code regarding elementary and secondary education including the TRL contained in Parts 13 and 14 of Title 1; and 3) the commission would be required to submit a recommended revised Education Code to the Legislature by 1/1/98. *Sponsored by the Governor's Office of Child Development and Education*	Died in Assembly
AB 1068 (Mazzoni) Intro 2/23/95	Class Size Reduction (Post-Retirement Earnings Limit Exemption)	Provides until 7/1/99 that earnings paid to a member who retired on or before 7/1/96 and is employed in grades K-12 because of the class size reduction program are exempt from the post retirement earnings limitation. Note: Double-joined with a bill that failed passage. The provisions of this bill were made operational by Chapter 1, Statutes of 1997 (AB 18), effective 7/1/96.	948 (9/25/96) Chapter 948 was repealed on 12/2/96
AB 1463 (Horcher) Intro 2/24/95	Rule of 85	Would have allowed a member of CalSTRS who is 50 years of age or older to retire on or after 7/1/96 with full retirement benefits if the member's age plus years of credited service equals or exceeds 85. These provisions would be repealed on 1/1/99. *Sponsored by UTLA*	Died in Assembly
AB 2400 (Miller) Intro 2/16/96	Local Retirement Systems	Deletes specific prohibitions in PERS law regarding classified school employee 's benefits and allow election of optional benefits and termination of contracts. Note: The provisions that would have impacted CalSTRS were deleted from the bill in the 5/14/96 amendments. *Sponsored by SSC*	1164 (9/30/96)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 2673 (Ducheny) Intro 2/22/96	Cash Balance Technical Housekeeping	As an urgency measure, amends the CB Plan statutes as necessary to facilitate employers' "option" to offer the Plan. Makes other technical and conforming amendments as appropriate. Note: Enabling legislation was introduced in 1995 as a mandate, but was amended late in that legislative session to allow employers the choice of offering the plan.	608 (9/18/96); effective 7/1/96
AB 3032 (Burton) Intro 2/23/96	Continued Eligibility For Students; Revision of TRL Definitions	1) Eliminates the requirement that a dependent child between the ages of 18 or 22 must maintain full-time student status to remain eligible for the child's portion of a disability or family allowance under Coverage A (Provisions sunset 2002); 2) repeals the definition of "compensation" and "salary" and adds a definition of "creditable compensation," making clarifying amendments as appropriate; and 3) amends the definition of "class of employees," as specified.	1165 (9/30/96)
AB 3221 (Gallegos) Intro 2/23/96	CalSTRS/CalPERS Election Process	1) Amends provisions specifying the process and time limit for electing membership in CalSTRS or other public school employment under specified conditions; and 2) adds provisions requiring employers to inform employees within 10 working days from the date of hire of their right to make an election. Once received and accepted by the retirement system, the election shall become effective as of the first day of employment in the position that qualified the member to make an election.	383 (8/17/96)
AB 3252 (Kaloogian) Intro 2/23/96	Establish the PEDCR Plan	Would have established the Public Employees' Defined Contribution Retirement (PEDCR) Plan for state and other local public agency employees whose employers elect to participate in the Plan. Would also specify that the day-to-day administration of the Defined Contribution Plan shall be contracted out to a private third party administrator and funded by employer and employee contributions.	Died in Senate
AB 3332 (Knox) Intro 2/21/96	Domestic Partners	Would have added a new chapter to the TRL extending eligibility for CalSTRS benefits currently available to spouses to domestic partners, but only upon a school districts' election to be subject to these provisions. *Sponsored by CTA*	Died in Committee
AB 3445 (Knox) Intro 2/23/96	Investments (Tobacco Companies)	Would have: 1) prohibited new investments of State trust funds in tobacco companies on and after 1/1/97; 2) required phased divestment of one-third of current holdings each year beginning 1/1/98, and continuing until 1/1/2000; and 3) provided for indemnification for TRB members and their agents and employees.	Died in Committee
SB 168 (Hughes) Intro 1/30/95	Elected CalSTRS Board	Would have required that the four "teacher" members of the TRB be elected from their respective constituencies rather than appointed by the Governor. *Co-sponsored by ART and CTA*	Bill withdrawn by author
SB 471 (Dills) Intro 2/17/95	Health Insurance	Would have authorized the TRB to contract for health insurance, including vision and dental care to members, beneficiaries, children, and dependent parents. *Sponsored by CRTA*	Died in Assembly

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 747 (Hughes) Intro 2/23/95	Purchasing Power Protection	Would have required the TRB to include in the Annual Erosion of Purchasing Power Report information on the effect of reducing the annual SBMA loan repayment amount and repaying that loan over 5, 10, and 15 year periods. *Co-sponsored by ACSA, ART, CRTA, and CTA*	Bill withdrawn by author
SB 1517 (Johnston) Intro 2/13/96	Federal Compliance (Source Tax Exclusion for Non CA Residents)	Would have added provisions to the CA Revenue and Taxation Code to specify that, for state income tax purposes, qualified retirement income from a source within CA would be excluded from the gross income of a nonresident, and would bring State statutes into compliance with recently enacted federal law. Note: bill was gutted, no longer impacting CalSTRS**.**	Inactive File
SB 1658 (Costa) Intro 2/21/96	Options Benefit Survey	Would have required the TRB to conduct a sample survey to determine the number of members and cost for those who retired before 1/1/91 with an Option 2 or 3 to return to the unmodified allowance if the option beneficiary died prior to 1/1/95. At the request of the sponsor, the TRB agreed to conduct the survey without legislation. Note: At the request of the sponsor, the TRB agreed at its July `96 meeting to conduct the survey without legislation during 1997. *Sponsored by CRTA*.	Died in Committee Study adopted by the TRB at its October `97 meeting
SB 1877 (Rogers) Intro 2/22/96	Federal Compliance (USERRA)	Enacts provisions for CalSTRS/CalPERS and the 37 Act counties to be in compliance with the federal USERRA. *Co-sponsored with PERS and 37 Act Counties.*	680 (9/20/96)
SB 2016 (O'Connell) Intro 2/23/96	Compounded 2% Benefit Improvement Factor	Would have provided that beginning 9/1/97, the 2 percent improvement factor applied to CalSTRS benefit payments shall be compounded. *Sponsored by CFT*	Died in Committee (5/19/96)
SB 2041 (Hughes) Intro 2/23/96	TRL Technical Housekeeping	Makes technical and conforming changes made necessary by enactment of the Cash Balance Plan and the new definition of member.	634 (9/19/96)
SB 2095 (Johnston, et al) Intro 2/23/96	SBMA Settlement	As an urgency measure, appropriates funds, as specified, to the State Board of Control to pay accepted claims. Includes a General Fund appropriation of $540,000 to settle CalSTRS' claim from 1992 relating to interest payments on the SBMA due to late payment. *Sponsored by Board of Control*	487 (9/12/96)
SJR 27 (Costa) Intro 5/26/95	Sale of Elk Hills	Memorializes the President and the Congress of the U.S. to sell the Elk Hills Naval Petroleum Reserve Numbered 1 while recognizing the state's valid claim to two school land sections within the Reserve, and to compensate CA's retired teachers for their 9% interest in the Reserve upon its sale. *Co-sponsored with CRTA and SLC*	68 (9/6/96)
SR 16 (Killea) Intro 2/16/95	Re-establish Commission on Corporate Governance	Re-establishes until 1/31/96, the Commission on Corporate Governance, Shareholder Rights, and Securities Transactions to conduct research and make public policy recommendations concerning these subjects.	Adopted (2/1/96)

1995 STATE LEGISLATION (1995-1996 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 107 (Boland) Intro 1/9/95	School District Reorganization (Los Angeles)	1) Exempts any city with a population of over 3,000,000 persons from the requirement that a school district may not be reorganized without the consent of the governing board. Existing law specifies that an action to reorganize a school district may be initiated upon the filing of a petition signed by at least 25 percent of the registered voters residing in the territory to be reorganized; and 2) provides that a petition may also be filed to reorganize a single district with over 200,000 pupils into several smaller districts if signed by a number of registered voters equal to at least 8 percent of the votes cast for all candidates for Governor at the last gubernatorial election in the territory to be reorganized; double-joined with Chapter 412/95 (SB-699, Hayden).	267 (8/2/95)
AB 948 (Gallegos) Intro 2/22/95	Post-retirement Earnings Limit Exemption; Defines Employment Activities in Determining Post-Retirement Creditable Service	As an urgency measure, 1) facilitates the continued administration of school districts faced with financial difficulties by modifying, under limited circumstances, specific provisions of the EC to permit the employment of retired CalSTRS members in administrative positions, who have specific experience necessary to ensure or restore the financial stability of a troubled school district; and 2) also establishes definitions of various employment activities that are considered "creditable service" and provides that the earnings limitation on post-retirement service is applied only to compensation earned from creditable service. Co-sponsored with ACSA	394 (8/10/95); effective 7/1/95
AB 1122 (Cannella) Intro 2/23/95	Establishes Minimum Standards for Full-time Employment (FTE)	1) Establishes appropriate minimum standards for full-time employment for all classifications of employees in K-12 and community colleges for crediting service in CalSTRS, while continuing to allow the districts the flexibility to establish specific standards for full-time employment; and 2) makes clarifying amendments to existing definitions and adds new definitions to the EC as necessary, and repeals provisions that are made obsolete by these changes.	390 (8/10/95); effective 7/1/96
AB 1298 (Ducheny, et al) Intro 2/23/95	Establishes the Cash Balance Plan	Authorizes CalSTRS to establish a Cash Balance retirement program administered by CalSTRS for part-time public school employees which employers may elect to provide for persons employed less than half-time at a contribution rate that is lower than Social Security tax. Note: The I.R.S. has expressly ruled that CalSTRS' Cash Balance Qualifies as an alternative retirement plan to Social Security.	592 (10/4/95)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 1441 (Horcher) Intro 2/24/95	Pre-Retirement Options Modifications	Addresses three issues related to pre-retirement option elections and survivor benefits to: 1) eliminate the requirement that a surviving spouse of a CalSTRS member under Coverage A must wait until age 60 to receive a monthly allowance; 2) makes the age and service requirements for eligibility to make a pre-retirement election of an option consistent with the requirements for eligibility for retirement; and 3) makes the assessment for cancellation of an option more reflective of the actual costs to CalSTRS for providing the coverage the member received.	524 (10/4/95)
SB 699 (Hayden, et al) Intro 2/22/95	School District Reorganization	Specifies that any reorganization of a school district in a city with a population of more than 3,000,000 persons shall ensure that each new district created meets specified conditions, including the maintenance of the conditions of all collective bargaining agreements until their expirations. Bill is double-joined with Chapter 267/95 (AB 107, Boland).	412 (8/10/95)
SB 791 (Hughes) Intro 2/23/95	Federal Compliance (Compensation Limit); Eliminates CalSTRS Annual Report Supplement	1) Amends the Government Code and the Education Code to include a reference to the compensation limit recently mandated by Section 401(a)(17) of the IRC. This requirement limits the annual compensation for the purpose of benefit accruals to $150,000 for each employee under a qualified pension plan for new members hired on and after 7/1/96; and 2) amends the provisions that prescribe the content of the CalSTRS Annual Report, and reporting requirements related to CalSTRS investments. *Co-sponsored with CalPERS and SACRS*	829 (10/12/95); effective 7/1/96

1994 STATE LEGISLATION (1993-1994 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 1470 (Cannella) Intro 3/4/93	Additional Years of Service Credit	Would have granted, upon the Governor's executive order, 3 additional years of service and an additional 3 years of age to state employees, certain employees of contracting agencies, and certain CalSTRS members employed in state agencies. The Governor was not convinced the provisions would save money. According to the proponents, a primary purpose of this bill was to avoid layoffs. Although the theory is that savings would accrue through the replacement of highly compensated senior employees with lower paid employees, experience has proven retirement enhancements to be expensive, and costing more than initial estimates. Sponsored by Professional Engineer's in CA Government, Assoc. of CA State Attorneys & Administrative Law Judges, CA Assoc. of Highway Patrolmen, CA Dept. of Forestry Employee Assoc., and Orange Co. Employee Assoc.	Governor Veto (5/20/94)
AB 1527 (Burton, et al) Intro 3/4/93	Investments (Northern Ireland)	Would have required CalSTRS/CalPERS to monitor annually the extent to which companies in Northern Ireland adhere to principles of nondiscrimination and freedom of opportunity in the workplace. The Governor viewed this legislation the same as another bill he vetoed in 1992 stating that with increasing prospects for political settlement in Northern Ireland, it made no sense to enact this proposal.	Governor Veto (9/29/94)
AB 2237 (McDonald) Intro 3/5/93	Investments (South African Bonds)	Authorizes any state or local retirement system to invest in rated or unrated bonds, notes, or other instruments guaranteed by the government of South Africa. Note: The provisions are permissive and do not require action by CalSTRS.	46 (4/19/94)
AB 2448 (W. Brown, et al) Intro 1/4/94	Investments (Repeal of South Africa Sanctions)	As an urgency measure, repeals existing law that prohibits state trust fund investments in South Africa.	31 (3/30/94); effective 3/31/94
AB 2512 (Epple) Intro 1/13/94	Extended SR Formula	Would have provided an incremental increase in the benefit factor of .25 of 1 percent per month up to a maximum of 2.3% at age 65 for CalSTRS members retiring after 6/30/95 with 20 or more years of service credit and whose employer elected to provide this benefit. The Governor vetoed a similar bill last year and objected then to any benefit enhancement coming at the expense of classroom resources. Sponsored by CTA	Governor Veto (9/30/94)
AB 2550 (Karnette) Intro 1/19/94	Repeal Administrative Refund Fee	Repeals existing law which requires CalSTRS to charge an administrative fee for processing a member's request for a refund of his or her member contributions. The bill also permits certain refunds to be canceled and membership to be restored.	932 (9/27/94); effective 7/1/95

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 2554 (Solis) Intro 1/20/94	Part-time Teacher Notification	Requires CalSTRS employers to provide notification to employees of the employees' right to elect membership in the CalSTRS DB Plan and applies an employer penalty for non-compliance. Employers are not liable for employee contributions for service performed prior to 1/1/95. *Co-sponsored with CFT*	603 (9/15/94)
AB 2647 (Aguiar) Intro 2/2/94	Adult Education Membership	1) Allows part-time and substitute instructors in adult education who are currently excluded from membership in CalSTRS to elect membership in the CalSTRS DB Plan; and 2) requires the employer to return overpaid contributions to the member within 60 days of discovery or notification of the overpayment. *Sponsored by CA Council for Adult Education*	507 (9/11/94)
AB 2648 (Karnette) Intro 2/2/94	Benefit Enhancement Study	Would have required CalSTRS to conduct a study to determine the feasibility of the System to offer certain optional benefit enhancements that members could elect to purchase. The Governor determined that while the bill provides for recovery of the $75,000 appropriation from CalSTRS members receiving a benefit enhancement, there was no assurance that the TRF would be fully reimbursed. *Co-sponsored with CTA*	Governor Veto (9/15/94)
AB 2862 (Lee) Intro 2/17/94	Investments (Securities; Public Retirement Systems)	Would have authorized any public retirement system to invest in securities guaranteed by the African, Asian and Caribbean Development Banks and the Inter American Bank.	Died in Senate (6/30/94)
AB 2916 (O'Connell) Intro 2/17/94	Membership	Would have allowed CalSTRS members who become employed with one of six state agencies in a position represented by Bargaining Unit 21 and requiring membership in CalPERS to elect to remain in CalSTRS by making such election in writing within 30 days of entering the new position. The Governor determined this bill would have provided a more costly benefit to a select group of employees and therefore inequitable, and that retirement benefits should be discussed and agreed upon through collective bargaining prior to a legislative resolution. *Sponsored by CSEA - Bargaining Unit 21*	Governor Veto (9/11/94)
AB 3064 (Morrow) Intro 2/22/94	TSA Program	Requires CalSTRS to offer a TSA program, as specified. Co-sponsored with ACSA	291 (7/20/94)
AB 3171 (Napolitano) Intro 2/23/94	TRL Technical Housekeeping	As an urgency measure, makes various minor, corrective and technical changes to the TRL related primarily to the 1993 recodification.	933 (9/27/94); effective 9/28/94
AB 3407 (PER&SS) Intro 2/24/94	Mid-career Counseling Program	Requires CalSTRS to offer a mid-career retirement planning information program for CalSTRS members. Co-sponsored with ACSA	656 (9/19/94)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 3627 (Campbell) Intro 2/25/94	Membership (Insolvent School Districts)	Provides that trustees or administrators appointed by the Superintendent of Public Instruction to an insolvent school district, as specified, shall be members of CalSTRS for the period of the appointment, unless they elect in writing not to become or remain members. *Sponsored by DOE*	1002 (9/28/94); retroactive to 7/1/93
AB 3705 (PER&SS) Intro 2/25/94	457 Deferred Compensation Plans	Allows CalSTRS to develop one or more deferred compensation plans pursuant to Section 457 of the IRC. *Co-sponsored with CTA*	489 (9/10/94)
AB 3832 (PER&SS) Intro 3/16/94	Defines "Full-time"	Codifies the definition of "full-time" as a distinct code section, separate from the definition of "compensation earnable."	193 (7/9/94)
SB 192 (Dills) Intro 2/4/93	Health Benefits (Local Public Employees)	Would have allowed CalSTRS to offer health benefits to active and retired members. CalSTRS believes that affordable health benefits coverage is an integral part of a secure retirement and is in concert with its primary responsibility to provide retirement program services to its members. The Governor determined that the System would be required to acquire special expertise and resources to administer health benefits; and, since the benefit would be partially funded by school districts, it would reduce resources available for classrooms. *Sponsored by CRTA*	Governor Veto (9/30/94);
SB 277 (Hughes) Intro 2/12/93	Elected CalSTRS Board	Would have required that the four CalSTRS members of the TRB be elected to the Board from their respective constituencies rather than appointed by the Governor. The Governor determined there was no need to substitute the current appointment process with a cumbersome election process at a cost to the TRF in excess of $125,000; Proposition 162 established in the state constitution the responsibilities and priorities for the TRB who have fulfilled those obligations; and, an elected Board should represent interests of the entire system, not individual constituencies. *Sponsored by ART*	Governor Veto (9/25/94)
SB 586 (Hughes) Intro 3/1/93	75% Purchasing Power Protection (Establish Legislative Intent)	1) Restates the intent of the State to ensure a minimum purchasing power of 75% of the initial retirement allowance and specifies possible revenues; 2) requires CalSTRS to annually report return on investments and actual total salaries; and 3) requires the Controller to adjust the ad hoc minimum guarantee contribution to CalSTRS once actual payroll is determined. *Sponsored by CRTA*	858 (9/25/94)
SB 858 (PE&R Committee) Intro 3/4/93	Golden Handshake	Reestablishes the Golden Handshake additional 2 years service credit program operative 3/30/94 through 12/31/98.	20 (3/15/94); effective 3/16/94
SB 1285 (Watson) Intro 1/6/94	Investments (South Africa)	As an urgency measure, repeals existing law that prohibits state trust fund investments in South Africa.	30 (3/30/94); effective 3/31/94
SB 1459 (Watson) Intro 2/10/94	Investments (International)	Authorizes any public retirement system to invest in securities guaranteed by various international financial institutions. *Sponsored by Dymally, Ernest & Fair*	1084 (9/28/94)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 1499 (Hughes) Intro 2/15/94	Service Credit for Unused Sick Leave	Would have allowed employers to elect to provide service credit for unused sick leave at retirement to those employees who become CalSTRS members after 7/1/80. *Sponsored by CTA*	Died in Assembly
SB 1972 (Campbell) Intro 2/25/94	Investments (Possessory Interest Tax Proration)	Makes permanent the provisions which would otherwise sunset 6/30/94, regarding the proration of the possessory interest tax imposed upon the tenants of properties owned by CalSTRS. *Co-sponsored with CalPERS*	1281 (9/30/94); effective 9/30/94
OTHER SIGNIFICANT LEGISLATIVE ISSUES (1994)			
California Health Security Act (Proposition 186) – Would have established a "single payer" health care system in which the State of CA would administer and finance health care coverage, thereby replacing most private health insurance and current public health care programs. The proposed System would have been similar to those used in some other countries, such as Canada. This Act would have some impact on CalSTRS members depending on their individual circumstances. It would have no impact on CalSTRS as a public pension fund nor on services CalSTRS currently provided to members.			Defeated

