California State Teachers'
Retirement System

Overview

OF THE CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM AND RELATED ISSUES

January 1, 2006

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

OVERVIEW

Of The California State Teachers' Retirement System And Related Issues

As of January 1, 2006

FOREWORD

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

This publication 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. However, in the event that the information in this publication conflicts with the actual statute, the statute takes precedence.

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

CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

OVERVIEW

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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 is added to the age factor. The maximum benefit is 2.4 percent of final compensation.

A longevity bonus is added to the monthly unmodified retirement allowance of members who accrue at least 30 years of service credit prior to January 1, 2011. The amount of the bonus depends on the years of service credit at retirement. With 30 years of service credit, the member receives a monthly increase of $200; with 31 years, an increase of $300; with 32 or more years, an increase of $400.

Final Compensation

For members retiring with 25 years or more of credited service, final compensation is the highest average annual compensation earnable for any 12 consecutive months of credited California service. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited California service.

For certain classroom teachers, final compensation may be the highest average annual compensation earnable during any period of 12 consecutive months while a member of the Defined Benefit Program, if it is 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.

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

Minimum Guarantee

Specified members retired under the DB Program, their option beneficiaries and surviving spouses receiving an allowance as of 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 2006, the limit is $175,000 for members who retire 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 one-half-percent reduction in the two-percent age factor is applied for each full month or partial month the member is younger than age 60.

Age 50 with 30 Years Credited California Service ("30 and Out")

A one-half-percent reduction between the ages of 55 and 60 and a one-quarter-percent reduction for each full or partial month the member is younger than age 55.

Between Ages 55 and 60 with Five Years Credited California Service ("Limited Term Reduction")

A reduced allowance equal to one-half the normal retirement allowance for age 60, based on 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 CalSTRS in order to retire.

Mandatory Retirement

There is no mandatory retirement age. However, federal law requires a minimum distribution of retirement benefits begin no later than April 1st of the calendar year following the year in which a member reaches age 70½, if the member has not retired and is no longer performing creditable service subject to coverage by the State Teachers' Retirement Plan or is no longer employed in a position requiring or permitting membership in another California public retirement system.

Retirement Incentive Programs

A school employer may provide, at the employer's cost, an additional two years of service credit and two years of age to be added to a member's age at retirement to increase the amount of the member's monthly retirement allowance. Eligible DB Program members may receive:

- Two additional years of service credit to be used in their benefit calculation,

Or

- An additional two years of service credit and an additional two years of age added to increase the age factor, which is used in determining the member's retirement allowance.

The additional two years of service credit granted under either of the above retirement incentive programs does not count towards eligibility for benefit enhancements or towards qualifying for a retirement benefit. Employers, including charter schools, may offer one or both of the retirement incentives, but may not combine all or a portion of either incentive. The employing district's governing board must have adopted a resolution to provide a retirement incentive by December 31, 2004.

All members of the DB Program who are eligible to retire may receive a retirement incentive if their current employer agrees to offer either retirement incentive within the designated period of time.

Post-Retirement Employment Restrictions

A member who retires with a CalSTRS retirement incentive will lose the ongoing increase in the benefit provided by the incentive if the member:

- Becomes an active member again by returning to CalSTRS-covered employment (reinstatement);
- Files for unemployment within one year of retirement;
- Returns to CalSTRS-covered employment with the school district that granted the retirement incentive within five years of retirement;
- Returns to CalSTRS-covered employment with a different school district within one year of retirement.

Unused Sick Leave Service Credit

Service credit is granted for unused sick leave at the time of retirement. Up to two-tenths of one year of service credit for unused sick leave may be used to qualify for one-year final compensation, longevity bonus and the career factor if the addition of those two-tenths of a year would qualify the member for the enhancements.

Option Election

When a member becomes eligible for retirement, the member 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 retirement and do not wish to retire, but want to ensure a monthly lifetime income to a beneficiary in the event death occurs prior to retirement. 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.

The DB Program has seven joint and survivor benefit options, which allow the member to name a new option beneficiary, subject to a reduction in the monthly allowance, if the option beneficiary predeceases the member.

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 66⅔ 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 "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 or former spouse designation. Allows any member to designate multiple option beneficiaries and allows members involved in a separation or dissolution of marriage to provide a portion of their allowance to a former spouse. For each beneficiary designated, the member may select among options 2 through 7 to provide a modified retirement allowance payable throughout the life of the member, and upon the member's death to his or her option beneficiary. Members involved in a legal separation or dissolution of marriage may elect to modify a portion of their allowance and name their former spouse as the sole option beneficiary for the stated percentage, with the member receiving a portion of the benefit unmodified.

Spouse and Registered Domestic Partner

The DB Program provides equal coverage for members' spouses and registered domestic partners. Except where prohibited by federal law, all provisions of the DB Program that apply to a married member's spouse also apply to the registered domestic partner of a member. To be eligible, a member and his or her domestic partner must register with the California Secretary of State.

Partial Lump Sum

Description

CalSTRS members may receive a partial lump-sum payment as part of their service retirement benefit. In exchange, the monthly benefit is permanently reduced, although the reduced benefit is still guaranteed for life.

Eligibility

To be eligible, members must retire prior to January 1, 2011.

PLS Payment Amount

CalSTRS members can receive a PLS equal to the present value of the monthly benefit in excess of the amount equal to 2 percent of final compensation per year of service credit. (The present value of the unmodified allowance is the amount that CalSTRS would have to have at the time of the member's retirement to pay the total amount that CalSTRS is expected to pay over the member's lifetime.) The maximum PLS payment can be up to 15 percent of the present value of the unmodified retirement allowance. The actual PLS amount received depends on the member's age, final compensation and years of service credit.

Rollover Option

The PLS may be paid to the member or rolled-over to a qualified plan, other than the State Teachers' Retirement Plan. However, the member may not do both. A rollover must be done through a trustee-to-trustee transfer to a qualified plan, such as a 403(b) plan. If a rollover is chosen, the minimum PLS amount must be at least twice the amount of the new monthly retirement benefit after the permanent reduction from the PLS is calculated.