1993 STATE LEGISLATION (1993-1994 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 40 (Margolin) Intro 12/9/92	Investments (Arab Boycott)	Expands provisions enacted last year, Chapter 1351/92 (AB-2251, Margolin) regarding the prohibition of state trust funds investing in companies that are complying with the Arab League's economic boycott of Israel. Note: the CA Attorney General has concluded that this bill is pre-empted by federal law and therefore not subject to implementation by CalSTRS.	439 (9/24/93)
AB 216 (Margolin) Intro 1/25/93	Investments (Foreign Government Bonds)	Authorizes state or local retirement systems to invest in foreign government bonds or other evidences of indebtedness, a portion of which may be used to purchase rated or unrated bonds guaranteed by Israel, Canada or Mexico; permissive only.	440 (9/24/93)
AB 407 (Escutia) Intro 2/10/93	Dual Membership	Would have repealed the TRL provision that excludes a full-time member of another public retirement system from membership in CalSTRS for part-time work under CalSTRS. The Governor determined that this bill would increase the CalSTRS' unfunded liability thereby resulting in increased GF costs because of the requirements of the Elder Full Funding Act (costs not funded by the combined employer/employee contributions, approximately 1.2 percent of payroll); result in local mandated program costs; and, inappropriately divert money from the classroom.	Governor Veto (10/4/93)
AB 447 (Seastrand) Intro 2/11/93	Federal Compliance (Age 70-1/2 Minimum Distribution)	1) Adds the definition of "reinstatement" to the TRL; 2) requires CalSTRS to comply with Federal law with regard to minimum distribution at age 70-1/2 and specifies various procedures pertaining to CalSTRS' inactive members; and 3) provides for CalSTRS to prorate supplemental payments to the termination date of the allowance.	861 (10/5/93); Line item veto of $100,000 appropriation
AB 449 (Horcher) Intro 2/11/93	Rule of 85	Would have established the "Rule of 85" alternative retirement program. The Governor determined that this bill lacked several safeguards as proposed in the Legislative Analyst's Office report. Specifically it did not require an audit over the life of the early retirement program to reflect that cost savings actually occurred; no specified time limit for districts to finance payments for the enhanced benefits; lacked flexibility for districts to determine a minimum retirement age; and there was no directive to keep the deleted classifications empty. *Sponsored by CTA*	Governor Veto (10/9/93)
AB 631 (Cannella) Intro 2/22/93	Modify TRL Definitions	Clarifies the definition of "compensation" and "salary" for purposes of determining benefits and contributions.	468 (9/25/93)
AB 798 (Sher) Intro 2/25/93	Benefit Payment Arrangements	1) Prohibits CalSTRS/CalPERS from mailing a copy of benefit payment information to any member who has payment directly deposited if the member requests not to have the information sent; and 2) requires the Systems to inform members of their right not to have the information sent to them.	1083 (10/10/93)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 810 (Tucker) Intro 2/25/93	Benefit Study	Would have required CalSTRS to conduct a study of the costs of: 1) a 2% at age 58 to 2.418% at and over age 61; and 2) a 2% at age 59 to 2.418% at and over age 62 formula for state employee CalSTRS members. *Sponsored by CSEA*	Dropped by author; agreed to conduct the study
AB 916 (Farr) Intro 3/1/93	Credit Enhancement For Local Government Bonds	Would have required CalSTRS/CalPERS, in consultation with the Treasurer, to study the feasibility of establishing under the Systems a credit enhancement program for local government bonds. The Governor determined that the bill was unnecessary since both CalSTRS/CalPERS already have the authority to conduct such a study and to provide credit enhancement programs; particularly with CalSTRS' program for industrial development bonds. This program experience can be used as a general application for other credit enhancement programs.	Governor Veto (10/11/93)
AB 1631 (Karnette) Intro 3/4/93	Survivor Benefits (SB-93)	1) Allows CalSTRS to: 1) revise the current process of verifying the date of birth or death of a benefit recipient; 2) Specifies that a pre-retirement election of an option is automatically canceled if the option beneficiary predeceases the member; and 3) specifies the procedures to be taken when a designated beneficiary cannot be located.	920 (10/7/93)
AB 1796 (Napolitano) Intro 3/5/93	TRL Recodification	Recodifies the TRL; makes structural changes only.	893 (10/7/93)
AB 2278 (Tucker) Intro 3/5/93	CalSTRS Technical Housekeeping	Makes technical, corrective and clarifying changes in various TRL provisions.	1082 (10/10/93)
SB 70 (L. Greene) Intro 1/6/93	Investments (Proration of Property Taxes)	Requires for fiscal years 1992-93 and 1993-94 that, if a lessee of a CalSTRS-owned property holds a possessory interest for less than a full fiscal year, the amount of the property tax shall be prorated according to the number of months the lessee holds the interest.	1187 (10/11/93)
SB 77 (Appropriation s Committee) Intro 1/7/93	"Float" Suit	As an urgency measure, makes a GF appropriation of $8.9 million to CalSTRS and $7.5 million to CalPERS. These amounts represent the settlement of a lawsuit CalSTRS/CalPERS filed against the State to recover the System's investment earnings in the State's Pooled Money Investment Account between 1984 and 1988.	699 (10/1/93); effective 10/2/93
SB 107 (Hughes) Intro 1/14/93	Golden Handshake Extension	Would have removed the 1/1/94 sunset date of the Golden Handshake provisions, thereby continuing the program on a permanent basis. The Governor determined that this bill lacked several safeguards as proposed in the Legislative Analyst's Office report. Specifically it did not require an audit over the life of the early retirement program to reflect that cost savings actually occurred, limit financing periods to four years, and authorize the executive to designate the eligible departments, programs, and position classifications; otherwise, he would be willing to sign. *Sponsored by CTA*	Governor Veto (10/9/93)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 195 (Hughes) Intro 2/4/93	TSA Plan	Would have required CalSTRS to offer a TSA Plan to be operated under the direction of CalSTRS' Investment Office or a third party administrator. The Governor recognized that the TRB was evaluating the effectiveness and future of the existing TSA plan; consequently, development of an additional or new plan would be premature prior to the complete evaluation and final disposition of the existing plan. *Sponsored by CTA*	Governor Veto (9/24/93)
SB 414 (Roberti) Intro 2/24/93	One Year Final Compensation Repayment (LAUSD)	Would have provided for employers to pay for the one-year final compensation benefit as required by the TRB. The Governor determined that this bill would encourage school districts to borrow money to pay for increased retirement benefits without securing additional funding to cover the debt; the sponsor did not demonstrate any savings by school districts that have already extended this benefit, or that any savings would accrue from the financing option contained in the bill; and, the bill has the potential to divert money from the classroom. *Sponsored by UTLA*	Governor Veto (9/21/93)
SB 698 (Torres) Intro 3/3/93	Salary Preservation Using 3 Non-consecutive Years For Final Compensation	1) Allows a member's retirement allowance calculation to be based on the member's highest earnable compensation during any three non-consecutive years of CalSTRS membership if the member's salary was reduced because of budget reductions; and 2) authorizes employers to elect to preserve members' retirement benefits when salary reductions due to budget cuts have occurred. *Co-sponsored with CFT*	860 (10/5/93); Line item veto of $300,000 appropriation
SB 754 (Hughes) Intro 3/3/93	Change of Options	Allows a CalSTRS retired member who retired under Option 2 or Option 3 before 1/1/91, to change Option 2 or 3 to Option 6 or 7, under specified conditions. *Sponsored by CRTA*	911 (10/7/93)
SB 857 (PE&R) Intro 3/4/93	Betts Cleanup; Long-term Health Care	1) Authorizes districts to grant a leave of absence to a certificated employee who has applied for either a disability retirement benefit or a disability allowance; 2) makes various technical and conforming changes related to implementation of the new Disability Retirement and Survivor Benefits programs; and 3) makes the CalPERS Long-Term Care Act provisions applicable to CalSTRS members.	1144 (10/10/93)
OTHER SIGNIFICANT LEGISLATIVE ISSUES (1993)			
Voucher/Parental Choice In Education (Proposition 174) - Would have allowed parents to exercise choice in the schools which their children attend by providing state educational "scholarships", or vouchers, for CA students that would be redeemable by their parents at either private or public schools that have converted to independent scholarship-redeeming schools. The amount of the scholarship would be equal to at least 50 percent of the prior year's public per-pupil spending; an estimated $2,600 per student. Note: any significant migration of teachers from the public schools as a result of the Initiative would have a negative impact on the funding period at CalSTRS.			Defeated

1992 STATE LEGISLATION (1991-1992 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 75 (Elder) Intro 12/4/90	Employer Notification	Would have: 1) required employers to provide membership information to all full-time, part-time and substitute employees; 2) deleted reference to a repealed section in the TRL; and 3) included other provisions (not affecting CalSTRS) that would have authorized contracting agencies under CalPERS to offer their employees up to an additional 4 years of service credit. The Governor was concerned that this bill would require him to issue a "statewide executive order" to trigger the effectiveness. Conditioning a local agency's legislative action on the Governor's issuance of an executive order is a cumbersome and inappropriate exercise of the Governor's executive powers.	Governor Veto (9/30/92)
AB 486 (Polanco, et al) Intro 2/12/91	Public Contracts (Certification Requirements)	Creates a standardized certification program and permits all state and local agencies to use the criteria under this program to certify minority, women and disadvantaged business enterprises for contracts that are federally, state or locally funded.	1329 (9/30/92)
AB 1074 (Epple) Intro 3/5/91	Extend SR Formula	Would have increased the benefit factor from 2.1% at age 61; 2.25% at age 63; and 2.5% at age 65 for CalSTRS members retiring after 6/30/93 with 20 or more years of service credit and whose employer has opted for this benefit. The Governor was not in favor of enhancing a retirement benefit with resources that could otherwise be provided for the classroom. *Sponsored by CTA*	Governor Veto (7/20/92)
AB 1399 (Eaves) Intro 3/7/91	Defined Contribution Study	Would have required the TRB to conduct a study of defined contribution benefits and establish a defined contribution "account" that complies with IRC section 415 requirements. *Sponsored by Assoc. Of CA Life Insurance*	Died in Senate (8/19/92)
AB-1522 (Campbell, et al) Intro 3/7/91	Additional Service Credit	As an urgency measure, authorizes the Trustees of the CA State University to grant four years of additional service credit to eligible employees who retire during the 1992-93 fiscal year. Note: CalSTRS' records indicate that fewer than five members will be affected by this legislation. *Sponsored by CA State University*	450 (8/6/92); effective 8/7/92
AB 1719 (Horcher) Intro 3/8/91	Community Property Nonprobate Transfers	Amends various provisions of the Probate Code relating to the nonprobate transfer of community property, including transfers of property under the terms of a pension plan. *Sponsored by CA Law Revision Commission*	51 (5/8/92)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 2251 (Margolin, et al) Intro 3/15/91	Investments (Arab Boycott)	Prohibits state trust funds from making new or additional investments in business forms or financial institutions that engage in discriminatory business practices that are "in furtherance of or in compliance with the Arab League's economic boycott of Israel." Under the "secondary boycott," which this bill targets, companies doing business in Arab nations must agree not to do business in Israel. Note: CalSTRS is required to begin divestiture of prohibited investments on 1/1/95 and reduce such investments by one-third annually until 1/1/98 when divestiture is complete.	1351(9/30/92)
AB 2282 (Elder) Intro 1/6/92	Member Home Loans	Would have required the TRB to study the advantages and disadvantages of offering low interest rate home loans to CalSTRS members. The Governor didn't see any merit to using TRF monies to finance reduced mortgage home loans which has previously been found to be a violation of both the CA Constitution and other statues to which the TRB is subject to.	Governor Veto (8/12/92)
AB 2317 (Moore) Intro 1/13/92	Investments (Public Retirement Systems Investments Advisors)	Would have authorized CalSTRS/CalPERS to consider joint venture, subcontracting, and investment-related relationships with women, minority, and disabled veteran business enterprises for purposes of meeting the statewide participation goals. The Governor stated that investment agreements are not service contracts under the Public Contract Code and should not be reported as if they were.	Governor Veto (7/27/92)
AB 2335 (Moore) Intro 1/15/92	Contract Award Requirements	Would have required state agencies to award a contract to the lowest responsible bidder fully meeting the minority and women business enterprises contract participation goals or having the highest aggregate percentage of those goals.	Died in Senate;
AB 2391 (Moore) Intro 1/27/92	Investments (South Africa Relief)	As an urgency measure, excludes firms engaged in famine relief activities in Southern Africa from the South Africa divestiture provisions Chapter 1254/86 (AB-134—Waters.)	1238 (9/29/92); effective 9/30/92
AB 2513 (Andal) Intro 2/6/92	Definition Revision	Would have revised the definitions of "compensation" and "salary for use in the calculation of a CalSTRS retirement benefit.	Died in house of origin
AB 2538 (Moore) Intro 2/6/92	Family Care Leave	Allows a member to purchase service credit for time spent on an approved family care leave of up to four months. Note: This bill enabled CalSTRS to implement the provisions of Chapter 462/1991 (AB 77—Moore) which required employers of 50 or more employees, including school district, to grant specified family care leave.	1272 (9/30/92)
AB 2585 (Eastin, et al) Intro 2/10/93	Charter Schools	Would have provided the general requirements for the establishment of charter public schools. The Governor determined that this bill fails to embrace the basic ingredients of the charter school concept (e.g., freedom from the state regulation and employee organizational control, and choice on the part of parents, pupils, teachers, and administrations).	Governor Veto (9/20/92)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 2721 (Elder, et al) Intro 2/13/92	Federal Compliance (Rollovers)	Authorizes public pension plans including CalSTRS to make rollovers directly to another eligible retirement plan. A new federal law requires retirement plans to withhold 20 percent on the taxable portion of an eligible distribution that is not rolled over directly to a qualified plan. Allows a member to request that a lump-sum distribution be made directly to another eligible plan and thus avoid the 20 percent withholding tax now required when the distribution is made directly to the member.	1047 (9/27/92)
SB 766 Intro 3/6/91	System Funding	As an urgency measure, clarifies the methodology for calculating the Elder Full Funding contributions due CalSTRS on prior calendar year payroll.	703 (9/14/92); effective 9/15/92
SB 1448 (Hart, et al) Intro 2/10/92	Charter Schools	Authorizes the establishment of not more than 100 charter schools in the state, each of which will be treated as a school district for school funding guarantee purposes. These schools will be exempt from laws governing regular school districts except for those that choose to participate in CalSTRS. When a charter school chooses to participate in CalSTRS, all employees of that charter school who qualify for CalSTRS membership will be covered under CalSTRS. All provisions of the TRL will apply in these participating charter schools as if they were a public school in the school district that granted the charter.	781 (9/20/92)
SB 1687 (L. Greene) Intro 2/20/92	Investments (In-lieu Fees)	Excludes CalSTRS' real estate investments from in-lieu fees and requires instead that lessees of CalSTRS owned property pay regular property taxes based on their possessory interest.	1158 (9/29/92)
SB 1765 (Hart) Intro 2/20/92	CalSTRS/CalPERS Service Credit (Legislators)	Would have allowed CalSTRS/CalPERS members to purchase service credit for time spent in the CA Legislature during a service break. The Governor determined this bill contradicts the provisions of Proposition 140 (1990) which prohibits the accrual of pension benefits as a result of service in the Legislature. On or after November 1990, no Legislative Retirement System exists other than Social Security.	Governor Veto (9/30/92)
SB 1884 (C. Green) Intro 2/21/92	Multiple Retirements (Betts)	As an urgency measure, provides the methods to be used in the calculation of a retirement allowance for members who previously received either a disability or service retirement benefit.	1165 (9/29/92); effective 9/30/92
SB 1885 (C. Green) Intro 2/21/92	Federal Compliance New Survivor Benefits & Disability Retirement Programs (Betts)	As an urgency measure, establishes new survivor benefits and disability programs for all new members entering CalSTRS on or after 10/16/92. Also authorizes persons who were CalSTRS members on 10/15/92, to elect to participate in the new programs. These changes bring CalSTRS into compliance with the federal Older Workers' Benefit Protection Act passed by Congress on 10/16/90. Coverage A: $5,000 lump sum death payment.. Coverage B: $20,000 lump sum death payment.	1166 (9/29/92); effective 10/16/92

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 1886 (C. Green) Intro 2/21/92	CalSTRS Disability (Betts)	Makes various changes to CalSTRS' disability program, particularly: 1) makes technical revision to the standard for determining disability; 2) defines "comparable level position" as any job in which the disabled member can earn 66-2/3 percent or more of indexed final compensation; and 3) allows members to apply for disability while still working.	1167 (9/29/92)
SB 1887 (C. Green); Extraordinary Session Intro 2/21/92	State Employees (Personal Leave Program Service Credit; Final Compensation)	As an urgency measure: 1) Allows state employee CalSTRS members subject to the personal leave program (administered by the DPA) to be credited with the service they would have received prior to being placed under this program; and 2) provides that, for nonrepresented state employee members who retire or die on or after 7/1/91, and whose salaries were reduced during the 1991-92 fiscal year, "final compensation" means the highest annual salary as if no reduction had occurred. The employer is required to pay for any costs that result from the increased service credit and use of the higher final compensation.	1372 (10/26/92), effective 10/27/92
SB 1902 (Johnston, et al) Intro 2/21/92	Health Benefits Study	Would have required the TRB to conduct a statewide health benefits study of certificated school employees using a $240,000 TRF appropriation for this purpose. The Governor determined this bill served as a catalyst for seeking a statewide health benefit package for school employees, rather than sought at the local level through collective bargaining.	Governor Veto (9/30/92)
SB 1957 (Thompson) Intro 2/21/92	Investments (Repeal Sunset - Real Estate Priorities)	As an urgency measure, deletes the 1/1/93 repeal date of provisions requiring CalSTRS to give first priority to investing at least 25 percent of newly available funds in CA residential realty.	540 (8/21/92); effective 8/22/92
SB 2018 (Calderon) Intro 2/21/92	Division of Community Property	As an urgency measure, modifies provisions relating to community property rights in retirement plans including prohibiting a nonmember spouse from receiving a retirement allowance until the actual retirement date of the member. CalSTRS/CalPERS are excluded from the latter provision.	431 (9/1/92); effective 9/2/92
OTHER SIGNIFICANT LEGISLATIVE ISSUES (1992)			
California Pension Protection Act (Proposition 162) – Effective upon certification of the Secretary of State, this act grants the TRB plenary authority over investment decisions and administration of the system in a manner that will assure prompt delivery of benefits and related services to members and their beneficiaries.			Approved; effective 12/14/92

1991 STATE LEGISLATION (1991-1992 Legislative Session)			
Initiative	Subject	**Summary / Benefit(s)**	Chapter (enacted); Status
AB 77 (Moore, et al) Intro 12/4/90	Fair Employment & Housing (Family Care Leave)	Requires that employers of 50 or more employees, including school districts, grant unpaid leave for up to four months in any 24-month period for family care purposes, as defined. Note: CalSTRS had previously taken a "support" position; however, suggested amendments were never adopted into the bill. *Sponsored by CA Labor Federation*	462 (9/30/91)
AB 191 (Elder) Intro 1/4/91	Employer Contribution Deferral	Would have allowed the LAUSD and the SFUSD not to make their employer contributions to CalSTRS from January 1992 through June 1992. The contributions that would have been made during that six-month period would instead have been paid in monthly payments over a period of up to 20 years commencing 7/1/93. The Governor determined there was already an orderly process by which districts experiencing financial difficulty could request an "emergency apportionment"; the provisions were perceived to be a loan to these particular school districts thereby circumventing the existing process; and, there were no safeguards to ensure that the districts in need would repay their debt, particularly where evidence may portray that their operations were not managed efficiently.	Governor Veto (7/18/91)
AB 276 (Filante, et al) Intro 1/22/91	Rule of 85	Would have allowed a member of CalSTRS aged 50 or older to retire with full retirement benefits, if the member's age plus years of credited service totaled 85. The Governor determined that CalSTRS already offered several options for early retirement, but with a reduced retirement allowance, as well as other early retirement options including incentives individually being offered by employers; would cost employers $50,000-$100,000 per retired member which would result is a diversion of funds from the classroom; and there were no requirements over the life of the early retirement program to reflect any cost savings to the program. *Sponsored by CTA and ACSA*	Governor Veto (10/6/91)
AB 692 (Hayden) Intro 2/25/91	Investments (State Trust Funds)	Would have authorized CalSTRS/CalPERS to require companies in which they make investments to disclose the extent to which the companies adhere to the so-called Valdez Principles regarding "corporate environmental responsibility. The Governor determined the bill as being permissive, unnecessary and an expression of Legislative intent, and CalSTRS/CalPERS already have guidelines for companies in which the systems invest to conduct themselves with propriety and a view toward social considerations.	Governor Veto (10/14/91)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 702 (Frizzelle) Intro 2/25/91	Funding	As an urgency measure, provides that Elder Full Funding contributions be made in quarterly payments of 1.075 percent from the GF to the TRF instead of monthly contributions, commencing 10/1/91.	83 (6/30/91); effective 7/1/91
AB 1189 (Peace) Intro 3/6/91	Investments (Corporations Electronic Proxies)	Permits oral telephonic submission of a proxy by a shareholder or someone with authority to act for a shareholder. Note: This bill does not require any action on the part of CalSTRS.	308 (8/2/91)
AB 1330 (Burton, et al) Intro 3/7/91	Investments (Northern Ireland)	Would have required CalSTRS/CalPERS to: 1) compile a list of corporations that do business in Northern Ireland (NI), in which the assets of the two funds are invested, and report this information to the Legislature; 2) annually monitor the extent to which U.S. Corporations operating in NI, in which the funds have investments, adhere to nondiscrimination principles, as defined by the MacBride Principles; and 3) support, whenever feasible, shareholder resolutions designed to encourage corporations in which the funds have invested to pursue a policy of affirmative action in NI. The Governor determined the bill was redundant with existing practices, and that it was opposed by political and labor union leaders who represent NI Catholic constituencies who viewed the bill as threatening to the economy of NI as well as the job opportunities for Catholic workers who are far better protected by the mandatory provisions of the Fair Employment Act of 1989 than the MacBride principles.	Governor Veto (10/11/91)
AB 2224 (Cannella) Intro 3/12/91	Full-time equivalent in Community Colleges	Would have established new standards for the crediting of service performed by community college members of CalSTRS employed on a part-time basis. The Governor determined the bill would result in increased costs to CalSTRS for those part-time instructors who become full-time instructors (estimated to range from $10,000 to $30,000) and would continue to increase for a number of years. *Co-sponsored with CFT and FACCC*	Governor Veto (10/14/91)
SB 196 (C. Green) Intro 1/17/91	Scientific Surveys	Would have required CalSTRS to establish procedures for evaluating and implementing requests of organizations with CalSTRS members to conduct scientific surveys of the CalSTRS membership. The Governor determined this bill would redirect CalSTRS' efforts toward an objective of satisfying the requests of outside organizations rather than to focus on its mission to satisfy the membership, and was concerned with costs and resources needed to take on the additional workload. *Sponsored by CTA*	Governor Veto (10/2/91)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 1171 (PE&R) Intro 3/8/91	TRL Technical Housekeeping	1) Clarifies provisions concerning the limitations imposed by Section 415 of the IRC on the benefits received by CalSTRS members; 2) authorizes CalSTRS to establish procedures to ensure compliance with information reporting requirements and provides that any person who willfully files any report in violation of the statutory requirements is guilty of a misdemeanor; 3) makes a technical, corrective change in the one-year final compensation provisions for classroom teachers; 4) clarifies that CalSTRS disabled members and inactive members are eligible to participate in the Dave Elder CalSTRS Home Loan Program; 5) requires spousal signature for most benefit applications; 6) requires employers to annually provide CalSTRS with copies of documents concerning employee compensation; and 7) allows CalSTRS members who served on active duty in the Persian Gulf conflict to receive CalSTRS service credit for the time spent on the military leave.	543 (10/5/91)
SB 1173 (PE&R) Intro 3/8/91	State Employees in CalSTRS (Optional Transfer to CalPERS)	As an urgency measure, would have authorized members of CalSTRS who are employed in state service positions to elect, before 4/1/92, to transfer their membership to CalPERS.	Died in Senate
SR 9 (McCorquodale) Intro 1/18/91	Investments (Shareholder Rights/Securities Transaction Commission)	Extends until 1/1/93 the Senate Commission on Corporate Governance Shareholder Rights, and Securities Transaction.	Adopted 5/30/91

1990 STATE LEGISLATION (1989-1990 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 54 (Elder) Intro 12/6/88	Optional One Year Final Compensation; Multiple Retirements	As an urgency measure: 1) Makes technical clean-up amendments to Chapter 1184/89 (AB-123, Elder) regarding optional one-year final compensation for CalSTRS members who spent 60 percent or more of the last ten years of their career as classroom teachers; and 2) provides a more equitable method to calculate the final retirement benefit of CalSTRS members who reinstate from retirement to CalSTRS membership and subsequently retire. Co-sponsored with UTLA and CTA	83 (5/2/90); effective 5/3/90
AB 1972 (Tucker) Intro 3/9/89	CalSTRS/ CalPERS (Home Loan Program)	Designates the provisions of the TRL authorizing the CalSTRS member home loan program as the Dave Elder CalSTRS Member Home Loan Program Act. Note: No program or fiscal changes to existing program.	11 (3/7/90)
AB 2552 (Quackenbush) Intro 1/4/90	TSA Program	Makes various changes to the current CalSTRS TSA program by authorizing CalSTRS to operate the plan through one or more third-party carriers with choices of investment options and to offer the program to all employees of any state or local public agency which employs persons in positions eligible for CalSTRS membership.	831 (9/12/90)
AB 2609 (Hughes, et al) Intro 1/16/90	Golden Handshake	As an urgency measure, reestablishes until 12/31/93 the CalSTRS "Golden Handshake" program which permits school employers to provide CalSTRS members with two additional years of service credit at retirement if certain conditions are met. *Sponsored by CTA*	996 (9/17/90); effective 9/18/90
AB 3042 (Elder) Intro 2/21/90	Member Applications (Spouse Signature Requirements)	Requires that a CalSTRS member's application for an unmodified retirement allowance contain the signature of the member's spouse unless certain conditions are met. Permits a spouse who refuses to sign this type of application to be treated as a "nonmember spouse" and, therefore, petition the court to divide the retirement benefit as community property.	1390 (9/26/90)
AB 4048 (Elder, et al) Intro 3/2/90	Post Retirement Earnings Limit	Increases the CalSTRS post retirement earnings limit to $15,000, up from the previous $8,950, per school year. This amount would be adjusted annually by the amount of increase in the CCPI. Sponsored by Long Beach Unified School District	903 (9/13/90)
AB 4129 (Hughes) Intro 3/2/90	TRL Technical Housekeeping	Makes technical, corrective and clarifying changes in various provisions of the TRL.	560 (8/24/90)
AB 4284 (Elder, et al) Intro 3/2/90	Retirement After Reinstatement From Disability	As an urgency measure, provides for separate alternative calculations of post disability service retirement allowances depending upon whether the post disability service was for less than, or more than, three years.	1201 (9/21/90); effective 9/22/90

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 53X (Elder) Intro 11/3/89	CalSTRS/CalPER S Loan (Natural Disaster)	Authorizes CalSTRS to establish a loan program to assist currently employed members and retirees in obtaining loans from CalSTRS for the sole purpose of repairing or rebuilding homes damaged by a natural disaster. Sponsored by Santa Cruz County	35X (9/22/90)
AJR 38 (Elder) Intro 3/10/89	School Lands (Elk Hills)	Memorializes the President and Congress to recognize the right of the state to two school land sections within the Elk Hills Petroleum Reserve and to make them available to the state. Revenue from school land sections is used for supplemental payments to benefit recipients whose purchasing power has fallen below 75 percent of original purchasing power. *Sponsored by CRTA*	50 (6/18/90)
AJR 71 (Bentley, et al) Intro 2/15/90	Health Benefits (Retired Teachers)	Memorializes Congress to establish a process by which CalSTRS retirees could purchase the quarters needed to meet Medicare Part A eligibility. *Sponsored by CRTA*	100 (8/30/90)
SB 682 (C. Green) Intro 2/27/89	Options Settlements	Adds two new additional option settlements, Options 6 and 7, allowing a return to the unmodified allowance if the designated option beneficiary predeceases the retiree. *Sponsored by CRTA*	97 (5/17/90)
SB 1131 (McCorquodale) Intro 3/8/89	Investments (Soft Dollars)	Places new disclosure requirements on governmental investors with regard to soft dollars and directed brokerage arrangements.	709 (9/10/90)
SB 1370 (C. Green, et al) Intro 3/9/89	Elder CalSTRS Full Funding Act	As an urgency measure, revises the annual GF contribution to CalSTRS to a level that provides full funding of normal cost and provides for the amortization of the CalSTRS unfunded obligation. *Sponsored by CRTA*	460 (7/31/90); effective 8/1/90
SB 2469 (C. Green) Intro 2/28/90	Benefits Study	Appropriates $50,000 to pay the costs of contracting for consulting services to study the equity of the present benefits available under CalSTRS.	1172 (9/21/90)
SCR 84 (Hart) Intro 2/26/90	Investments (Valdez Principles)	Requests CalSTRS/CalPERS to take shareholder action respecting the Valdez Principles, a code of conduct for corporate activities affecting the environment.	R-131 (9/10/90)
SJR 70 (McCorquodale) Intro 5/31/90	Investments (Corporations Governance)	Requests the SEC to evaluate the corporate election process for the purpose of changing its rules to provide for 1) proxy rules to allow for open and clear communication among shareholders and corporations, and 2) confidential voting with independent tabulation of results; and 2) provides for the State Senate Commission on Corporate Governance, Shareholder Rights and Securities Transactions to actively participate with the SEC in accomplishing these goals.	R-113 (9/4/90)