Post-Retirement Adjustments

Benefit Improvement Factor

There is a two-percent simple increase each September 1st following the first anniversary of the date on which the monthly allowance began to accrue. The annual two-percent increase is applied to all continuing allowances, unless the member retired under the Limited Term Reduction Program, in which case the increase does not begin to accrue until the member reaches age 60.

Supplemental Increase

Resources from the Supplemental Benefit Maintenance

Account and revenue from the State School Lands Bank Fund 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 SBMA, with the General Fund providing an annual transfer equal to 2.5 percent of total creditable compensation from the fiscal year ending in the prior calendar year.

Post-Retirement Earnings Limit

CalSTRS has no limitation on earnings outside the California public school system; however, members are prohibited from employment in a classified position while retired for service. In addition, 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 the most recent 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 of $27,940 is increased each July 1st based on the percentage increase in the average compensation earnable of active DB Program members. (This differs from earnings limitations imposed on members who receive disability allowances and disability retirement benefits. See applicable sections for a summary of those limitations.)

Exemptions to the Limitation

Post-retirement earnings are exempt from the limitation under specific circumstances, provided the employer submits documentation for the exemption.

Exemptions are granted for members who:

- Retire and resume covered employment after a break in service for 12 consecutive months;
- Retired on or before January 1, 2004, and return to a K-12 classroom to provide direct classroom instruction, support or assess new teachers in the Beginning Teacher Support and Assessment Program, or provide support to individuals completing student teaching assignments in the Pre-Internship Teaching Program, alternative certification programs, or in a School Paraprofessional Teacher Training Program;
- Retired on or before January 1, 2004, and return to a vacant administrative position;
- Retired on or before January 1, 2004, and return to a 2-12 classroom to provide direct remedial education.

Other Exemptions - Reinstatement

Members who retire for service, return to CalSTRS-covered employment, perform creditable service for the equivalent of two full years and then re-retire receive the sum of:

- An allowance based on the member's prior service and age at the subsequent retirement, minus the number of years the member was retired,

Plus

- An allowance based on the member's age at the later retirement and years of service performed after returning to service.

If a member reinstates and performs creditable service for less than two years, then he or she receives the following service retirement allowance:

- An amount equal to the last unmodified allowance received immediately before reinstatement, increased by the two-percent cost-of-living adjustment that would have been applied to the allowance if the member had not reinstated,

Plus

- An amount based on service credit earned since the last reinstatement, the member's age at the subsequent retirement and final compensation.

Death Payment for Survivors of Retired Members

Designated beneficiaries of CalSTRS retired members receive a $6,163 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 DB Program is not integrated with, coordinated with or supplemented by the federal Social Security Program. (Please see the section titled "Social Security and CalSTRS Members" for more information.)

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 DB Program.

Re-Entry into Program after Refund

Individuals who have received a refund and who subsequently become members of the DB Program, or of other California public retirement systems, may redeposit all or a portion of the contributions and interest previously refunded. In addition, regular interest from the date of the refund through the final date of payment must be paid so that the member can 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 DB Program.

Funding

Member Contributions

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 Program account. (Please see the section titled, "Defined Benefit Supplement Program," for more information.)

Employer Contributions

Employers contribute 8.25 percent of the total creditable compensation on which member contributions are based.

State Contributions

The normal State contribution to the DB Program in 2005-06 is 2.017 percent of creditable compensation for 2003-04, paid in four quarterly payments. In addition, the State made four quarterly payments of 0.524 percent of creditable compensation due to an unfunded obligation for benefits in effect as of July 1, 1990, which was identified in the June 30, 2003, actuarial valuation. The first three were made during the 2004-05 fiscal year and the fourth was made in October 2005.

Disability Allowance - Coverage A

Effective Date

Applicable only to certain members whose membership was in effect on October 15, 1992.

Eligibility Age Limit

Under age 60.

Service Credit

Minimum of five years, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year.

Employment Status

May apply for disability allowance while still performing creditable service.

Benefit Formula

Allowance

50 percent of final compensation.

Or

If the member is over age 45 with less than 10 years of service credit, 5 percent of final compensation for each year 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 workers' compensation, Social Security, income protection plans and any other public system for the same disability.

Employment

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

Earnings Limits

- In a single month, the disability allowance (less amounts payable for children) plus earnings from any employment may not exceed 100 percent of indexed final compensation;
- For a six-month period, average monthly earnings may not exceed 66⅔ percent of indexed final compensation.

Conversion to Service Retirement

An allowance is payable for the duration of the disability or until age 60. At age 60, the disability allowance terminates and the member may apply for service retirement. At that time, the member's retirement allowance is based on projected final compensation and projected service to age 60; however, the service retirement allowance may not exceed the terminated disability allowance. A disability allowance may continue beyond age 60 if there are eligible children and the member remains disabled.

Death Payment

A $6,163 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 Board following each actuarial valuation based on changes to the CCPI,

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 dependent 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 either 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

Applicable to those who became members after October 15, 1992, and to certain other members who elected Coverage B.

Eligibility Age Limit

None.

Service Credit

Minimum of five years, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year.

Employment Status

May apply for disability retirement while still performing creditable service.

Benefit Formula

Allowance

50 percent of final compensation regardless of age and 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 for four or more children. The increment for each eligible child continues until the child attains age 21.

Option Election

A member may elect a joint and survivor option upon application for a disability retirement. If a member has a pre-retirement option on file with CalSTRS and files for disability under Coverage B, then that pre-retirement option is cancelled and the member must file a new option election.

Offsets

The allowance, not including 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 cannot make contributions to the Teachers' Retirement 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 current limit is $21,900 and is adjusted each January 1st by the annual increase in the CCPI, using December 1989 as the base.

Conversion to Service Retirement

Under Coverage B there is no conversion to service retirement; the disability allowance is payable for the duration of the disability.

Death Payment

A $6,136 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 Board following each actuarial valuation based on changes to the CCPI,

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.

Family Allowance - Coverage A

Eligibility

Benefits are payable to survivors of a person who became a member before October 16, 1992, did not elect Coverage B, 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 $6,163 lump-sum death payment is payable to the designated beneficiary upon the death of the member, if the member had at least one year of CalSTRS credited service. The amount of the death payment may be adjusted by the Board following each actuarial valuation based on changes to the CCPI.