1989 STATE LEGISLATION (1989-1990 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 50 (Elder) Intro 12/6/88	Section 415 Limits; Annual Report Requirements	1) Amends CalSTRS law to comply with IRC section 415 benefit limitations. Passage of this bill prevents the System from losing its "tax qualified plan" status and avoids adverse tax consequences for CalSTRS and CalSTRS members; and 2) requires book value return as a performance measure to be included in the Annual Report.	1004 (9/29/89)
AB 59 (Elder) Intro 12/6/88	Clarifies Fiduciary Liability	Restructures and revises the CalSTRS fiduciary liability provisions to clarify the scope of personal liability of the TRB and certain CalSTRS employees.	542 (9/20/89)
AB 122 (Filante) Intro 12/12/88	Rule of 85	Would have added an additional, optional, Rule of 85 early retirement incentive provision to the CalSTRS to permit service retirement at or over age 50 without any actuarial reduction in the normal retirement age factor (age 60) if the total of the member's age and credited service is at least 85. The employer would have been required to pay the actuarial present value cost of the increased allowance plus related CalSTRS administrative costs. The Governor vetoed this bill because CalSTRS members already have the option to retire before age 60, but with a reduced retirement allowance; school districts, when feasible, may offer Golden Handshake programs; the program is very costly and would divert funds from the classroom; concerns with the impact of Purchasing Power Protection earlier than normal retirement; and future impact on Section 415 limits and potential for CalSTRS to lose its federal tax exempt status. Sponsored by Marin County Superintendents	Governor Veto (9/25/89)
AB 123 (Elder) Intro 12/12/88	Retirement Calculation Factors	Provides, subject to a collective bargaining agreement entered into by the member's employing school district and payment to CalSTRS for additional benefits paid, that the "final compensation" period for "classroom teachers" (as defined) who retire after 6/30/90 shall be the highest 12 consecutive months. Final compensation is one of the three factors used to determine CalSTRS retirement benefits. (The two other factors are length of service and age at the time of retirement.) *Sponsored by UTLA*	1184 (10/1/89)
AB 265 (Elder) Intro 1/12/89	Medicare Election	Authorizes employers to apply to PERS during the period of 7/1/90 to 7/1/93 to conduct elections to permit employees who held positions covered by this System on 3/31/86 to elect to be covered by the federal Medicare program. Both the employer and employee would have to pay the required rates for the coverage. Note: STRS has no role in any such election, nor would it affect any STRS benefits. Sponsored by CTA	1006 (9/29/89)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 1105 (Hughes) Intro 3/1/89	Disability Leave	As an urgency measure, would have required the governing board of a school district to grant a leave of absence to any certificated employee who applied to CalSTRS for a disability allowance and, if the employee is determined by the System to be eligible for the disability allowance, requires the employee's leave of absence to be extended for the term of the disability, but not more than 39 months. The Governor determined this bill to be similar to another bill he vetoed in 1987 (AB-420, Hughes). Granting a disability leave of absence is discretionary and should be bargained at the local level, not mandated in state law. *Sponsored by UTLA*	Governor Veto (9/16/89)
AB 1284 (Quackenbush) Intro 3/3/89	CalSTRS/CalPERS (Chief Investment Officer Issues)	Authorizes the TRB and the CalPERS Board to meet in closed session to consider matters pertaining to the recruitment or removal of the Chief Investment Officer of each System, and adds authorization for the CalPERS Board to meet in closed session to consider personnel matters pertaining to the Chief Executive Officer.	177 (7/19/89)
AB 1769 (Roos) Intro 3/9/89	Investments (Deteriorated Housing)	Would have required CalSTRS/CalPERS to study the feasibility, consistent with their fiduciary duties, of investing in community projects for housing in deteriorated neighborhoods and to report their findings and recommendations to the Legislature by 1/1/91. The Governor determined that these retirement systems were to act as trustees to invest the funds of their members safely and prudently, and should not be mandated to study placing funds in speculations where earnings, if any, are questionable.	Governor Veto (9/26/89)
AB 1929 (Epple) Intro 3/9/89	Investments (Shareholder Voting Rights)	Allows companies which incorporate in CA to divide its board of directors into two or three classes to serve terms of two or three years. It would also allow them to either eliminate cumulative voting or to restrict cumulative voting to each class. This could have an impact upon the way CalSTRS exercises its rights as a shareholder during proxy voting.	876 (9/26/89)
AB 2443 (Burton, et al) Intro 3/10/89	Investments (Northern Ireland)	Would have required the governing body of each state retirement system to: 1) annually investigate the extent to which U.S. corporations operating in Northern Ireland (NI), in which the assets of the retirement system are invested, adhere to the principles of nondiscrimination in employment and freedom of workplace opportunity; and 2) whenever feasible, to sponsor, co-sponsor, or support shareholder resolutions designed to encourage corporations in which the governing body has invested to pursue a policy of affirmative action in NI. Although sensitive to the sincere desire of many Californians to ease the hardships faced by the Catholic minority in NI, the Governor supported all who believed (CalSTRS/CalPERS, British Government, and Catholic Social Democratic and Labor Party of NI) the enactment would create a roadblock against the free flow of investment to NI. *Sponsored by American Irish Political Education Committee*	Governor Veto (9/26/89)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 683 (C. Green) Intro 2/27/89	Workload Balancing Programs; Spousal Signature Requirements	1) Authorizes the governing boards of CC districts to adopt workload balancing programs, subject to the TRL, for certificated employees; and 2) requires a spousal signature to withdraw CalSTRS annuity deposits. *Sponsored by FACCC*	270 (8/3/89)
SB 684 (C. Green) Intro 2/27/89	Scientific Surveys of CalSTRS Membership	Requires CalSTRS to establish procedures for evaluating and implementing requests of organizations and agencies to conduct scientific surveys of the membership. The Governor had concerns with any bill that would authorize scientific surveys not relative to retirement issues, and perceived this to be inconsistent with CalSTRS' primary mission. Also, there was no way to predict the workload for allocation of resources through the budget process. *Sponsored by CTA*	Governor Veto (9/19/89)
SB 686 (C. Green) Intro 2/27/89	Emergency Payment of Benefits	1) Adds option beneficiaries to the benefit recipients who would receive interest due to the late payment of monthly allowances; and 2) authorizes CalSTRS to make payments of 75 percent of the return of accumulated retirement contributions, on an emergency basis, to persons who have terminated CalSTRS membership.	327 (9/8/89)
SB 751 (Royce) Intro 3/1/89	TRL Technical Housekeeping	A "housekeeping bill" which makes corrective, clarifying, and technical changes in various provisions of the TRL.	118 (7/11/89)
SB 915 (McCorquodale) Intro 3/6/89	Investments (Corporate Governance Center)	Would have established the CA Center for Corporate Research to facilitate the study and understanding of issues concerning corporate governance and shareholder rights. The Governor determined that the bill was unnecessary since there are already 3 centers for corporate governance in the U.S. studying these issues; there is nothing precluding the University of CA, or any other university, from establishing its own private center; and, it was unclear whether this center was private sector or a governmental entity subject to civil service rules, conflict of interest rules, budgetary oversight or other similar restrictions.	Governor Veto (9/29/89)
SB 1039 (C. Green) Intro 3/7/89	Modify Post-retirement Earnings Limit	Changes the indexing of the CalSTRS post-retirement earnings limit from 50 percent to 100 percent of the change in the CCPI. *Sponsored by CFT*	227 (7/27/89)
SB 1093 (Presley) Intro 3/8/89	CalSTRS/ CalPERS (Affordable Housing)	As an urgency measure, requires CalPERS/CalSTRS to join with the Department of Housing and Community Development, Treasurer's Office, and the CA Housing Authority to determine what can be done to produce affordable housing in rural communities with prisons. CalPERS/CalSTRS would be required to jointly participate in preparing a report with recommendations to the Governor and Legislature by 1/15/90.	1338 (10/2/89); effective 10/2/89
SB 1407 (C. Green, et al) Intro 3/9/89	SBMA (Purchasing Power - Annual Transfer from GF)	Establishes a funding mechanism (the SBMA) requiring an annual transfer from the GF to restore the purchasing power of CalSTRS benefits. The amount transferred will increase annually to a maximum of 2.5 percent of the statewide teacher payroll. This bill was double-joined with SB-1513. *Sponsored by CRTA*	115 (7/10/89)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 1513 (W. Campbell, et al) Intro 3/10/89	SBMA (Purchasing Power Adjustments)	Requires annual distribution of the proceeds of the SBMA, in nonvested quarterly payments, to members and their beneficiaries to restore benefit purchasing power to up to 68.2 percent of its original purchasing power. This bill was double-jointed with SB-1407. *Sponsored by CRTA*	116 (7/10/89)
SB 1605 (Stirling) Intro 3/10/89	Retirement Homes	Would have authorized: 1) various state retirement systems including CalSTRS to establish, operate, or enter into joint ventures or contracts for services for retirement homes for their respective retired members; 2) retired members entering those homes to elect direct payment of all or part of their retirement allowances to the homes, as specified.; and 3) CalSTRS/CalPERS to buy, build, finance, or enter into joint ventures to provide low and moderate income housing for their active and retired members. The Governor determined that various public retirement systems were not prepared in terms of experience or personnel to enter into this unfamiliar area; CalSTRS should concentrate on its primary mission to provide retirement benefits to its members and manage its investment programs in a prudent and successful manner; and, the investments could result in CalSTRS being subjected to unrelated business income taxes.	Governor Veto (9/26/89)

1988 STATE LEGISLATION (1987-1988 Legislative Session)			
Initiative	**Subject**	**Summary / Benefit(s)**	**Chapter (enacted); Status**
AB 59 (Elder) Intro 12/3/86	Disbursement of Revenue (Elk Hills)	Requires any revenues related to the State's claim to school lands within the Elk Hills Naval Petroleum Reserve to be deposited into the School Land Bank Fund. Interest earnings will go to the TRF for distribution on a pro-rata basis to CalSTRS benefit recipients whose payments are below 75 percent of purchasing power. *Sponsored by CRTA*	985 (9/19/88)
AB 147 (Elder) Intro 12/19/86	Supplemental Social Security Plan (Alternative Retirement Plan)	Requires CalSTRS to develop an alternative retirement plan recommendation to provide members an adequate retirement benefit for use if benefits are coupled with Social Security, and to submit the recommendation to the Legislature by March 1, 1989.	743 (9/7/88)
AB 1982 (O'Connell) Intro 3/6/87	Credit for Out-of-State Service	Would have authorized a member who retires after 1/1/89 to elect to receive additional service credit for out-of-state service, as specified, if the member pays all contributions at the rate for additional service credit at the time of election and precludes such purchased service from being eligible for specified postretirement quarterly supplemental payments. The Governor vetoed a similar bill in 1986 viewing these provisions as a liberal expansion of retirement benefits not available to members who have served their full careers in CA, and that the purchase price would not cover actual costs of the extra retirement allowance resulting in an increase of CalSTRS' unfunded liability which would be counterproductive to maintaining the retirement plan in a financially sound condition. *Sponsored by CFT*	Governor Veto (9/29/88)
AB 2874 (Elder) Intro	Investments (Reporting Requirements)	Requires the TRB to submit to the Legislature, by November 1 of each year, a report of the unaudited investment data compiled for the preparation of the annual report required in EC Section 22308.	902 (9/13/88), effective 1/1/89
AB 2882 (Elder) Intro 1/28/88	One-year Final Compensation of Classroom Teachers	Would have provided that "final compensation" shall mean the highest annual compensation earnable by the member who is a classroom teacher, as defined, during any period of 12 consecutive months during his or her membership in CalSTRS. The Governor was concerned with increasing retirement allowances for certain CalSTRS members without providing a funding source to support the increase ($142.5 million the first year), therefore increasing CalSTRS' unfunded liability by $250 million per year; putting pressure on CalPERS to offer comparable benefits; and, creating a distinction in benefits between classroom teachers and other CalSTRS members. *Sponsored by CTA and UTLA*	Governor Veto (9/30/88)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 2885 (Elder) Intro 1/28/88	Service Credit for Leave of Absence	Increases the maximum amount of retirement service credit earnable by an active CalSTRS member on an approved leave to serve as an elected member of an employee organization, from a maximum of 8 years to a maximum of 12 years. *Sponsored by UTLA*	688 (8/28/88)
AB 2890 (Elder) Intro 1/28/88	Modify Member Home Loan Program	Authorizes the TRB to add owner-occupied 2-4 family dwellings to the CalSTRS Member Home Loan Program.	408 (8/12/88)
AB 3172 (Elder) Intro 2/10/88	Remittance Notification	Requires CalSTRS to send a copy of the benefit payment information to the home address of persons whose payments are transmitted directly to their financial institution for deposit beginning 7/1/89. *Sponsored by CRTA*	792 (9/9/88)
AB 3194 (Elder) Intro 2/10/88	Elected CalSTRS Board	Would have required that the 3 CalSTRS members and the retired member of the TRB shall be elected to the Board from their respective constituencies. There is no supporting evidence that CalSTRS would be better serviced by elected Board members in lieu of appointed members, and there are substantial administrative costs and workload associated with the election process. *Sponsored by ART*	Governor Veto (8/19/88)
AB 3195 (Elder) Intro 2/10/88	Military Service Credit	Authorizes state employee members and certain retirees of CalSTRS to elect to purchase up to four years of military service credit. *Sponsored by CSEA*	370 (7/14/88)
AB 3271 (Filante) Intro 2/11/88	Rule of 85	Would have added an additional, optional, Rule of 85 early retirement incentive provision to CalSTRS which would permit service retirement at or over age 50 without any actuarial reduction in the age 60 retirement factor if the total of the member's age and credited service is at least 85. Employers would be required to pay the actuarial present value cost of the increased allowance plus related CalSTRS Administrative Costs. *Sponsored by Marin County Superintendents*	Governor Veto (9/20/88)
AB 3409 (Frizzelle) Intro 2/16/88	Subrogation Program	Permits the Board to initiate a program to recover benefits paid as a result of the death of or injury to a CalSTRS member caused by a third person (other than the employer).	380 (7/15/88)
AB 3887 (Grisham) Intro 2/18/88	TRL Technical Housekeeping	1) Deletes a provision requiring CalSTRS to notify retirees of income tax liabilities which were made obsolete by the Federal Tax Reform Act of 1986; 2) renumbers a section of the definitions chapter to be in alphabetical order; 3) clarifies that the TRB may contract with investment managers to monitor and advise the TRB on the voting of shares owned by CalSTRS and advise on responses to other corporate governance matters; 4) clarifies that the original disability allowance date be retained as the base date for determining post retirement benefit increases only when there is a continuous benefit from CalSTRS when a disability allowance is converted to a service retirement allowance; and 5) deletes a reference to a repealed section of the Education Code.	382 (7/15/88)

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
AB 4095 (Elder) Intro 2/19/88	CalSTRS and CalPERS Fiduciary Standards Review	Requires the TRB and the Board of Administration of CalPERS to review their fiduciary standards and report to the Legislature all recommended changes and additions to current statute by 3/1/89.	241 (6/29/88)
SB 451 (Beverly) Intro 2/18/87	Investments (Corporate Governance Standards)	Creates a qualification exemption for companies whose securities are traded on the National Market System of the National Association of Securities Dealers, Inc. *Sponsored by National Association of Securities Dealers*	716 (8/29/88)
SB 959 (McCorquodale) Intro 3/4/87	70% Purchasing Power Protection for 1989/90	Would have increased the purchasing power of CalSTRS benefit recipients to 70 percent of their original purchasing power for fiscal year 1989-90 and 75 percent in 1990-91 at a cost of $160 million in the first year. The Governor stated that he already provides funds for the maintenance of 68.2 percent of original purchasing power to offset inflation for retired teachers and suggested that further enhancements should be considered during the normal budget process. *Sponsored by ART*	Governor Veto (9/30/88)
SB 1190 (Lockyer) Intro 3/5/87	Separate Account for Non-member Spouse	Requires CalSTRS, pursuant to a court order, to establish a separate account for service credit and contributions and interest awarded a non-member spouse in a division of community property. The non-member spouse would be eligible to elect a retirement allowance or a refund of contributions and interest.	542 (8/23/87); effective 8/24/88; retroactive to 6/1/88
SB 1600 (Garamendi) Intro 3/6/87	Investments (Voting Records Disclosure)	Requires anyone authorized to vote shares of stock owned by others to maintain a record of how the shares are voted and make disclosure of this information. Sponsored by Senate Commission of Corporate Governance, Shareholder Rights, and Securities Transactions	1360 (9/25/88)
SB 2060 (McCorquodale) Intro 2/1/88	Investments (Prohibits Greenmail and Hushmail)	Would have prohibited target corporations, as defined, from repurchasing more than 3 percent of its equity securities for more than the post-disclosure market price, as defined, from shareholder or beneficial owner unless approved by the board of directors and shareholders, except as specified. The Governor vetoed a similar bill last year, and although he rejects the practice of "greenmail," his concern was that the 3 percent purchasing limit proposed may be overly prescriptive, the definition of "target" corporation may be unconstitutional, and further stated that interstate regulation was the appropriate way to proceed. He also stated that he would welcome federal legislation to address the issue. *Sponsored by the Senate Commission on Corporate Governance, Shareholder Rights, and Securities Transactions*	Governor Veto (9/19/88)
SB 2080 (Royce) Intro 2/12/88	Exemption From Probate Code (Application for Death Benefits)	As an urgency measure, expedites death claim payments by authorizing beneficiaries to apply for CalSTRS payment of death benefits under certain conditions without the 40-day waiting period currently required in Section 13101 of the Probate Code.	462 (8/20/88); effective 8/22/88

Initiative	Subject	Summary / Benefit(s)	Chapter (enacted); Status
SB 2082 (Royce) Intro 2/12/88	Membership Qualifications for Substitutes and Part-time Employees	Provides that teachers who have performed 100 or more complete days of substitute service, or 60 hours (10 days) or more of part-time service in a pay period, in one school district or county superintendent's office shall become members on the first day of the following pay period. *Sponsored by Orange County Office of Education*	497 (8/22/88)
SB 2552 (Keene) Intro 2/19/88	Investments (Requirement for Independent Financial Opinion)	Requires an independent financial opinion that a proposal for a corporate reorganization, sale of assets or tender offer is fair to the shareholders. If there is more than one proposal received, the first proposal may not be consummated without allowing shareholders a reasonable opportunity to consider the record. *Sponsored by Senate Commission of Corporate Governance, Shareholder Rights, and Securities Transactions*	265 (7/4/88); effective 7/5/88
SB 2578 (Robbins, et al) Intro 2/19/88	Investments (Insider Trading/Securities Practices	Makes various additions and amendments to the Corporations Code related to insider trading and other fraudulent securities practices. *Sponsored by Senate Commission of Corporate Governance, Shareholder Rights, and Securities Transactions*	1339 (9/24/88)
SB 2648 (Kopp) Intro 2/19/88	Clarifying Statute (Errors and Omissions)	Clarifies the statutes pertaining to the correction of errors and omissions. *Sponsored by CalPERS*	1089 (9/20/88)
SB 2680 (C. Green) Intro 2/19/88	Spousal Signature on Disbursements	1) Would have required a spousal signature on forms for applications to withdraw CalSTRS accumulated annuity deposit contributions; and 2) authorizes governing boards of community college districts to adopt workload balancing programs for certificated employees, as specified. No veto message available at this time. *Sponsored by FACCC*	Governor Veto (9/23/88)
SB 2682 (C. Green) Intro 2/19/88	Statute of Limitations (Adjustments of Errors/Omissions)	Sets a statute of limitations of 3 years for adjustments of errors or omissions for purposes of payments into or out of the TRF. *Sponsored by CRTA*	739 (8/30/88)