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 family 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 prior to the date of death, unless the member's death was the result of an accident that occurred or an illness that was diagnosed after the date of the marriage.

Allowance

The surviving spouse with eligible children receives 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 five or more children. 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 family 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 family 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 member's designated beneficiary.

Survivor Benefits — Coverage B

Eligibility

Benefits are payable to survivors of a person who either became a member after October 16, 1992 or elected Coverage B, if the 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 $24,652 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 Board following each actuarial valuation based on changes to the CCPI.

Basic Benefit

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

Surviving Spouse Eligibility

Married to the member or registered as a domestic partner with the member for at least one year prior to the date of death, unless the member's death was the result of an accident that occurred or an illness that was diagnosed after the date of the marriage.

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 receives one-half of the member's Option 3 allowance, beginning either 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.

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. To be eligible, dependent children must be under age 21, regardless of student, marital or employment status. 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

Program Description

The Defined Benefit Supplement Program is a means for CalSTRS to increase, i.e., "supplement," the amount payable at retirement to members of the Defined Benefit Program.

Eligibility Requirements

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

Contributions

Between January 1, 2001, and December 31, 2010, members of the DB program have a portion of their 8 percent employee contributions allocated to a DBS Program account established for each member. 25 percent of the member's contribution (a total of 2 percent of creditable compensation) is credited to the member's DBS account and the remaining 75 percent of the contribution goes to the DB Program.

In addition to the 2 percent portion of contributions on creditable compensation discussed above, all member contributions and employer contributions equal to 8 percent of compensation either earned from service in one school year that exceeds one year of credited service or for compensation payable for a limited number of times, or as a result of retirement incentives, are credited to the member's DBS account. These contributions are credited to the DBS account each July 1st. This provision will not cease at the end of 2010.

Program Investments

Contributions to the DBS Program are invested by CalSTRS in the same manner as other contributions received by CalSTRS, excluding private equity and real estate.

Guaranteed Interest Rate

Funds in a member's DBS account earn interest at a guaranteed minimum rate that is set each year by the Teachers' Retirement Board and is guaranteed. The interest rate is based on 30-year U.S. Treasury notes for the period from March to February immediately prior to the plan year. The rate in 2005-06 is 5 percent.

Voluntary Contributions to the DBS Program

Members may not make additional voluntary contributions to 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 Reserve is also 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 is applied to the balance of each member's account as of the last day of the plan year; however, the date upon which the additional earnings credit is applied to members' accounts is specified by the Board.

Additional Annuity Credit

When the Board declares an additional earnings credit, it may also declare an additional annuity credit for members and beneficiaries who are receiving an annuity as of the date specified by the Board. The additional annuity credit is based on the balance of credits transferred from the member's DBS account to the Annuitant Reserve and is paid in a lump sum.

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 April 1st of the year after the member reaches age 70½, unless the member continues to perform creditable service.

Early Withdrawals

Both federal and California state tax codes include tax penalties for certain early withdrawals. 10-percent federal and 6-percent state tax penalties may be assessed for early withdrawals, plus the normal tax liability.

Rollover

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, the DBS funds may be rolled-over to another qualified plan under applicable federal and state laws and regulations.

Reemployment after Retirement

If a member reinstates from service retirement 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 a subsequent retirement.

Program Benefits

Retirement and Disability Benefits

A DBS benefit is payable when retiring under the DB Program. The DBS Program also provides a disability benefit when the Board determines a member has a total and permanent disability and grants disability under either Coverage A or B of the DB Program. The following options are available for receiving either a retirement or disability benefit from the DBS Program:

- A lump-sum benefit equal to the balance of the member's account,

Or

- One of the following five annuities, if the member's balance is $3,500 or more:
    - Single-life annuity with a cash refund feature. Upon the retired or disabled member's death, the balance in the member's DBS account will be paid in a lump sum to the member's beneficiary;
    - Single-life annuity without a cash refund feature. Upon the retired or disabled member's death, no other benefit will be payable to the member's beneficiary;
    - 100-percent joint and survivor annuity with a "pop-up" feature. Upon the retired or disabled member's death, the same monthly amount that was payable to the member will be paid monthly to the member's surviving annuity beneficiary. If the member's beneficiary predeceases the member, single life annuity with a cash refund feature will be paid to the member; the member may designate a new annuity beneficiary;
    - 50-percent joint and survivor annuity with a "pop-up" feature. Upon the retired or disabled member's death, one-half of the modified allowance will continue to be paid to the member's beneficiary. If the member's beneficiary predeceases the member, a single life annuity with a cash refund feature will be paid to the member; the member may designate a new annuity beneficiary;
    - Period-certain annuity. The annuity will be paid over a period of no less than three years and no more than ten years, as specified by the member. If the member's death occurs before the end of the specified period, which must be in whole-year increments, the remaining balance of payments will be paid to the member's beneficiary;

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.

Disability Eligibility

A member receives a DBS Program disability benefit when he or she receives a DB Program disability benefit. A disability benefit will become payable only upon determination by the Board that the member has a total and permanent disability.

Final Benefit

Death Prior to Retirement

The balance of the member's account is payable to the named beneficiary. If no valid beneficiary form is on file with the System, the lump-sum payment will be paid to the member's estate.

Beneficiary

A beneficiary to whom a final benefit is payable may elect to receive the benefit in the form of an annuity, provided the balance of 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 option elected by the member. Depending on the annuity selected by the member, there may not be a payment to a beneficiary.

Termination Benefit

Upon termination of all creditable service subject to coverage under the Plan, for any reason other than death, disability or retirement, a member may apply for a lump-sum termination benefit. The benefit amount is equal to the balance of the member's DBS account.

Waiting Period

The termination benefit is payable after six consecutive months have elapsed following the member's employment termination date. The application for a termination benefit will be canceled automatically if the member performs creditable service within six consecutive months following termination of employment.

Five-Year Rule

A member may not apply for a termination benefit if less than five years have elapsed after payment of the most recent termination benefit to the member.

Cash Balance Benefit Program

Program Description

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 program. The CB Benefit Program is a retirement program for employees of California's public schools who are hired to perform creditable service by any of the following:

1. School district or county office of education on an hourly or daily basis;
2. School district or county office of education in a contract position for less than 50 percent for each full-time position;
3. Community college district on a part-time or temporary basis;
4. Community college district for not more than 60 percent of the hours per week considered a regular, full-time assignment;
5. Governing body of a school district or community college district as a trustee.

Employer Election to Offer Program

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.

Eligibility Requirements

When an employer first elects to offer the CB Benefit Program, persons who are employed to perform creditable service that meets participation requirements, may elect to become participants on the later of either (1) the first day on which creditable service is performed, or (2) the effective date of the employer's governing board's action to provide the CB Benefit Program.

Note: An employee who has a full-time position performing creditable service may not participate in the CB Benefit Program.

Eligible part-time employees who perform creditable service on a part-time basis for multiple employers may elect to participate in the CB Benefit Program for each employer who offers it, regardless of Defined Benefit Program membership. In addition, a person is eligible if he/she performs service as a trustee for an employer who has elected to participate in the CB Benefit Program.

Elections

A member of the DB Program who is employed to perform creditable service on an hourly, adjunct or contract basis 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 this option. 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.

Discontinued Eligibility

Employees may not contribute to the CB Benefit Program and must become members of the DB Program when their basis of employment for a particular employer changes to either (1) 50 percent or more for each full-time position when employed by a school district or county office of education, or (2) more than 60 percent of the hours per week considered a regular, full-time assignment when employed by a community college district. Participation in the CB Benefit Program will also cease when a member elects to become a member of the 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 equal or exceed 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 after ratification of the agreement and remain in effect for at least one plan year;
- The employee and employer contribution rates must 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

Contributions to the CB Benefit Program are invested by CalSTRS in the same manner as other contributions received by CalSTRS, excluding private equity and real estate.

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 March to February immediately preceding the plan year. The interest rate in 2005-06 is 5 percent.

Gain and Loss Reserve

Funds accumulate in the Reserve to credit interest to participants' 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 Reserve is also used to ensure adequate funds are available in the Annuitant Reserve, which is established to pay monthly annuity payments. (Please see the section titled "Actuarial Principles and the Valuation Process" for more information.)

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. The Board's resolution to grant any additional earnings credit takes effect the last day of the plan year. However, the actual date upon which the additional earnings credit is applied to the participant's account is specified by the Board.

Additional Annuity Credit

After the end of the plan year when the total amount of investment earnings of the plan year are known and the Board has authorized an additional earnings credit to be applied to participants' employee and employer accounts, the Board may also authorize an additional annuity credit. The additional annuity credit depends on the annuity of the participant or beneficiary for the plan year and is paid as a lump sum to the participant or beneficiary on the date specified by the Board.

Early Withdrawals

Both federal and state tax codes impose tax penalties for certain early withdrawals. A 10-percent federal and 6-percent state tax penalty may be assessed for early withdrawals, in addition to the normal tax liability.

Rollover

Participants may 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.

Retirement and Disability Benefits

The CB Benefit Program offers a retirement benefit and a disability benefit, if the Board determines the participant has a total and permanent disability. The following options are available for receiving either a retirement or disability benefit:

- A lump-sum benefit equal to the balance of the participant's employee and employer contributions plus interest. All of the lump-sum payment may be rolled-over into an IRA, defined contribution plan or other eligible retirement plan that accepts such rollovers.

Or

- Participant may choose one of the following five annuities, if the participant's account balance is $3,500 or more:
  - Single-life annuity with a cash refund feature. Upon the retired participant's death, the balance of the participant's account will be paid in a lump sum to the participant's beneficiary;
  - Single-life annuity without a cash refund feature. Upon the retired participant's death, no other benefit will be payable to the beneficiary under the CB Benefit Program;

- 100-percent joint and survivor annuity with a "pop-up feature." Upon the retired participant's death, the same monthly amount that was payable to the participant will be paid monthly to the participant's surviving beneficiary. If the beneficiary predeceases the participant, a single-life annuity with a cash refund feature will be paid to the participant;
- 50-percent joint and survivor annuity with a "pop-up" feature. Upon the retired participant's death, one-half of the monthly allowance will continue to be paid to the participant's beneficiary. If the beneficiary predeceases the participant, a single-life annuity with a cash refund feature will be paid to the participant;
- Period-certain annuity. The annuity will be paid over a period of no less than three years and no more than ten years, as specified by the participant. If the participant's death occurs before the end of the specified period, which must be in whole-year increments, the remaining balance of payments will be paid to the participant's beneficiary.

Spouse and Registered Domestic Partner

The CB Benefit Program provides equal coverage for participants' spouses and registered domestic partners. Except where prohibited by federal law, all provisions of the CB Benefit Program that apply to a married participant's spouse also apply to the registered domestic partner of a participant. To be eligible, a participant and his or her domestic partner must register with the California Secretary of State.

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, then 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, then the annuity will continue and new contributions will be credited to a new account. The participant must apply for subsequent retirement to receive a benefit on the basis of the new account.

Retirement Eligibility

Normal retirement age is 60; a participant may not retire earlier than age 55. To retire, a participant must terminate all creditable service subject to coverage by CalSTRS and apply for a retirement benefit. Distribution of a retirement benefit must begin by April 1st of the year after the participant reaches age 70½, unless the participant continues to perform creditable service.

Disability Eligibility

A participant may apply for disability at any time. All creditable service subject to coverage under the CB Benefit Program (and DB Programs, if applicable) 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.

Final Benefit

Death of Participant Prior to Retirement

Normal distribution is a lump-sum benefit. The sum of the participant's employee and employer accounts is payable to the named beneficiary. If no valid beneficiary form is on file with the System, the lump-sum payment will be paid to the participant's estate.

Beneficiaries

A participant's beneficiary may elect to receive the benefit in the form of an annuity, provided the balance of the participant's account equals or exceeds $3,500. The beneficiary 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 the form of annuity elected by participant.

Termination Benefit

Upon termination of all creditable service subject to coverage by the Plan, for any reason other than death, disability or retirement, a participant may apply for a lump-sum termination benefit (commonly referred to as a refund). 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 six consecutive months have elapsed following the date of termination of employment. The application for a termination benefit will be canceled automatically if the participant performs creditable service under the Plan within six consecutive months 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 after payment of the most recent termination benefit to the participant.