1987 STATE LEGISLATION (1987-88 Legislative Session)			
Initiative	Subject	**Summary/Benefit(s)**	**Chapter (enacted); Status**
AB 165 (Stirling) Intro 12/29/86	Ancillary Benefit Disclosure Requirements	Requires that each quarterly supplemental benefit maintenance payment shall be accompanied by a specified statement regarding the contingent nature of those payments.	123 (7/6/87)
AB 763 (Frizzelle) Intro 2/19/87	Determining Creditable and Noncreditable Earnings	1) Authorizes the TRB to determine what payments are or are not compensation and salary for retirement purposes when compensation and salary issues are in question (creditable vs. noncreditable earnings); and 2) adds clarifying definitions for the protection of the TRF and for improvement in operating efficiency.	76 (6/30/87)
AB 960 (Hughes, et al) Intro 2/26/87	Golden Handshake	Extends the CalSTRS Golden Handshake Program through 6/30/90. There is, however, a six-month period from 7/1/87 through 12/31/87 when the provisions of this bill are not operative. *Sponsored by ACSA and CTA*	601 (9/12/87)
AB 1102 (Elder) Intro 3/2/87	Actuarial Valuation Requirements	1) Requires that the actuarial valuation report of the System's assets and liabilities include the components of normal cost and adequate information to determine the effects of changes in actuarial assumptions; 2) requires the actuarial report be transmitted to the Governor and Legislature; 3) extends the sunset date of a provision of law requiring CalSTRS to give priority to investing 25 percent of funds available for new investments in CA residential realty; and 4) moved this provision from the FC to the EC. Sponsored by Variable Annuity Life Insurance Company	416 (9/3/87)
AB 1424 (Calderon) Intro 3/4/87	TSA Program (Administration)	Provides that any TSA program operated by CalSTRS must provide all operating costs and expenses without subsidy from the TRF and also prohibits CalSTRS from utilizing its member mailing list for the purpose of transmitting information dedicated solely to advertising or marketing this program. *Sponsored by Variable Annuity Life Insurance Company*	1419 (9/30/87)
AB 2041 (Hughes) Intro 3/6/87	Disabled Members; Limitations	Would have permitted CalSTRS to pay a disability allowance to a disabled member who had filed a pre-retirement election of an option and would permit a disabled member to file for a preretirement election of an option. The Governor determined that the cost of providing pre-retirement survivor benefit options to active members of CalSTRS and allowing disabled members to file for those options would increase annual costs and contribute to CalSTRS' unfunded liability. Co-sponsored with CFT	Governor Veto (9/27/87)
AB 2042 (Hughes) Intro 3/6/87	Post-retirement Benefit Increases (SR)	Defines the initial effective date for purposes of applying post-retirement benefit increases when a disability allowance is converted to a SR allowance.	327 (7/30/87)

Initiative	Subject	**Summary/Benefit(s)**	**Chapter (enacted); Status**
AB 2192 (Grisham) Intro 3/6/87	TRL Technical Housekeeping	1) Adds clarifying changes related to CalSTRS investment managers; 2) deletes obsolete report requirements related to the transition of the CalSTRS investment function from CalPERS; 3) clarifies various CalSTRS plan design aspects related to "normal retirement age"; 4) deletes a reference to a repealed section of the Education Code; 5) adds a clarifying change related to the collection of overpayments; and 6) adds a technical amendment related to the CalSTRS Reduced Workload Program.	330 (7/30/87)
SB 200 (Roberti, et al) Intro 1/20/87	Litigation (Closed Session Requirements)	1) Provides, among other things, that a state body prior to holding a closed session to discuss litigation must require its legal counsel to prepare and submit a memorandum stating the specific reasons and legal authority for closed session; and 2) specifies that all expressions of lawyer-client privilege other than those provided in the litigation subdivision are abrogated. *Sponsored by CA Newspaper Publishers*	1320 (9/28/87)
SB 748 (Royce) Intro 3/2/87	Modify Refund of Contributions; Member Exclusions	1) Authorizes the Board, in the refunding of contributions, to dispense with the collection of amounts due from former members if the amount is $50 or less; and 2) codifies administrative procedure by specifically excluding student interns, participants in the New Careers Program, instructional aides and teacher aides from CalSTRS membership.	373 (8/28/87)
SB 990 (McCorquodale) Intro 3/4/87	Concurrent Retirement	Authorizes concurrent retirement for CalSTRS members with less than five years of CalSTRS service who move to employment covered by the Legislators' Retirement System.	1312 (9/28/98)
SB 998 (Hart) Intro 3/4/87	Education Code Housekeeping	Major clean-up of non-substantive items in the Education Code.	1452 (9/30/87)
SB 1130 (McCorquodale) Intro 3/5/87	Errors & Omissions	Authorizes the Board to correct errors or omissions due to inadvertence, oversight, mistake of fact, mistake of law, or other cause by the Board, the System, employers, members, or their beneficiaries.	376 (8/28/87)
SB 1131 (McCorquodale) Intro 3/5/87	TRB Member/CC Instructor (Reimbursement)	Provides reimbursement to a CC district for the expense of a replacement instructor when the regular CC instructor, while serving as an appointed Board member, is on official System business.	1395 (9/29/87)
SB 1194 (Robbins) Intro 3/5/87	Investments (Shareholder Rights)	Requires specified corporations, upon written request of a shareholder, to inform the shareholder of the result of any particular vote taken at specified meetings for a period of 60 days following the conclusion of the meeting. *Sponsored by Commission of Corporate Governance, Shareholder Rights and Securities Transactions*	408 (9/2/87)
SB1464 (Keene) Intro 3/6/87	Investments (Shareholder Rights)	Mandates an independent appraisal on a leveraged buy out offer by management to protect the interests of shareholders. *Sponsored by Commission of Corporate Governance, Shareholder Rights and Securities Transactions*	627 (9/12/87)

Glossary of Commonly Used Terms

Active Member
(Previous Term Member)
A **member** of the **Defined Benefit Program** who has performed creditable service within the last school year

Actuarial accrued liability
Present value of benefits payable in the future to current **members** or **participants**

Actuarial equivalent
Two **benefits** of equal present value, using mortality tables and interest rates adopted by the **Board**

Actuarial experience analysis
An actuarial investigation of the plan's experience that examines the factors that influence the cost of a retirement plan. It includes economic factors such as inflation, return on investment and wage increases as well as noneconomic factors, such as mortality and rates of retirement and is the basis for adopting valuation assumptions

Actuarial gains and losses
The effect on the cost of a plan when experience differs from the assumptions used in determining the cost. (Because assumptions are long range and current experience fluctuates over the short range, actuarial gains and losses are normal occurrences and are not significant unless either gains or losses caused by the same factor consistently occur over an extended period of time.)

Actuarially assumed rate of return
The long-term annual rate of return of investment assumed in the valuation. The actuarially assumed rate of return for the June 30, 1999, valuation was 8 percent

Actuarially reduced
An allowance that has been reduced, but is still the **actuarial equivalent** of the original allowance

Actuarial valuation
The determination, as of a given date, of the **present value** of expected future liabilities of a pension plan, the assets of the plan, the **actuarial unfunded obligation**, the **normal cost rate**, the future salaries of members, and the resulting **amortization rate** for the **actuarial unfunded obligation** over a specified period

Additional earnings credit
An increase in earnings to the employee account in excess of the **minimum interest rate** in the **Defined Benefit Supplement and Cash Balance Benefit Programs**, calculated as a percentage, as determined by the **Board**, of the prior fiscal year ending balance of each account.

Ad hoc increase
A permanent increase to some or all benefits in force. It does not change the benefit plan, only the allowances currently being paid. The increase is usually granted because the regular cost-of-living adjustments have been less than inflation levels. Ad hoc increases sometimes are, and sometime are not, included in the base for future **cost-of-living adjustments**

Age factor
The percentage of **final compensation** per year of **credited service** payable as a **benefit** determined by the **member**'s age at retirement

Amortization rate
The rate (usually expressed as a level percentage of payroll) needed to eliminate the **unfunded actuarial obligation** over a specified time. This rate is affected by changes in experience and by plan changes that apply to service performed prior to the valuation date

Annuitant reserve
A reserve established within the **Teachers' Retirement Fund** to which assets from a member's **Defined Benefit Supplement Program** account or a **Cash Balance Benefit Program participant's** account are transferred when the **participant** has elected to receive a benefit payment in the form of an **annuity**

Annuity
In the **Defined Benefit Program**, the amount paid to a **member** derived from voluntary contributions (no longer permitted) by a member in excess of those required for **creditable service**. In the **Defined Benefit Supplement**

Program or Cash Balance Benefit Program, the amount of money paid monthly to a **member, participant** or **beneficiary**

Barnes Act
Part 13 of the Education Code, governing administration of the **Defined Benefit Program**. The formal name is the E. Richard Barnes Act

Basis of employment
The standard of time over which the employer expects **service** to be performed by an employee during the school year

Beneficiary
The person(s) or entity(ies) eligible to receive **Defined Benefit Program or Defined Benefit Supplement benefits** upon the death or disability of a member, or designated by a **participant** to receive **benefits** provided by the **Cash Balance Benefit Program** in the event of the **participant's** death

Benefit
A monthly or lump sum payment made to a retired member, disabled member, retired participant, disabled participant or beneficiary

Board
The **Teachers' Retirement Board**

California service
Service performed in California for which **service credit** may be given

California State Teachers' Retirement System
The department that administers the California State Teachers' Retirement Plan

Career Bonus- two parts

- Career factor
  Previous: Career bonus
  A 0.2 percentage point increase in the **age factor**, up to a maximum age factor of 2.4 percent, for **Defined Benefit Program members** with 30 or more years of **credited service**
- Longevity bonus: is added to the unmodified monthly retirement allowance for those members whose accumulated service credit equals or exceeds 30 years by the end of the window period between January 1, 2001, and January 1, 2011, regardless of when they retire

Cash Balance Benefit Program
(Previous Term-State Teachers' Retirement System Cash Balance Plan)
A program within the **State Teachers' Retirement Plan** available to persons employed to performed **creditable service** for less than 50 percent of full-time for employers who have elected to offer the program

Certificated
The holding by a person of a credential required by law to be held as a condition of valid employment in the position in which the person is employed

Class of employees
A group of employees who perform similar duties, are employed in the same type of program or share other similarities related to the work being performed

Compensation earnable
The annual **creditable compensation** that a person would earn during a school year if that person was employed on a full-time basis and worked full-time in that position

Concurrent retirement
The simultaneous retirement from the **Defined Benefit Program** and other specified California public retirement systems, in which **final compensation** for purposes of calculating a retirement allowance is based on the highest **final compensation** calculated for any of the eligible retirement systems

Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)
Federal law which provides a vital health plan bridge for qualified workers, their spouses and their dependent children when their health insurance might otherwise be cut off.

Contribution rate
The percentage of **creditable compensation** required to be paid by a **member, participant** or employer, as provided in the **Teachers' Retirement Law**, to finance the **benefits** provided by the **State Teachers' Retirement Plan**

Cost-of-living adjustment (COLA)
An adjustment made to an allowance to compensate for all or a part of the increase in the

cost-of-living, usually as measured by a consumer price index. (See improvement factor)

Coverage A
A program of disability and family allowances available to persons who were **member**s on October 15, 1992, and did not elect **Coverage B**

Coverage B
A program of disability and **survivor benefits** available to persons who became members after October 15, 1992, or were **members** on October 15, 1992 and elected Coverage B

Creditable compensation
(Previous Term-Creditable earnings)
In the **Defined Benefit Program**, the salary or other remuneration payable in cash by an employer to a **member** for **creditable service**

Creditable service
Specified **service** performed for an employer in a position requiring a credential, certificate or permit pursuant to the Education Code, or under standards adopted by the Board of Governors of the California Community Colleges or under the provisions of an approved charter for a charter school eligible to receive state apportionment

Credited interest
Interest credited to a **member's Defined Benefit Program** account at a rate set annually by the **Board** and refunded to the **member** or a **beneficiar**y upon the member's termination of service. The **credited interest rate** is based on the average rate paid on two-year Treasury notes for the twelve months ending April 30, and for 2001-02 is set at 6 percent

Credited service
Service for which required contributions have been paid and that is used to determine eligibility for an allowance payable under the **Defined Benefit Program**

Defined Benefit Program
(Previous Term-State Teachers' Retirement System Defined Benefit Plan)
The program of coverage available to **members** who perform **creditable service**, who have not elected to participate in the **Cash Balance Benefit Program** or who work less than half-time for an employer who has not elected to offer the Cash Balance Benefit Program

Defined benefit plan
A retirement plan which specifies the benefit to be received after retirement, or the formula for determining such benefits. The benefits are not directly dependent on the member (and/or employer) contributions and the interest actually earned on those contributions. The contribution rate required for such a plan is determined through periodic valuations (Also see hybrid plan)

Defined Benefit Supplement Program
A program that increases, or supplements, the amount payable at retirement to members of the DB Program, by the amount in the member's DBS account

Defined contribution plan
A retirement plan where member and/or employer contribution rates are specified and the benefit is the accumulated contributions and interest credited to the member's account at the time of retirement, disability or termination of employment. Interest is credited at actual earned rates. An administrative charge may be deducted. Life annuities in the amount that can be purchased by the member's accumulated contributions are often made available as one choice of distribution. The CalSTRS Voluntary Investment Program 403(b) plan is a defined contribution plan. (Also see **hybrid plan**)

Disabled member
(Previous Term-Disabilitant)
A member of the **Defined Benefit Program** receiving a **disability allowance**

Disabled participant
A member of the **Cash Balance Benefit Program** receiving a **disability benefit**

Disability allowance
An amount payable on a monthly basis to a **disabled member** subject to **Coverage A**

Disability benefit
A benefit payable to a **disabled participant** of the **Cash Balance Benefit Program** or to a disabled member under the **Defined Benefit Supplement Program**

Disability retirement allowance
An amount payable on a monthly basis to a **member** subject to Coverage B who has retired

for disability, or to a member retired for disability prior to 7/1/72

Economic Growth and Tax Reconciliation Relief Act of 2001 (EGTRRA)
Federal act that enacted a number of changes to federal law to enhance the portability of funds among different types of retirement plans, including 401(k), 403(b) and 457 plans, IRAs and 401(a) retirement plans. In addition, it increases the contribution limits to 430(b), 457 and 401(a) plans, and increases the annual allowance limit for defined benefit plans

Employee Retirement Income Security Act of 1974 (ERISA)
Federal statutory framework that governs the administration of employee benefit plans and the rights of the beneficiaries under the plan. ERISA applies to any employee benefits plan if the plan is established or maintained by an employer engaged in commerce or by an employee organization representing employees engaged in commerce or in any industry or activity affecting commerce

Entry age normal cost method
A method of calculating normal cost that spreads cost as a level percentage of payroll over the entire working life of a member. This is the method used in the Defined Benefit Program

Family Allowance
A monthly allowance payable upon the death of an **active member** or a **disabled member** who was subject to **Coverage A** (Similar to Survivor Allowance, which is applicable to member deaths prior to July 1, 1972)

Final compensation
The highest average annual **compensation earnable** by a **member** during any period of three consecutive years while an **active member,** unless:

- the member is a classroom teacher who retired during the term of a negotiated agreement to calculate final compensation on the basis of the highest 12 consecutive months, or
- concurrently retires with another California public retirement system, in which case service in the other system(s) is also considered when calculating final compensation (See also Indexed Final Compensation and Projected Final Compensation), or
- the member accumulated 25 or more years of service credit, in which case it is the highest 12 consecutive months

Full-time
The days or hours of **creditable service** the employer requires be performed by a **class of employees** in a school year to earn the **compensation earnable** for that class, subject to minimum standard of days or hours specified in the Education Code

Full-time equivalent
The time a person who is employed on a part-time basis would be required to serve in a school year if he or she were employed full-time in that position

Funding period
The time frame over which **amortization** occurs. It properly represents a specific date in the future at which time amortization is expected to be complete. This is known as a “closed” funding period. If **contribution rate**s are fixed, the funding period will vary with each **actuarial valuation**. If contribution rates are adjusted after each actuarial valuation, the funding period is usually fixed and the contribution rate is adjusted to the level needed to amortize by the end of the funding period

Funding rate
The cost, expressed as a level percentage of payroll, of paying the **normal cost** and eliminating the **actuarial unfunded obligation** over a specified period of time. It is the sum of the **normal cost rate** plus the **amortization rate**

Gain and Loss Reserve
A reserve account established for the **Defined Benefit Supplement Program and the Cash Balance Benefit Program** available to be drawn upon to the extent necessary to credit interest to employee accounts and employer accounts if investment earnings are not adequate to meet the **minimum interest rate**

Government Pension Offset
A reduction in Social Security benefits paid to a spouse if the spouse receives a pension based on employment not covered by Social Security

Hybrid plan
A retirement plan that has features of both a **defined contribution plan** and a **defined benefit plan**. The **Defined Benefit Supplement and Cash Balance Benefit Programs** are hybrid plans because they provide a minimum guaranteed benefit by specifying contribution rates and a guaranteed **minimum interest rate**, and therefore they meet the IRS definition of **defined benefit plans**, but the ultimate benefit to the employee is, to a degree, determined by the rate of return earned by employee and employer contributions, and therefore acts like a **defined contribution plan**

Improvement factor
A simple increase of 2 percent in benefits provided on September 1 of each year following the first anniversary of the effective date of retirement, or the date monthly benefits accrue to a **beneficiar**y. More commonly referred to as a **cost-of-living adjustment (COLA)**

Inactive member
A member who is not a retired member or a disabled member and has not earned creditable compensation during the school year ending June 30

Indexed final compensation
Final compensation upon which a disability allowance or disability retirement allowance was based, adjusted annually by the rate of change in the average **compensation earnable**, as determined by the **Board**. Used in determining whether a **disability allowance** should be terminated or has been overpaid because the **member** has received earnings from other sources in excess of specified limits

Joint and survivor annuity
A plan feature where a **retired participant** in the **Cash Balance Benefit Program** or retired member receiving a benefit under the **Defined Benefit Supplement Program** may choose to redistribute his or her retirement benefit over both the life of the **participant** or member and that of a **beneficiary** chosen by the **participant** or member (Similar to an option available to a member of the **Defined Benefit Program)**

Longevity Bonus
A monthly benefit of $200, $300 or $400 that is added to the unmodified monthly retirement allowance of those members whose accumulated service credit is at least 30 years by the end of the window period between January 1, 2001, and January 1, 2011, regardless of when they retire

Medicare Premium Payment Program
A program that will, beginning July 1, 2001, pay the Medicare Part A (hospitalization) premiums and applicable late enrollment surcharges for **Defined Benefit Program** members who retired and do not qualify for Part A coverage on a premium-free basis. Currently, the program is limited to members who retired prior to January 1, 2001, although the **Teachers' Retirement Board** has the authority to extend coverage to members, under specific circumstances, retiring in the future.

Member
A person who has performed **creditable service** under the **Defined Benefit Program** and has earned compensation for that service, and has not received a refund for that service

Minimum interest rate
The annual rate determined by the **Board** and credited to employee accounts and employer accounts in the **Cash Balance Benefit Program and the Defined Benefit Supplement Program**. The rate is based on the average rate paid on 30-year Treasury bonds for the twelve-month period ending April 30, rounded up to the nearest percentage point. For 2001-02, the rate is 6 percent

Mortality rate
The average expected death rate for a group of individuals at a given age

Multiple retirement
A retirement by a **member** subsequent to the **reinstatement** of the **member** who previously received a **service retirement allowance** or a **disability retirement allowance**

Normal cost rate
The cost, expressed as a level percentage of payroll, of current or future (as opposed to prior) service. (When a plan change or a change in experience changes the expected liabilities only for service prior to the valuation date, this cost change will be shown in the amortization rate. When a change affects only liabilities for service to be performed after the valuation date, the change will affect the normal cost rate. If the change is applicable to all service, both before

and after the valuation date, it will affect both the normal cost rate and the amortization rate)

Normal retirement age
The age at which a member is eligible for a **service retirement allowance** without reduction because of age and without special qualifications. The normal retirement age for **members** of the **Defined Benefit Program and Defined Benefit Supplement Program** and **participants** in the **Cash Balance Benefit Program** is age 60

Option
An election by a **member** to provide an allowance that is **actuarially reduced** from the **unmodified allowance** and is payable to an option **beneficiary** upon the **member's** death.

The DB Program currently has 7 options:

Option 2: Joint and 100 percent to **beneficiary**: Upon the retired member's death the modified allowance will continue to be paid to the **option beneficiary** for life.

Option 3: Joint and 50 percent to **beneficiary**. Upon the **retired member'**s death, one-half of the modified allowance will continue to be paid to the **option beneficiar**y for life.

Option 4: Joint and 66-2/3 percent to survivor: Upon the death of either the **retired member** or the **option beneficiary**, two-thirds of the modified allowance will continue to be paid to the survivor for life.

Option 5: Joint and 50 percent to survivor: Upon the death of either the **retired member** or the **option beneficiary**, one-half of the modified allowance will continue to be paid to the survivor for life.

Option 6: Joint and 100 percent to option beneficiary with "Pop Up": Upon the **retired member's** death, the modified allowance will continue to be paid to the **option beneficiary** for life. If the option beneficiary predeceases the **retired member**, the retired member's allowance will be raised or "pop up" to the **unmodified allowance** level.

Option 7: Joint and 50 percent to option **beneficiary** with "Pop Up": Upon the **retired member's** death, one-half of the modified allowance will continue to be paid to the **option beneficiary** for life. If the option beneficiary predeceases the **retired member**, the retired member's allowance will pop up to the **unmodified allowance** level

Option 8: Provides joint and survivor benefits to two or more option beneficiaries. Member may elect the same or a different option for each option beneficiary and may also reserve a portion of the allowance as unmodified. Upon the death of the member the option beneficiaries receive an allowance as stated under the designated options. If any of the option beneficiaries predecease the member, the allowance will change as stated under those designated options.

Option beneficiary
A person designated to receive an allowance that is **actuarially reduced** from the unmodified allowance and is payable upon the **member's** death. (**Participants** of the **Cash Balance Benefit Program** may elect to have annuity payments paid to beneficiaries on a similar basis, although such **beneficiaries** are not defined as **option beneficiarie**s in that program)

Overtime
The total service performed by a **member** in excess of the hours of work considered normal for employees employed on a full-time basis

Participant
A person who has performed **creditable service** subject to coverage by the **Cash Balance Benefit Program,** who has contributions credited under the program or is receiving an **annuity** under the program

Permissive service credit
Specified previous service or time, such as maternity/paternity leave, sabbaticals or teaching in public schools in another state or territory, or up to 5 years of service credit not associated with any prior service, for which a member may purchase service credit

Pre-retirement option election
An election by a member who is eligible to retire to designate an **option** and a **beneficiary**, and in which the selected option allowance would be payable upon the death of the **member,** if the death preceded the member's retirement

Present value
Current value of a series of future payments computed with adjustments for (1) expected payment increases (**improvement factor**), (2) the likelihood of payment (**mortality**) and (3) the time value of money (interest)

Projected final compensation
The **final compensation** used under Coverage A when the **disability allowance** or **family allowance** was computed, increased by 2 percent compounded annually to the earlier of **normal retirement age** or the date the **disability allowance** is terminated. Used in determining a **service retirement allowance** for a **member** who is receiving a **disability allowance** and has reached normal retirement age or later if there is a dependent child, and to compute family allowance for eligible spouse after the death of a member

Projected service
The **credited service** plus the service credit that would have been earned if a **disabled member** had continued to earn credited service to the earlier of **normal retirement age** or the date the disability allowance is terminated. Used under Coverage A in determining a **service retirement allowance** for a **member** who is receiving a disability allowance and has reached normal retirement age or later when there is no dependent child, and to compute family allowance for eligible spouse after the death of a member

Purchasing power protection payments
Supplemental payments made to members whose current allowance is worth less than 75 percent of the original allowance, when adjusted for increases in the California Consumer Price Index (CPI). Also called s**upplemental benefit maintenance payments**

Reciprocity
(Previous Term-Concurrent retirement)
A relationship between the **State Teachers' Retirement Plan** and other specified California public retirement systems in which a person who is a **member** of both the **Defined Benefit Program** and the other system(s) is eligible for specific benefits, including the right to redeposit previously refunded contributions without being re-employed in a position subject to coverage in that retirement system, and to have **final compensation** computed based on highest compensation of either system

Regular interest
Interest equivalent to the average rate paid during the prior year for maturities of over one year in length by fixed-income securities. Applied to the amount due from **members** redepositing previously withdrawn contributions and making installment payments for **permissive service credit**, and to employers when reporting contributions after the specified deadlines

Reinstatement
The termination of a **service retirement allowance** or **disability retirement allowanc**e and establishing status either as **an inactive member or an active member**

Retired member
(Previous Term-Retirant)
A **member** receiving a **service retirement allowance** or a **disability retirement allowance**

Retired participant
A **participant** of the **Cash Balance Benefit Program** who elected to receive a **benefit** in the form of an **annuity** upon retirement

Salary
In the **Cash Balance Benefit Program**, compensation payable in cash by an employer to a **participant** for creditable service (Similar to **creditable compensation** to **Defined Benefit Program members**)

Service
Service performed for compensation in a position subject to coverage under the **Defined Benefit Program** or permitting participation in the **Cash Balance Benefit Program**

Service retirement allowance
A monthly **benefit** payable to a **member** of the **Defined Benefit Program** upon retirement for reasons other than disability

Single life annuity
An election by a participant of a DB Program member under the **Cash Balance Benefit Program** or a member of the **Defined Benefit Supplement Program** in which an **annuity benefit** ceases being paid upon the death of the **participant** or **member**

State Teachers' Retirement Plan
The plan of retirement benefits and other ancillary benefits provided through the **Defined Benefit Program** and the **Cash Balance Benefit Program**

State Teachers' Retirement System
The department that administers the State Teachers' Retirement Plan

Supplemental benefit maintenance payments
Supplemental payments made to **members** and **beneficiaries** of the **Defined Benefit Program** whose current allowance is worth less than 75 percent of the original allowance, when adjusted for increases in the California Consumer Price Index (CCPI). Also called **purchasing power protection payments**

Survivor allowance
A monthly allowance payable upon the death of an **active member** or a **disabled member** prior to July 1, 1972 (Similar to **family allowance**, which is applicable to member deaths on or after July 1, 1972)

Survivor benefit allowance
A monthly allowance payable upon the death of an **active member** who was subject to **Coverage B**

Teachers' Health Benefit Fund
The trust fund in the state treasury in which contributions and investment earnings associated with the CalSTRS health benefit programs, such as the **Medicare Benefits Program**, are held and from which all **benefits** are paid

Teachers' Retirement Board
A 12-member Board that manages the **State Teachers' Retirement System**

Teachers' Retirement Fund
The trust fund in the State Treasury in which all contributions and investment earnings associated with the **Defined Benefit Program, the Defined Benefit Supplement Program** and the **Cash Balance Benefit Program** are held and from which all benefits are paid

Teachers' Retirement Law
Part 13 of the Education Code, governing administration of the **Defined Benefit Program and the Defined Benefit Supplement Program;** part 13.5 of the Education Code, governing administration of the Health Care Benefits Program; and Part 14 of the Education Code, governing administration of the **Cash Balance Benefit Program**

Termination benefit
The benefit paid from the employee account and the employer account to a **Cash Balance Benefit Program participant,** or to a member under the Defined Benefit Supplement Program, on a lump-sum basis upon termination of service for any reason other than death, disability or retirement of the participant or member

Traditional unit credit cost method
A method under which **actuarial accrued liability** is equal to the present value of benefits for service accrued to the valuation date. The **normal cost** is equal to the actuarial present value of benefits allocated to a valuation year. This is the cost method used for the **Cash Balance Benefit Program**

Unfunded actuarial obligation
The additional assets a retirement plan would need to have on the valuation date in order to meet the expected liabilities of the plan for service that has been performed in the past. This figure does not include any liabilities that will be incurred for future service or any assets that will be received in the future. The liabilities are based upon anticipated future salary increases that will be used to determine future benefits. The value is dependent on the actuarial assumptions, the population, the actuarial cost method and the asset valuation method. Sometimes called the unfunded actuarial accrued liability

Unmodified allowance
The maximum monthly **benefit** paid to a **retired member**, which terminates upon the death of that **member** under the Defined Benefit Program

Valuation assumptions
The factors used in calculating the expected future liabilities and assets of a retirement plan. They are long-range averages and are not necessarily indicative of current conditions. The most commonly quoted assumptions are return on investments, wage inflation and rate of inflation. Other assumptions, such as **mortality rate** and turnover, concern the number of people

contributing to the retirement plan or drawing a **benefit** from the plan

Windfall Elimination Provision
Provides an alternative calculation of an individual's Social Security benefit, resulting in a lower Social Security benefit for retirees who worked in employment not covered by Social Security and who had other jobs where they paid Social Security taxes long enough to become eligible for a Social Security benefit.

Population Information
For Fiscal Year 2000-2001
(As Of June 30, 2001)

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TABLE 1

Active Member Characteristics

Fiscal Year Ending June 30	Count	Average Earnable Salary[1]	Average Age	Average Service	Average Service Projected To Age 60
1992	312,579	$40,100	44.5	11.9	27.4
1993	313,617	39,945	44.7	12.0	27.3
1994	319,176	40,180	44.7	12.0	27.2
1995	327,513	40,716	44.8	11.9	27.1
1996	336,725	41,577	44.9	11.8	27.0
1997	364,000	42,557	44.5	11.3	26.8
1998	385,530	43,766	44.3	11.0	26.7
1999	402,220	45,421	44.2	10.8	26.6
2000	420,530	46,677	44.2	10.7	26.5
2001	428,741	51,478	44.3	10.7	26.4

[1] Average salary that would be paid if members worked on a full-time basis

TABLE 2

Active Member Salary Characteristics

Fiscal Year Ending June 30	Count	--- EARNED SALARY-- Total Salary	Average Salary	-- EARNABLE SALARY[1]-- Average Salary	% Increase Over Prior Yr	Average Increase to 2001
1992	312,579	$11,728,522,769	$37,522	$40,100	0.5%	2.8%
1993	313,617	11,712,337,653	37,346	39,945	-0.4	3.2
1994	319,176	11,978,064,140	37,528	40,180	0.6	3.6
1995	327,513	12,411,264,262	37,895	40,716	1.3	4.0
1996	336,725	12,994,673,531	38,591	41,577	2.1	4.4
1997	364,000	14,371,068,403	39,481	42,557	2.4	4.9
1998	385,530	15,725,658,541	40,790	43,766	2.8	5.6
1999	402,220	17,007,886,951	42,285	45,421	3.8	6.5
2000	420,530	18,224,271,726	43,336	46,677	2.8	10.3
2001	428,741	20,494,151,991	47,801	51,478	10.3	-

	Male	Female	Total
Count	127,403	301,338	428,741
Percent of Total	29.7%	70.3%	100.0%
Average Age	45.4	43.8	44.3
Average Service	11.6	10.2	10.7
Calculated Average Entry Age	33.8	33.6	33.6
Median Entry Age[2]	29.0	27.9	28.3
Average Earnable Salary	$53,121	$50,783	$51,478
Average Accumulated Contributions	$57,678	$47,087	$50,234

[1] Salary that would be paid if members worked on a full-time basis
[2] Entry age determined using initial membership date

TABLE 3

Distribution of Active Members by Age and Service
(Age and Service to nearest full year as of June 30, 2001)

ACTIVE MALE MEMBERS

Age	Less Than .500	1 Thru 5	6 Thru 10	11 Thru 15	16 Thru 20	21 Thru 25
Less than 25	404	711	1	0	0	0
25 to 30	1,224	9,423	184	0	0	0
30 to 35	937	10,945	4,073	119	0	0
35 to 40	737	6,467	4,286	2,557	98	0
40 to 45	713	4,967	2,974	3,673	1,931	98
45 to 50	760	4,728	2,656	3,270	2,832	2,764
50 to 55	742	4,631	2,588	2,972	2,507	3,895
55 to 60	545	2,839	1,593	1,839	1,500	1,678
60 to 65	218	1,417	616	742	568	551
65 to 70	126	558	237	201	176	136
70 and over	76	362	110	75	55	47
Age Unknown	3	10	1	0	0	0
Total	6,485	47,058	19,319	15,448	9,667	9,169

Age	26 Thru 30	31 Thru 35	36 Thru 40	41 Thru 45	Over 45	Total
Less than 25	0	0	0	0	0	1,116
25 to 30	0	0	0	0	0	10,831
30 to 35	0	0	0	0	0	16,074
35 to 40	0	0	0	0	0	14,145
40 to 45	0	0	0	0	0	14,356
45 to 50	214	0	0	0	0	17,224
50 to 55	5,487	514	0	0	0	23,336
55 to 60	4,219	4,805	371	0	0	19,389
60 to 65	944	1,628	1,108	28	0	7,820
65 to 70	190	216	217	104	3	2,164
70 and over	40	58	40	53	18	934
Age Unknown	0	0	0	0	0	14
Total	11,094	7,217	1,740	185	21	127,403

TABLE 3

Distribution of Active Members by Age and Service
(Age and Service to nearest full year as of June 30, 2001)

ACTIVE FEMALE MEMBERS

Age	Service: Less Than .500	1 Thru 5	6 Thru 10	11 Thru 15	16 Thru 20	21 Thru 25
Less than 25	1,573	3,788	0	0	0	0
25 to 30	2,936	32,041	906	0	0	0
30 to 35	1,729	24,821	12,247	539	0	0
35 to 40	1,546	13,068	9,217	7,442	375	0
40 to 45	1,512	12,331	7,265	8,015	4,865	291
45 to 50	1,547	12,916	8,093	8,526	6,292	5,981
50 to 55	1,169	10,581	7,907	10,068	6,735	6,911
55 to 60	640	5,405	4,155	6,183	5,130	4,565
60 to 65	239	1,859	1,310	2,009	1,961	2,041
65 to 70	97	637	337	483	474	528
70 and over	52	395	155	154	144	150
Age Unknown	24	388	21	0	0	0
Total	13,064	118,230	51,613	43,419	25,976	20,467