Medicare Premium Payment Program

The Federal Medicare Program

Federal Medicare health insurance comes in three parts: Medicare Part A (hospital), Medicare Part B (medical) and Medicare Part D (prescription drug coverage). To be eligible for federal Medicare health insurance coverage, an individual must be at least 65 years of age, a resident of the United States and a U.S. citizen or an alien who has been lawfully admitted for permanent residence. A few people under 65 years of age are also eligible. Most people do not pay for Medicare Part A because they have earned at least 40 Medicare credits by paying the Medicare payroll tax or have eligibility through a spouse who has earned at least 40 Medicare credits. However, most people do pay for Medicare Part B. All individuals with Medicare have access to prescription drug coverage under Medicare Part D beginning on January 1, 2006. CalSTRS does not pay the premiums for Medicare Parts B or D.

Medicare Premium Payment Program Description

Since July 1, 2001, CalSTRS pays the Medicare Part A premiums for eligible retired Defined Benefit Program members who do not qualify for Medicare Part A coverage on a premium-free basis. CalSTRS also pays the Medicare Parts A and B late enrollment surcharges for DB Program members who retired prior to January 1, 2001, for whom CalSTRS pays the Medicare Part A premiums and who enrolled in Medicare by July 2001. However, CalSTRS cannot pay any late enrollment surcharges for DB Program members who enrolled in Medicare after July 1, 2001. As a service and with authorization from the retired DB Program member, CalSTRS will also deduct the Medicare Part B insurance premium from the member's allowance and forward the premium to the Centers for Medicare and Medicaid Services, the federal agency that administers Medicare.

Program Eligibility Requirements

All DB Program members retired prior to January 1, 2001, who enroll in both Medicare Parts A and B and do not qualify for Medicare Part A coverage on a premium-free basis, are eligible for the Medicare Premium Payment Program. The Board has extended the MPP Program to retired DB Program members who retire prior to July 1, 2006, provided that the DB Program members retire from districts that have completed or are in the process of completing a Medicare Division by the date of retirement. Members retiring after 2002 must do so during or after the actual 10-day Medicare election period. Furthermore, if a Medicare election period was held after January 1, 2001, and the member was less than 58 years of age at that time, they must have elected Medicare coverage. Effective January 1, 2004, disabled members who otherwise meet eligibility criteria are also eligible for the MPP Program.

To participate in the MPP Program, members must submit a CalSTRS Medicare Payment Authorization form along with a copy of their Notice of Medicare Premium Payment Due (Medicare bill).

Medicare Division Elections

CalSTRS members employed by school employers, including county offices of education, and hired before April 1986 are not required to pay the Medicare payroll tax. All employees hired after April 1986 must pay the Medicare payroll tax. However, employers could have held a Medicare Division, during which employees hired prior to April 1986 elected to pay the Medicare payroll tax (1.45% of pay). If the employee chose to pay the Medicare payroll tax, the employer also pays a matching Medicare payroll tax. As of January 2006, approximately 180 school employers have not conducted a Medicare Division.

There are a few employers for which all the employees hired prior to April 1986 are 58 years of age or more. In addition, there are some employers that unified or consolidated after April 1986. If the employees of these employers paid the Medicare payroll tax after the consolidation, there is no need for the employer to hold a Medicare Division. The district must write a letter to CalSTRS to certify either of the above.

Enrollment Information

If members retire prior to attaining age 65, CalSTRS sends an enrollment packet to them approximately three months prior to their 65th birthday. If members retire on or after their 65th birthday, CalSTRS will send an enrollment packet within a month of their retirement. Members are also welcome to call the CalSTRS Call Center toll-free at 800-228-5453 to request an information packet about the CalSTRS MPP Program.

403bCompare

Description

Chapter 1095, Statutes of 2002 (Assembly Bill 2506—Steinberg) requires CalSTRS to create and maintain a comprehensive, impartial online information bank consisting of vendors who offer the investment products described under Section 403(b) of the Internal Revenue Code. The Web site information bank, www.403bCompare.com, enables all employees of California's local school districts, community college districts and county offices of education to search and compare the products of registered 403(b) vendors.

Online Information Bank

www.403bCompare.com provides information on available investment options, product performance, participant fees, vendor experience, services offered by the vendors and educational content to help school employees understand investment product features and retirement planning principles. Vendors included in the information bank are public retirement systems, broker-dealers, registered investment companies, nonbank custodians and life insurance compaines qualified to do business and offer 403(b) products in California.

Registered Vendors

Vendors wishing to sell 403(b) products to employees of school districts, county offices of education or community colleges must register in the 403bCompare Program during the annual registration period and must renew registration every five years thereafter. All administrative costs associated with registration and maintenance of individual vendor information is paid by the vendor. The Teachers' Retirement Board is not liable for the information contained in the bank or the actions of those vendors registered with the bank.

Services and Features

For Employees

School employees accessing the 403bCompare Web site have access to the following services and features:

Education - Learn about 403(b) investing, including planning for retirement, product types, performance and fees and their impact on the investment;

My Employer - Select their employer from the list of participating employers and view the list of vendors authorized by their employer;

Search and Compare - View and compare fees and features associated with multiple 403(b) products offered by the same or different vendors;

Salary Reduction Agreement - Download the SRA for their employer.

For Employers

Employers interested in participating in the 403bCompare Program can establish and maintain the following through the www.403bCompare.com Web site:

Employer Vendor List - Designate and update their approved 403(b) vendors, which allows employees to see the list of vendors authorized by the employer;

Salary Reduction Agreement - Upload links to the SRAs used by their employees, which reduces the workload for the personnel office.

Voluntary Investment Program

Plan Description

CalSTRS' Voluntary Investment Program provides a low-cost means for public school employees to invest on a tax-deferred basis to supplement their retirement. CitiStreet, LLC provides administrative services, which allows for Internet interaction for both VIP participants and CalSTRS staff, as well as provides a wide range of investment choices to participants and financial advice through the Internet or by speaking with a financial advisor.

The VIP now offers ten core investment choices, which provide the best combination of risk, performance, cost and diversity for VIP participants. Additionally, the mutual fund window (formerly known as the "self-managed account") is still an available investment choice and includes over 5,000 mutual funds, at least 600 of which do not impose any load or transaction fees.