Age	Service: 26 Thru 30	31 Thru 35	36 Thru 40	41 Thru 45	Over 45	Total
Less than 25	0	0	0	0	0	5,361
25 to 30	0	0	0	0	0	35,883
30 to 35	0	0	0	0	0	39,336
35 to 40	0	0	0	0	0	31,648
40 to 45	0	0	0	0	0	34,279
45 to 50	440	0	0	0	0	43,795
50 to 55	8,027	1,255	0	0	0	52,653
55 to 60	5,052	6,736	720	0	0	38,586
60 to 65	1,670	1,827	1,245	55	0	14,246
65 to 70	451	351	203	100	11	3,672
70 and over	108	139	68	47	34	1,446
Age Unknown	0	0	0	0	0	433
Total	15,778	10,308	2,236	202	45	301,338

TABLE 3

Distribution of Active Members by Age and Service
(Age and Service to nearest full year as of June 30, 2001)

TOTAL ACTIVE MEMBERS

	Service					
Age	Less Than .500	1 Thru 5	6 Thru 10	11 Thru 15	16 Thru 20	21 Thru 25
Less than 25	1,977	4,499	1	0	0	0
25 to 30	4,160	41,464	1,090	0	0	0
30 to 35	2,666	35,766	16,320	658	0	0
35 to 40	2,283	19,535	13,503	9,999	473	0
40 to 45	2,225	17,298	10,239	11,688	6,796	389
45 to 50	2,307	17,644	10,749	11,796	9,124	8,745
50 to 55	1,911	15,212	10,495	13,040	9,242	10,806
55 to 60	1,185	8,244	5,748	8,022	6,630	6,243
60 to 65	457	3,276	1,926	2,751	2,529	2,592
65 to 70	223	1,195	574	684	650	664
70 and over	128	757	265	229	199	197
Age Unknown	27	398	22	0	0	0
Total	19,549	165,288	70,932	58,867	35,643	29,636

	Service					
Age	26 Thru 30	31 Thru 35	36 Thru 40	41 Thru 45	Over 45	Total
Less than 25	0	0	0	0	0	6,477
25 to 30	0	0	0	0	0	46,714
30 to 35	0	0	0	0	0	55,410
35 to 40	0	0	0	0	0	45,793
40 to 45	0	0	0	0	0	48,635
45 to 50	654	0	0	0	0	61,019
50 to 55	13,514	1,769	0	0	0	75,989
55 to 60	9,271	11,541	1,091	0	0	57,975
60 to 65	2,644	3,455	2,353	83	0	22,066
65 to 70	641	567	420	204	14	5,836
70 and over	148	197	108	100	52	2,380
Age Unknown	0	0	0	0	0	447
Total	26,872	17,525	3,976	387	66	428,741

TABLE 4

Active Members Classified by Age

MALE

Age	Count	Average Service Credit	Average Earnable Salary	Age	Count	Average Service Credit	Average Earnable Salary[1]
20	14	.364	$24,132	47	3,371	11.191	$55,034
21	4	.712	31,691	48	3,638	12.079	56,221
22	34	.506	26,171	49	3,907	12.791	56,570
23	306	.635	28,543	50	4,159	13.867	57,958
24	757	.931	30,811	51	4,403	14.958	59,391
25	1,304	1.251	33,022	52	4,688	16.048	60,480
26	1,828	1.628	34,014	53	4,840	16.908	61,532
27	2,442	2.006	35,072	54	5,236	18.196	62,556
28	2,510	2.390	36,225	55	4,896	19.185	63,630
29	2,744	2.773	37,891	56	3,955	20.010	64,102
30	3,233	3.158	38,970	57	3,695	20.994	64,605
31	3,514	3.557	40,428	58	3,664	21.443	64,988
32	3,294	3.957	41,572	59	3,189	21.990	64,304
33	3,096	4.316	43,084	60	2,511	22.925	65,074
34	2,930	4.784	44,362	61	1,974	21.733	64,632
35	2,822	5.250	45,466	62	1,452	19.632	62,471
36	2,799	5.544	46,490	63	1,073	18.737	61,061
37	2,845	6.034	47,676	64	819	18.790	60,162
38	2,856	6.463	48,240	65	649	18.401	57,765
39	2,828	7.006	49,439	66	510	18.314	58,010
40	2,831	7.546	50,575	67	432	15.581	52,917
41	2,857	7.847	50,445	68	324	16.631	54,020
42	2,841	8.413	51,515	69	248	17.615	54,431
43	2,805	8.853	51,821	70	218	14.217	49,711
44	3,016	9.286	52,680	71	158	15.274	52,459
45	3,147	9.817	53,255	71+	559	12.473	46,482
46	3,164	10.363	53,917	Age Unknown	14	2.461	32,209
				Total	127,403	11.607[2]	$53,121[2]

[1] Average salary that would be paid if members worked on a full-time basis
[2] Overall averages

TABLE 4

Active Members Classified by Age

FEMALE

Age	Count	Average Service Credit	Average Earnable Salary	Age	Count	Average Service Credit	Average Earnable Salary[1]
20	31	.288	$22,800	47	8,761	10.695	$53,075
21	23	.614	21,064	48	9,232	11.334	54,134
22	218	.532	25,084	49	9,747	11.948	54,907
23	1,504	.698	29,233	50	9,977	12.499	55,430
24	3,578	1.003	31,849	51	10,164	13.603	56,962
25	5,357	1.421	34,039	52	10,464	14.325	57,778
26	6,783	1.860	35,421	53	10,635	15.337	58,791
27	7,757	2.316	36,984	54	11,413	16.674	60,195
28	7,885	2.762	38,523	55	10,122	17.443	60,724
29	8,083	3.219	39,802	56	7,920	17.939	60,918
30	8,427	3.613	40,821	57	7,314	18.426	61,307
31	8,913	3.983	42,295	58	7,090	19.484	61,564
32	8,130	4.440	43,209	59	6,154	19.936	61,383
33	7,253	4.870	44,235	60	4,565	20.204	61,569
34	6,619	5.415	45,407	61	3,553	20.176	61,291
35	6,199	5.824	46,328	62	2,589	19.520	60,521
36	6,201	6.244	46,767	63	2,031	19.243	59,114
37	6,252	6.626	47,420	64	1,524	18.340	57,712
38	6,461	7.167	48,277	65	1,128	18.667	58,764
39	6,532	7.368	48,534	66	887	18.225	56,648
40	6,559	7.800	48,986	67	709	18.591	56,911
41	6,616	8.036	49,512	68	540	18.366	56,477
42	6,795	8.229	49,277	69	409	18.728	55,612
43	6,929	8.581	49,948	70	334	18.440	44,959
44	7,380	9.121	50,841	71	261	18.201	53,864
45	7,794	9.631	51,739	71+	852	15.675	49,354
46	8,251	9.821	51,512	Age Unknown	433	2.982	39,640
				Total	301,338	10.248[2]	$50,783[2]

[1] Average salary that would be paid if members worked on a full-time basis
[2] Overall averages

TABLE 4

Active Members Classified by Age

TOTAL

Age	Count	Average Service Credit	Average Earnable Salary	Age	Count	Average Service Credit	Average Earnable Salary[1]
20	45	.312	$23,214	47	12,132	10.833	$53,619
21	27	.629	22,639	48	12,870	11.545	54,724
22	252	.528	25,230	49	13,654	12.189	55,383
23	1,810	.688	29,116	50	14,136	12.902	56,173
24	4,335	.991	31,668	51	14,567	14.012	57,696
25	6,661	1.388	33,840	52	15,152	14.858	58,614
26	8,611	1.811	35,122	53	15,475	15.828	59,648
27	10,199	2.241	36,527	54	16,649	17.153	60,938
28	10,395	2.672	37,968	55	15,018	18.011	61,672
29	10,827	3.106	39,318	56	11,875	18.629	61,978
30	11,660	3.487	40,308	57	11,009	19.288	62,414
31	12,427	3.863	41,767	58	10,754	20.152	62,731
32	11,424	4.300	42,737	59	9,343	20.637	62,380
33	10,349	4.704	43,891	60	7,076	21.170	62,812
34	9,549	5.221	45,086	61	5,527	20.732	62,484
35	9,021	5.645	46,058	62	4,041	19.560	61,222
36	9,000	6.026	46,681	63	3,104	19.068	59,787
37	9,097	6.441	47,500	64	2,343	18.497	58,568
38	9,317	6.952	48,266	65	1,777	18.570	58,399
39	9,360	7.258	48,807	66	1,397	18.258	57,145
40	9,390	7.724	49,465	67	1,141	17.451	55,399
41	9,473	7.979	49,793	68	864	17.715	55,556
42	9,636	8.283	49,937	69	657	18.308	55,166
43	9,734	8.659	50,488	70	552	16.772	52,887
44	10,396	9.169	51,374	71	419	17.097	53,334
45	10,941	9.685	52,175	71+	1,411	14.406	48,216
46	11,415	9.971	52,179	Age Unknown	447	2.966	39,407
				Total	428,741	10.652[2]	$51,478[2]

[1] Average salary that would be paid if members worked on a full-time basis
[2] Overall averages

TABLE 5

Number of Inactive Accounts

Fiscal Year Ending June 30	Total	Male % of Total	Female % of Total
1992	50,898	28.0%	72.0%
1993	51,094	27.3	72.7
1994	53,222	27.2	72.8
1995	54,159	26.7	73.3
1996	56,424	26.8	73.2
1997	59,385	27.2	72.8
1998	61,848	27.4	72.6
1999	69,112	27.7	72.3
2000	75,580	27.8	72.2
2001	87,146[1]	28.1	71.9

[1] 582 non-member spouse accounts included in this total.

TABLE 6

Inactive Account Characteristics

Fiscal Year Ending June 30	Total Count	Averages Contributions on Deposit	Age	Years Service Credit	Years Inactive	Vested Count
1992	50,898	$8,312	48.3	3.5	8.0	11,446
1993	51,094	9,078	48.1	3.6	8.1	11,777
1994	53,222	9,607	47.9	3.5	8.2	12,318
1995	54,159	10,282	47.4	3.6	8.0	12,724
1996	56,424	10,931	47.2	3.5	8.0	13,261
1997	59,385	11,431	47.3	3.5	8.2	13,925
1998	61,848	11,731	47.5	3.4	8.3	14,038
1999	69,112	12,105	47.1	3.3	8.0	15,421
2000	75,580	12,325	46.8	3.2	7.8	16,211
2001	87,146[1]	12,889	50.7	3.2	8.2	18,469

[1] 582 non-member spouse accounts included in this total.

TABLE 7

Number of Members Retired for Service[1]

Fiscal Year Ending June 30	Total	Male % of Total	Female % of Total
1992	118,963	37.1%	62.9%
1993	122,762	37.6	62.4
1994	126,476	37.9	62.1
1995	130,576	38.1	61.9
1996	133,764	38.2	61.8
1997	135,809	38.3	61.7
1998	139,193	38.3	61.7
1999	142,309	38.3	61.7
2000	145,415	38.1	61.9
2001	149,727	38.0	62.0

[1] Does not include formerly disabled members

TABLE 8

All Members Retired for Service Characteristics[1]

Fiscal Year Ending June 30	Average Age At Retirement	Average Years of Service Credit	Average Final Compensation	Average Current Allowance Payable
1992	60.8	24.2	$2,285	$1,217
1993	60.9	24.3	2,414	1,297
1994	60.9	24.5	2,532	1,369
1995	60.9	24.6	2,637	1,434
1996	60.9	24.7	2,743	1,502
1997	60.8	24.8	2,837	1,566
1998	60.8	24.7	2,945	1,638
1999	60.7	24.8	3,057	1,729
2000	60.7	25.0	3,175	1,824
2001	60.7	25.4	3,356	2,033

[1] Does not include formerly disabled members

TABLE 9

Members Retired for Service During the 2000/2001 Fiscal Year[1] Classified by Unmodified Allowance

MALE

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	112	61.5	7.008	$3,328	$399
500 – 1000	145	61.5	10.054	4,069	684
1000 - 1500	141	61.3	15.666	4,484	1,161
1500 - 2000	142	61.0	19.646	4,834	1,617
2000 - 2500	153	59.8	24.940	5,075	2,201
2500 - 3000	186	59.1	28.821	5,224	2,704
3000 - 3500	256	59.6	30.984	5,306	3,254
3500 - 4000	316	60.3	32.795	5,539	3,741
4000 - 4500	399	61.1	34.147	5,672	4,170
4500 - 5000	401	62.1	35.286	5,861	4,650
More than $5000	907	63.1	37.966	6,764	5,731
Total	3,158	61.5[2]	30.691[2]	$5,664[2]	$3,838[2]

FEMALE

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	296	61.0	6.917	$2,640	$304
500 - 1000	436	59.6	11.850	3,643	720
1000 - 1500	482	60.0	16.466	4,225	1,211
1500 - 2000	523	60.3	19.926	4,707	1,696
2000 - 2500	442	60.3	23.986	4,961	2,200
2500 - 3000	513	60.0	27.391	5,217	2,748
3000 - 3500	536	60.3	30.415	5,343	3,324
3500 - 4000	597	60.9	32.154	5,549	3,841
4000 - 4500	585	61.6	33.880	5,714	4,392
4500 - 5000	464	62.5	35.484	5,811	4,887
More than $5000	669	63.4	37.987	6,543	5,908
Total	5,543	61.0[2]	26.596[2]	$5,111[2]	$3,089[2]

[1] Does not include formerly disabled members
[2] Overall averages

TABLE 9

Members Retired for Service During the 2000/2001 Fiscal Year[1] Classified by Unmodified Allowance

TOTAL

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	408	61.2	6.942	$2,829	$330
500 - 1000	581	60.1	11.402	3,749	711
1000 - 1500	623	60.2	16.285	4,284	1,200
1500 - 2000	665	60.4	19.866	4,734	1,680
2000 - 2500	595	60.2	24.231	4,990	2,200
2500 - 3000	699	59.8	27.772	5,218	2,737
3000 - 3500	792	60.1	30.599	5,331	3,301
3500 - 4000	913	60.7	32.376	5,545	3,806
4000 - 4500	984	61.4	33.988	5,697	4,302
4500 - 5000	865	62.4	35.392	5,834	4,777
More than $5000	1,576	63.2	37.976	6,670	5,806
Totals	8,701	61.2[2]	28.082[2]	$5,312[2]	$3,361[2]

[1] Does not include formerly disabled members
[2] Overall averages

TABLE 10

Members Retired for Service
During 2000/2001 Fiscal Year[1]
Classified by Age and Joint & Survivor Annuity Option Elected[2]

MALE

			Options						
Age	Total	Unmod.	2	3	4	5	6	7	8
Under 55	7	2	2	0	0	0	2	1	0
55	71	32	9	2	1	2	20	5	0
56	168	64	23	6	0	1	49	23	2
57	149	55	25	2	6	2	33	26	0
58	190	63	27	6	2	1	56	35	0
59	250	77	41	11	5	2	73	40	1
60	370	92	56	14	0	3	135	69	1
61	404	114	44	26	6	3	152	56	3
62	468	119	57	14	4	4	177	92	1
63	275	65	39	12	5	1	95	53	5
64	181	51	23	9	5	1	62	30	0
65	155	38	23	14	7	0	46	23	4
66	137	36	21	2	6	3	42	26	1
67	71	17	12	3	1	0	26	11	1
68	48	16	10	2	2	0	12	6	0
69	56	15	9	3	1	2	16	8	2
70	38	13	3	4	1	0	11	6	0
71	52	20	10	3	2	1	11	3	2
72	18	9	4	0	0	2	2	1	0
73	13	7	0	1	0	0	4	1	0
74	6	3	0	0	0	0	2	1	0
75	9	1	4	0	0	0	3	1	0
Over 75	22	7	4	1	1	1	6	2	0
Age Unknown	0	0	0	0	0	0	0	0	0
Total	3,158	916	446	135	55	29	1,035	519	23
% of Total Males	100.0%	29.0%	14.1%	4.3%	1.7%	0.9%	32.8%	16.4%	0.8%

[1] Does not include formerly disabled members
[2] See Plan Summary for description of Joint and Survivor Annuities

TABLE 10

Members Retired for Service
During 2000/2001 Fiscal Year[1]
Classified by Age and Joint & Survivor Annuity Option Elected[2]

FEMALE

			Options						
Age	Total	Unmod.	2	3	4	5	6	7	8
Under 55	23	16	1	0	1	0	2	3	0
55	240	147	10	5	0	1	32	45	0
56	437	278	15	12	2	1	53	75	1
57	317	200	7	5	0	1	41	58	5
58	390	223	12	6	0	1	59	86	3
59	502	299	8	10	2	2	78	100	3
60	588	351	20	10	2	0	94	108	3
61	631	368	21	13	1	1	113	106	8
62	587	347	19	10	0	0	84	118	9
63	453	280	9	13	0	1	58	85	7
64	336	219	10	4	0	2	44	55	2
65	250	171	2	4	0	0	30	40	3
66	213	142	4	4	2	0	26	34	1
67	134	89	4	1	0	0	16	19	5
68	94	72	3	1	0	0	7	10	1
69	89	61	4	1	0	0	10	10	3
70	75	51	3	0	1	0	8	10	2
71	66	51	0	4	1	0	4	5	1
72	35	24	3	2	0	0	2	3	1
73	18	11	1	2	0	0	1	2	1
74	15	8	2	0	0	0	1	3	1
75	14	11	0	1	0	0	2	0	0
Over 75	36	22	1	1	0	1	3	4	4
Age Unknown	0	0	0	0	0	0	0	0	0
Total-	5,543	3,441	159	109	12	11	768	979	64
% of Total Females	100.0%	62.1%	2.9%	2.0%	0.2%	0.2%	13.9%	17.6%	1.1%

[1] Does not include formerly disabled members
[2] See Plan Summary for description of Joint and Survivor Annuities

TABLE 10

Members Retired for Service
During 2000/2001 Fiscal Year[1]
Classified by Age and Joint & Survivor Annuity Option Elected[2]

TOTAL

				Options					
Age	Total	Unmod.	2	3	4	5	6	7	8
Under 55	30	18	3	0	1	0	4	4	0
55	311	179	19	7	1	3	52	50	0
56	605	342	38	18	2	2	102	98	3
57	466	255	32	7	6	3	74	84	5
58	580	286	39	12	2	2	115	121	3
59	752	376	49	21	7	4	151	140	4
60	958	443	76	24	2	3	229	177	4
61	1,035	482	65	39	7	4	265	162	11
62	1,055	466	76	24	4	4	261	210	10
63	728	345	48	25	5	2	153	138	12
64	517	270	33	13	5	3	106	85	2
65	405	209	25	18	7	0	76	63	7
66	350	178	25	6	8	3	68	60	2
67	205	106	16	4	1	0	42	30	6
68	142	88	13	3	2	0	19	16	1
69	145	76	13	4	1	2	26	18	5
70	113	64	6	4	2	0	19	16	2
71	118	71	10	7	3	1	15	8	3
72	53	33	7	2	0	2	4	4	1
73	31	18	1	3	0	0	5	3	1
74	21	11	2	0	0	0	3	4	1
75	23	12	4	1	0	0	5	1	0
Over 75	58	29	5	2	1	2	9	6	4
Age Unknown	0	0	0	0	0	0	0	0	0
Total	8,701	4,357	605	244	67	40	1,803	1,498	87

[1] Does not include formerly disabled members
[2] See Plan Summary for description of Joint and Survivor Annuities

TABLE 11

Members Retired for Service Characteristics[1]
By Year of Retirement

Effective Date of Retirement Average by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age At Retirement
7/1/1991 thru 6/30/1992	6,913	26.6	$2,050	$3,862	61.4
7/1/1992 thru 6/30/1993	7,780	26.8	$2,153	$3,960	61.3
7/1/1993 thru 6/30/1994	7,152	27.0	$2,187	$4,043	60.9
7/1/1994 thru 6/30/1995	7,140	26.5	$1,984	$4,030	61.1
7/1/1995 thru 6/30/1996	6,985	26.6	$2,171	$4,110	61.3
7/1/1996 thru 6/30/1997					
0 - 5	50	2.4	$ 292	-	-
5 - 10	419	7.3	398	-	-
10 - 15	480	12.4	769	-	-
15 - 20	526	17.6	1,245	-	-
20 - 25	790	22.6	1,724	-	-
25 - 30	1,066	27.6	2,251	-	-
30 - 35	1,447	32.5	2,722	-	-
35 - 40	1,026	37.2	3,443	-	-
40 & over	207	42.0	4,080	-	-
Total	6,011	26.6	$2,210	$4,206	60.9
7/1/1997 thru 6/30/1998					
0 - 5	73	2.5	$ 298	-	-
5 - 10	530	7.4	414	-	-
10 - 15	572	12.6	834	-	-
15 - 20	581	17.7	1,280	-	-
20 - 25	884	22.6	1,811	-	-
25 - 30	1,356	27.7	2,331	-	-
30 - 35	1,799	32.5	2,817	-	-
35 - 40	1,259	37.2	3,548	-	-
40 & over	278	42.0	4,251	-	-
Total	7,332	26.8	$2,310	$4,345	60.8

[1] Does not include formerly disabled members

TABLE 11 *(Continued)*

Members Retired for Service Characteristics[1]
By Year of Retirement

Effective Date of Retirement Average by Service Credit	of Retirements	Number Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age At Retirement
7/1/1998 thru 6/30/1999					
0 - 5	72	2.8	$ 355	-	-
5 - 10	459	7.6	491	-	-
10 - 15	611	12.6	959	-	-
15 - 20	644	17.5	1,394	-	-
20 - 25	806	22.6	1,999	-	-
25 - 30	1,081	27.6	2,574	-	-
30 - 35	1,852	32.5	3,237	-	-
35 - 40	1,312	37.2	4,093	-	-
40 & over	411	42.6	5,147	-	-
Total	7,248	27.2	$2,706	$4,541	61.2
7/1/1999 thru 6/30/2000					
0 - 5	92	2.2	$ 279	-	-
5 - 10	519	7.6	504	-	-
10 - 15	658	12.5	994	-	-
15 - 20	694	17.6	1,512	-	-
20 - 25	900	22.5	2,099	-	-
25 - 30	960	27.4	2,733	-	-
30 - 35	1,968	32.5	3,487	-	-
35 - 40	1,382	37.1	4,495	-	-
40 & over	383	42.3	5,532	-	-
Total	7,556	26.8	$2,872	$4,688	61.3
7/1/2000 thru 6/30/2001					
0 - 5	86	2.3	$ 226	-	-
5 - 10	505	7.3	513	-	-
10 - 15	661	12.6	1,066	-	-
15 - 20	707	17.4	1,594	-	-
20 - 25	821	22.4	2,162	-	-
25 - 30	988	27.3	3,073	-	-
30 - 35	2,446	32.6	3,911	-	-
35 - 40	2,041	37.2	4,963	-	-
40 & over	446	42.1	6,121	-	-
Total	8,701	28.1	$3,373	$5,312	61.2

[1] Does not include formerly disabled members

TABLE 12

Members Retired for Service Classified by Years in Retirement[1]

MALE

Years in Retirement	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Unmodified Allowance[2]	Average Allowance Payable[3]
Less than 1	3,158	61.5	30.691	$5,664	$3,948	$3,838
1	2,591	61.4	29.811	5,143	3,356	3,188
2	2,640	61.6	30.492	4,989	3,230	3,096
3	2,595	60.9	30.087	4,728	2,822	2,696
4	2,180	61.0	29.676	4,553	2,679	2,633
5	2,596	60.8	29.896	4,510	2,650	2,687
6	2,657	61.0	29.533	4,376	2,531	2,615
7	2,749	60.8	29.849	4,410	2,582	2,745
8	3,097	61.1	29.855	4,340	2,553	2,753
9	2,629	61.1	29.552	4,204	2,444	2,664
10	2,992	61.0	29.706	4,104	2,352	2,617
11	2,524	60.6	29.216	3,819	2,144	2,492
12	2,581	60.6	28.788	3,568	1,955	2,325
13	2,262	60.5	27.243	3,374	1,848	2,272
14	2,408	60.4	27.509	3,230	1,750	2,193
15	1,866	60.1	27.287	2,974	1,577	2,005
16	2,114	60.2	27.397	2,829	1,515	1,947
17	2,180	60.2	26.041	2,653	1,346	1,783
18	1,992	60.2	26.187	2,537	1,289	1,745
19	1,619	59.8	26.405	2,353	1,213	1,696
20 and more	7,535	59.8	24.230	1,781	854	1,264
Total	56,965	60.7[4]	28.326[4]	$3,733[4]	$2,174[4]	$2,393[4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages

TABLE 12

Members Retired for Service Classified by Years in Retirement[1]

FEMALE

Years in Retirement	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Unmodified Allowance[2]	Average Allowance Payable[3]
Less than 1	5,543	61.0	26.596	$5,111	$3,045	$3,089
1	4,894	61.2	25.536	4,617	2,547	2,553
2	4,518	60.9	25.675	4,456	2,381	2,419
3	4,567	60.7	25.102	4,251	2,109	2,139
4	3,690	60.7	24.732	4,072	1,992	2,081
5	4,104	60.9	24.709	3,973	1,927	2,074
6	4,146	60.9	24.824	3,858	1,900	2,088
7	4,046	60.9	25.122	3,862	1,904	2,149
8	4,173	61.1	24.600	3,761	1,831	2,107
9	3,704	61.0	24.657	3,682	1,798	2,103
10	4,016	61.3	25.127	3,564	1,776	2,115
11	3,166	60.9	24.048	3,302	1,557	1,917
12	3,293	60.9	23.561	3,104	1,426	1,802
13	2,705	60.8	22.154	2,919	1,336	1,740
14	2,857	60.6	21.991	2,763	1,217	1,633
15	2,673	60.5	22.720	2,507	1,118	1,511
16	2,749	60.5	22.641	2,386	1,060	1,462
17	2,792	60.4	22.475	2,251	986	1,414
18	2,694	60.5	22.361	2,130	943	1,380
19	2,358	60.4	21.679	1,938	846	1,275
20 and more	20,074	60.3	21.287	1,316	562	946
Total	92,762	60.7[4]	23.674[4]	$3,124[4]	$1,544[4]	$1,812[4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages

TABLE 12

Members Retired for Service Classified by Years in Retirement[1]

TOTAL

Years in Retirement	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Unmodified Allowance[2]	Average Allowance Payable[3]
Less than 1	8,701	61.2	28.082	$5,312	$3,373	$3,361
1	7,485	61.3	27.016	4,799	2,827	2,773
2	7,158	61.1	27.452	4,653	2,694	2,669
3	7,162	60.8	26.908	4,424	2,367	2,341
4	5,870	60.8	26.568	4,250	2,247	2,286
5	6,700	60.9	26.718	4,181	2,207	2,311
6	6,803	60.9	26.663	4,060	2,146	2,294
7	6,795	60.9	27.034	4,084	2,179	2,390
8	7,270	61.1	26.839	4,007	2,138	2,382
9	6,333	61.0	26.689	3,899	2,066	2,336
10	7,008	61.2	27.082	3,795	2,022	2,329
11	5,690	60.7	26.341	3,531	1,817	2,172
12	5,874	60.8	25.858	3,308	1,658	2,031
13	4,967	60.7	24.471	3,126	1,569	1,982
14	5,265	60.5	24.515	2,976	1,461	1,889
15	4,539	60.4	24.598	2,699	1,307	1,714
16	4,863	60.4	24.709	2,578	1,258	1,673
17	4,972	60.3	24.039	2,427	1,144	1,576
18	4,686	60.4	23.988	2,303	1,091	1,535
19	3,977	60.1	23.602	2,107	995	1,446
20 and more	27,609	60.1	22.090	1,443	641	1,033
Total	149,727	60.7[4]	25.444[4]	$3,356[4]	$1,783[4]	$2,033[4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages

TABLE 13

Characteristics of Members Going on Disability

MALE

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
1992	111	$1,894	17.637	$3,468	49.2
1993	116	1,909	16.340	3,314	50.8
1994	151	1,995	17.754	3,948	51.2
1995	132	1,893	16.764	3,821	52.1
1996	144	1,953	16.514	3,767	51.7
1997	131	2,097	16.949	4,091	51.9
1998	126	2,040	14.400	4,557	51.4
1999	103	2,330	16.955	4,198	53.9
2000	119	2,153	14.713	4,178	53.1
2001	124	2,524	17.222	4,769	54.3

FEMALE

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
1992	187	$1,834	17.831	$3,404	50.3
1993	272	1,767	17.155	3,294	50.1
1994	317	1,743	15.130	3,546	51.5
1995	337	1,834	15.581	3,591	50.9
1996	352	1,821	15.722	3,590	52.0
1997	333	1,854	15.154	3,802	52.1
1998	325	1,972	15.345	3,888	52.5
1999	311	2,042	15.192	3,970	51.6
2000	335	2,114	15.407	4,194	52.4
2001	362	2,183	15.315	4,376	53.8

TABLE 13

Characteristics of Members Going on Disability

TOTAL

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
1992	298	$1,856	17.759	$3,428	49.9
1993	388	1,809	16.014	3,300	50.3
1994	468	1,824	15.977	3,676	51.4
1995	469	1,851	15.914	3,656	51.3
1996	496	1,859	15.952	3,641	51.9
1997	464	1,923	15.660	3,883	52.0
1998	451	1,989	14.446	3,906	52.3
1999	414	2,114	15.630	4,027	52.2
2000	454	2,124	15.224	4,190	52.6
2001	486	2,270	15.802	4,476	53.9

TABLE 14

Number of Benefit Recipients by Type of Benefit

Fiscal Year Ending June 30	Service Retirement	Disability Benefits	Benefits for Survivors	Total Benefit Recipients
1992	118,963	4,914	8,634	132,511
1993	122,762	4,879	9,346	136,987
1994	126,476	5,126	10,271	141,873
1995	130,576	5,331	10,898	146,805
1996	133,764	5,540	11,501	150,805
1997	135,809	5,676	12,154	153,639
1998	139,193	5,758	12,796	157,747
1999	142,309	5,822	13,326	161,457
2000	145,415	5,885	13,982	165,282
2001	149,727	6,477	14,768	170,972

TABLE 15

Refunds of Member Contributions and Interest Characteristics by Fiscal Year and Service Credit

MALE

Fiscal Year Ending Total June 30	From Active Status			From Inactive Status[1]				
	Count by Amount of Service Credit		Average Service Credit	Count by Amount of Service Credit		Average Service Credit	Average Contributions	
	<5	5 +		<5	5 +			
Count								
1992	1,433	286	3.146	239	72	4.000	$8,506	2,030
1993	1,348	312	3.576	1,428	101	1.577	6,595	3,189
1994	1,078	304	3.715	700	76	2.095	8,695	2,158
1995	966	313	3.681	1,185	116	1.853	7,719	2,580
1996	987	299	3.562	775	123	2.434	9,439	2,184
1997	845	229	3.413	647	140	2.606	9,795	1,861
1998	1,202	249	2.905	667	130	2.630	9,043	2,248
1999	1,258	232	3.047	642	120	2.640	9,949	2,252
2000	1,279	224	2.978	754	117	2.422	9,604	2,374
2001	1,053	202	3.208	681	131	2.800	10,982	2,067

[1] Status is determined as of the end of the fiscal year. Inactive Status describes a member who has not contributed during that fiscal year.

TABLE 15

Refunds of Member Contributions and Interest Characteristics by Fiscal Year and Service Credit

FEMALE

Fiscal Year Ending Total June 30	From Active Status: Count by Amount of Service Credit <5	5 +	Average Service Credit	From Inactive Status[1]: Count by Amount of Service Credit <5	5 +	Average Service Credit	Average Contributions	
Count								
1992	2,622	516	3.084	644	257	4.172	$8,204	4,039
1993	2,311	508	3.245	2,651	380	2.435	6,599	5,850
1994	1,910	556	3.670	1,472	245	2.745	8,810	4,183
1995	1,738	529	3.752	2,400	421	2.556	8,024	5,088
1996	1,619	527	3.709	1,807	412	3.024	9,542	4,365
1997	1,380	457	3.722	1,517	407	3.369	10,860	3,761
1998	1,719	428	3.100	1,399	392	3.365	10,213	3,938
1999	2,041	409	3.105	1,368	368	3.277	10,513	4,186
2000	2,053	388	3.098	1,660	447	3.301	10,963	4,548
2001	1,784	377	3.295	1,451	418	3.369	11,858	4,030

[1] Status is determined as of the end of the fiscal year. Inactive Status describes a member who has not contributed during that fiscal year.

TABLE 15

Refunds of Member Contributions and Interest Characteristics by Fiscal Year and Service Credit

TOTAL

Fiscal Year Ending Total June 30	From Active Status: Count by Amount of Service Credit <5	5 +	Average Service Credit	From Inactive Status[1]: Count by Amount of Service Credit <5	5 +	Average Service Credit	Average Contributions	Count
1992	4,055	802	3.106	883	329	4.128	$8,305	6,069
1993	3,659	820	3.368	4,079	481	2.147	6,597	9,039
1994	2,988	860	3.687	2,172	321	2.543	8,771	6,341
1995	2,704	842	3.727	3,585	537	2.334	7,921	7,668
1996	2,606	826	3.654	2,582	535	2.854	9,508	6,549
1997	2,225	686	3.608	2,164	547	3.147	10,507	5,622
1998	2,921	677	3.022	2,066	522	3.139	9,788	6,186
1999	3,299	641	3.083	2,010	488	3.083	10,316	6,438
2000	3,332	612	3.052	2,414	564	3.044	10,497	6,922
2001	2,837	579	3.263	2,132	549	3.197	11,561	6,097

[1] Status is determined as of the end of the fiscal year. Inactive Status describes a member who has not contributed during that fiscal year.

TABLE 16

Market Value of Assets and Annual Rate of Return

Ending June 30	Market Value of Assets (in millions)	Annual Return on Investments
1985	$14,208	31.42%
1986	$19,412	27.80%
1987	$22,352	16.80%
1988	$24,348	0.62%
1989	$28,984	16.46%
1990	$32,208	9.16%
1991	$35,259	8.82%
1992	$40,772	14.10%
1993	$46,828	13.84%
1994	$47,523	0.56%
1995	$55,481	16.40%
1996	$63,368	13.20%
1997	$74,842	17.40%
1998	$88,289	17.05%
1999	$99,920	13.40%
2000	$112,600	12.69%
2001	$102,808	-9.12%