The VIP also provides advisor services. Under this service, participants can access a modeling tool online or call a toll-free number and speak directly to a registered financial advisor to determine the appropriate asset allocation and level of investment necessary to achieve their retirement goals.

The maximum yearly contribution a participant in the VIP may make is limited depending on the age of the participant. The contribution limit for the 2006 calendar year for a participant under age 50 is $15,000, and the limit for a participant age 50 or older is $20,000.

Investment Choices

The 12 core investment options, in order from lowest to highest risk, are:

- Citi Institutional Liquid Reserves Fund (Money market)
- Vanguard Short Term Bond Fund (Short-term bond)
- Vanguard Total Bond Index Fund (Bond)
- Dodge & Cox Stock Fund (Large-cap value)
- Vanguard Institutional Index Fund (S&P 500)
- Vanguard Total Stock Index Fund (Broad stock)
- Fidelity Growth Company Fund (Large-cap growth)
- Mainstay Small Cap Opportunity I (MOPIX) (Small-cap value)
- Brown Capital Small Company Institutional (Small-cap growth)
- Artisan International Fund (International stock)

Comparison
CalSTRS (DB Program)
CalPERS STATE EMPLOYEES
CalPERS CLASSIFIED SCHOOL EMPLOYEES (Tier 1) – Non-Safety

	CalSTRS: DB Program Coverage B	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier 1)
Eligibility For Membership	Mandatory membership: All certificated, charter school and community college employees of public schools (K-14), whose basis of employment is 50% or more Elective membership: Part-time and substitute certificated employees hired to work less than one-half time	Non-teaching, non-certificated school employees working one-half time or more	• Non-safety state employees working one-half time or more • Judicial branch employees • Non-elected legislative employees • California State University employees
Normal Retirement Age	60	55	55
Earliest Retirement Age	50	50	50
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 occurring during the course of one's employment	5.000 years credited service (No vesting requirement for Industrial Disability)	5.000 years credited service (No vesting requirement for Industrial Disability)
Survivor Benefits	1.000 year service credit	Varies by age and service credit	Varies by age and service credit
Factors of the Benefit Calculation:			
Benefit Formula at Age 60	2% @ age 60 (2% x final compensation x years of service credit)	2.314% @ age 60 (2.314% x final compensation x years of service credit)	2.314% @ age 60 (2.314% x final compensation x years of service credit)
Benefit Formula Prior to Age 60	1.100% at age 50 1.160% at age 51 1.220% at age 52 1.280% at age 53 1.340% at age 54 1.400% at age 55 1.520% at age 56 1.640% at age 57 1.760% at age 58 1.880% at age 59	1.100% at age 50 1.280% at age 51 1.460% at age 52 1.640% at age 53 1.820% at age 54 2.000% at age 55 2.064% at age 56 2.126% at age 57 2.188% at age 58 2.250% at age 59	1.100% at age 50 1.280% at age 51 1.460% at age 52 1.640% at age 53 1.820% at age 54 2.000% at age 55 2.064% at age 56 2.126% at age 57 2.188% at age 58 2.250% at age 59

Comparison (continued)

	CalSTRS: DB Program	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier 1)
Age Formula (Factor)	2.133% at age 61 2.267% at age 62 2.400% at age 63 and older	2.376% at age 61 2.438% at age 62 2.500% at age 63 and older	2.376% at age 61 2.438% at age 62 2.500% at age 63 and older
Disability Formula	50% of final compensation (some exceptions under Coverage A)	With 5-10 years of service, or 18½ or more years of service: 1.8% x years of service x final compensation. Between 10 and 18½ years of service: Allowance may be improved up to 33.333% of final compensation. If eligible for service retirement, member will receive whichever is higher, service or disability allowance.	With 5-10 years of service, or 18½ or more years of service: 1.8% x years of service x final compensation. Between 10 and 18½ years of service: Allowance may be improved up to 33.333% of final compensation. If eligible for service retirement, member will receive whichever is higher, service or disability allowance.
Basic Death Benefit	Active or disabled members who die before retirement and without pre-retirement option: A lump-sum death payment of $6,163 or $24,652 is payable to the designated beneficiary(ies), depending on coverage Retired or active members with a pre-retirement option election: A lump-sum death payment of $6,163 to beneficiary(ies)	Active members: Return of member contributions and interest, plus up to 6 months' salary prorated 1 month per year of service Retired members: $2,000 lump-sum death payment	Active members: Return of member contributions and interest, 6 months' salary, and a $5,000 lump-sum death payment. Retired member: $2,000 lump-sum death payment
Career Bonuses:			
Career Factor	Additional 0.2% with 30 or more years of service	No	No
Longevity Bonus	Additional $200/month with 30 years of service, $300/month with 31 years of service, $400/month with 32 or more years of service	No	No
Final Compensation	Highest average annual compensation earnable for 12 consecutive months for members with 25 or more years of service credit. Otherwise, highest three consecutive years unless district grants a one-year final compensation period.	Highest average compensation earnable for 12 consecutive months from CalPERS or reciprocal system (if applicable)	Highest average compensation earnable for 12 consecutive months from CalPERS or reciprocal system (if applicable)
Purchasing Power Adjustment	Up to 80%	Up to 75%	Up to 75%

	CalSTRS: DB Program	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier 1)
Credit for Unused Sick Leave	Yes, converts to service credit	Yes, converts to service credit	Yes, converts to service credit
Retirement Incentive Additional Service Credit and Age (if applicable)	Yes, if school district elects to offer 2 years additional service credit or 2 years additional service credit plus 2 years age, through formal resolution or MOU until 1-1-05	Additional service is possible if approved by school employer	Additional service is possible if by Governor's Executive Order or legislation (For Legislative and Judicial branch employees, by resolution)
Health Benefits After Retirement	Not provided by CalSTRS. 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. Employer contribution various by district and is based on collective bargaining.	Provided if employee retires within 120 days after separation from a qualifying position. Must meet vesting requirements, if applicable. Employer contribution formula determined through bargaining and is established by law.
Purchase of Service Credit:			
Out-of-State Service	Yes	No	No
Nonqualified	Yes	Yes	Yes
Military	Yes	Yes	Yes
Redeposit of Withdrawn Contributions	Yes	Yes	Yes
Miscellaneous:			
Board Ability to Adjust Employer Contribution Rate	No	Yes	Yes
Current Employee Contribution Rate	8% of salary [1]	7% of salary	In Social Security: 5% of salary over $513 Not in Social Security: 6% of salary over $317
Current Employer Contribution Rate	8.25% (with some exceptions)	9.116% for 2005-06	15.942% for 2005-06
Coordinated with Social Security	No	Optional for those employed on 11/4/1959 Yes, for those employed after that date.	Optional for those employed on 11/6/1961. Yes, for those employed after that date.

[1] Through December 31, 2010, 25% of the member's contributions to the CalSTRS DB Program will be credited to a separate , nominal account in the DBS Program with no change to the retirement benefit formula.

History of CalSTRS Funding and Benefits

Summary

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 the teaching profession their entire working careers.

All certificated public school teachers, teaching superintendents, "supervising executives, or educational administrators" automatically became members of the retirement system when it was first established. Membership in the Defined Benefit Program currently includes all employees in California public schools in positions requiring membership, from kindergarten through community college. With more than 754,000 members and benefit recipients, CalSTRS is the nation's largest public teachers' pension organization and the third largest public fund in terms of the Teachers' Retirement Fund's market value. As of June 30, 2005, the TRF's market value was $128.9 billion.

Funding History

1913

- When the retirement plan was founded in 1913, California public school teachers were granted retirement credit for the service they had performed prior to that date. No contributions were required from the teachers or employers for the retirement credit granted for service performed prior to the establishment of the System. This caused the retirement plan to have an unfunded obligation from the beginning.
- Member contributions were $12 per year.
- Employers made no contributions.
- State contributed 5 percent of the inheritance tax revenue for each fiscal year.

1935

- Member contributions increased to $24 per year.
- Employers contributed $12 per year, per employee.
- State continued to pay 5 percent of the inheritance tax.

1944

- Member contributions changed to a percentage of salary depending on gender and age as of July 1, 1944, or later membership. The rate varied from 2.53 to 4.85 percent.
- Employer contribution rate continued at $12 per year, per employee.
- State's contribution rate 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 increased in these years, up to a range of 5.77 to 10.15 percent.
- Employer contributions did not change.
- State pay-as-you-go funding did not change.

1956

- Member contributions increased to a range of 9.53 to 13.52 percent.
- Employer contribution rate of $12 per year, per employee augmented by a 3 percent of salary contribution to be used on a pay-as-you-go basis to pay for current benefits. (3 percent contribution 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 did not change.

1959

- Member contributions decreased to a range of 7.46 to 12.72 percent.
- Employer contributions did not change.
- State's pay-as-you-go funding did not change.

1962

- Member contribution rate decreased to a range of 6.13 to 11.86 percent.
- Employer contribution did not change.
- State's pay-as-you-go funding did not change.
- The unfunded actuarial obligation grew to $3.6 billion.

1972 – E. Richard Barnes Act

- In 1970, estimates indicated the State's pay-as-you-go annual appropriation would grow from $71 million in the 1967-68 fiscal year, to $245 million in 1979-80 and $635 million in 1989-90. As the allowance rolls grew at an accelerating rate, it was believed 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, changed to a fixed 8 percent of salary.
- Employer contribution rate, which averaged 2 percent in 1971-72 because of the assessed valuation limitation, changed to a matching 8 percent of salary level.
- It was anticipated the 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 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.
- Added $5 million for 30 years to the $130 million annual state appropriation 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 did not change.
- $9.3 million state appropriation added to the $135 million appropriation for a total $144.3 million annual appropriation; increase 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 increased cumulatively or decreased beginning with the 1980-81 fiscal year by an amount reflecting the change in the All Urban California Consumer Price Index in the preceding fiscal year.
- The second component of AB 8 (Green) 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 the 1994-95 fiscal year. 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.

1980

- 0.307 percent of total creditable compensation paid directly to CalSTRS from the General Fund to fund an ad hoc benefit increase for pre-June 30, 1973, retirees. Did not establish sunset date on funding.

1981

- 0.108 percent of total creditable compensation paid directly to CalSTRS from the General Fund to fund ad hoc benefit increase for pre-January 1, 1980, retirees. Established funding sunset date, December 31, 1996.

1983

Chapter 1433, Statutes of 1982, required the System to terminate its interagency agreement with the California Public Employees' Retirement System for use of their investment staff to manage the CalSTRS investment portfolio. As a result, CalSTRS contracted with three investment firms for management of the Fund's investments and development of a long-range investment management plan.

1985

- Permanent funding of 0.25 percent established for the conversion of member's unused sick leave to service credit at retirement. The General Fund appropriated the funds to the TRF for the 1985-86 fiscal year.

1989

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

1990

- In 1990-91, state General Fund 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.

- The General Fund contribution of .25 percent of member salaries for the conversion of unused sick leave to service credit was repealed and became the responsibility of the employer.

- Another "fix" was critically needed to stem the ever-growing unfunded actuarial obligation. When the General Fund began providing contributions in 1979, it was an attempt to reduce the unfunded actuarial obligation. However, the System continued to operate with a normal cost deficit 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 recommended the Board support legislation to change the indexing of the state General Fund contributions from the CCPI to the ratio of the previous year's total teacher payroll. Projections conducted by the actuary at that time indicated the AB 8 (Green) 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 by approximately the 39th year.

- Calculations conducted in 1990 indicated a level of 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 (the 1990-91 fiscal year); 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 TRF and determined 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 .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 TRF for purposes of retiring the unfunded liability for improved benefits. Following an analysis of CalSTRS' existing benefits and the benefits available under other retirement systems, the administration agreed to use a portion of the General Fund contribution for benefits designed to recruit and retain teachers to accommodate California's increased demand for teachers. Specifically, 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 to cover 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 remaining unfunded liability in the TRF. The actuary determined the unfunded liability would be eliminated in 30 years, if the contribution for that purpose were reduced to .524 percent of payroll.

- AB 2804 (PER&SS) enacted all of the TRF funding 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 TRF to fund increased benefits. The .25 percent contribution by employers is also 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 also eliminated. If the unfunded liability should return, a transfer from the General Fund would be 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 for 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. Beginning with the 2003-04 fiscal year, the General Fund contribution is 2.017 percent of total creditable compensation of the fiscal year ending in the prior calendar year. This reduced the General Fund transfer for 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.

2003

- SBX1 20 (Committee on Budget and Fiscal Review) decreased the transfer to the Supplemental Benefit Maintenance Account by $500 million for the 2003-04 fiscal year and requires the Board, beginning in 2006, to report to the Legislature and the Director of Finance regarding the ability of CalSTRS to make purchasing power protection payments in each fiscal year until 2036. If the Board determines the loss of $500 million in contributions resulted in its inability to sustain the current SBMA program through 2035-36, then the $500 million, plus interest, will be repaid to the SBMA, subject to certification by the Director of Finance.

2005

- AB 55 (Mullin) would have increased contributions to the SBMA beginning in fiscal year 2008-09 through 2012-2013 to replace the reduction in contributions made by SB 1X 20 in 2003-04; the Governor vetoed this measure on October 7, 2005, because the repayment of the contributions is the subject of ongoing litigation.

- As part of its efforts to restore the $500 million State contribution witheld by SBX1 20, the Teachers' Retirement Board brought a lawsuit against the State. The Sacramento County Superior Court rules in CalSTRs' favor on May 4, 2005; however, the State has appealed the decision to the Third District Court of Appeals.

Benefit Structure

1913

- Initial retirement pension of $500 per year paid in quarterly installments of $125.

- Teachers required having 30 years of teaching service, at least half of which in California schools, including the 10 years prior to retirement.

- Eligibility for disability benefits required 15 years of California teaching service; benefits prorated for actual years of service.

- Survivor benefits not provided under the original benefit structure.

1935

- Retirement benefits increased to $600 per year.

1944

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

- Disability benefits improved; all retirees with at least 30 years of credited service guaranteed a minimum retirement allowance of $60 per month.

- Age 63 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.

1950

- Normal retirement age dropped from 63 to 60; early retirement age from 58 to 55.

Benefits broadened later in the 1950s:

- 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 rose 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 calculated based on fixed percentage (1.667 percent) of final compensation for each year of credited service, rather than on accumulated earnings; tied benefits to varying economic conditions (final compensation) and not fixed dollar values (accumulated contributions).
- In 1958, vesting reduced from 10 to 5 years.
- In 1959, the first Survivor Benefits program was established to provide continuing benefits for the dependent children and spouses of deceased members.

1960s

No benefit increases implemented. However, accomplished significant administrative efficiencies; created first CalSTRS tax-sheltered annuity program 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 following basic benefit structure:
  - Benefit formula: 2 percent of final compensation at age 60;
  - $2,000 lump-sum death payment;
  - Family Allowance program;
  - Disability benefit: 50 percent of final compensation;
  - 2-percent simple COLA.
- In 1979, an ad hoc benefit increase for members who retired prior to June 30, 1973.

1981

- A minimum unmodified allowance was provided to guarantee no less than $16/month for each year of service credit for pre-January 1, 1981 retirees.
- In 1981, a minimum unmodified allowance was provided to guarantee no less than $18/month for each year of service credit for pre-January 1, 1982 retirees.

1986

- Converted to unisex option factors.

1989

- Established funding stream for 68.2 percent purchasing power benefits.

1992

- CalSTRS' Disability and Survivor Benefits Programs restructured to comply with the federal Older Workers Benefit Protection Act:

Survivor Benefits

Family Allowance (Coverage A): A $5,000 lump-sum death payment upon the death of the active member, to be increased following each biennial actuarial valuation based on changes in the CCPI.

Survivor Benefits (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 CCPI.

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): A member who qualifies for a disability allowance receives the allowance as long as the disability exists or until 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 qualifying disability remains.

Disability Retirement (Coverage B): Is applicable to all DB Program members hired on and after October 16, 1992 and to members who elected Coverage B prior to that date. 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.

1997 and 1998

- Purchasing power protection increased to 75 percent.
- The age factor in the retirement benefit formula for members who retired on or after January 1,

1999, 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, can 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 became eligible to purchase up to 10 years of service credit associated with that prior service, beginning in 1999. In addition, vested members can buy up to five years of additional credit, not associated with any prior service.

1999

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

- CalSTRS required to develop a program to provide health care benefits to members and their 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 DB Program contributions will be allocated to the member's DBS Program account. At retirement, the contributions and 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 earned by January 1, 2011, CalSTRS began applying a longevity bonus to the monthly allowance; $200/month with 30 years of service; $300/month with 31 years of service; and $400/month with 32 or more years of service.

- Members with 25 or more years of service credit have their benefits calculated on the highest average compensation earnable over a period of 12 consecutive months. For members with fewer than 25 years of service credit, the highest 36 months of compensation earnable continues to be used.

- CalSTRS began paying 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.

- Members who retire after April 1, 2002, can receive a partial lump-sum distribution of their benefit, subject to an actuarial reduction in the monthly allowance. The amount of the resulting reduction in monthly allowance 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 grades 2-12 classroom;

  - A member who returns to teaching to provide direct classroom instruction in a K-12 class or provides support, assesses new teachers in the Beginning Teacher Support and Assessment Program, or provides support to individuals completing student teaching assignments in the Pre-Internship Teaching Program or School Paraprofessional Teacher Training Program is exempt from the limitation from July 1, 2000, through July 1, 2005.

2001

- The level of purchasing power protection increased 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 of the member's service.

2002

- Beginning January 1, 2003, retired DB Program members who are receiving an allowance under Options 6 or 7 are allowed to name a new option beneficiary after a member's option beneficiary dies; a participant of the CB Benefit Program and member of the DBS Program are allowed to designate a new annuity beneficiary after the designated annuity beneficiary dies, if the participant/member selected a joint and survivor annuity.

- The basis for calculating the post retirement earnings limitation changed from the CCPI to the average compensation earnable of active members. As a result, the limitation for fiscal year 2002-03 was increased to $24,934.
- The Board extended the eligibility for the payment of Medicare Part A premiums to retired DB Program members who retire prior to January 1, 2006, if they retire from districts that have held, or are in the process of holding, a Medicare Division.
- Contributions will be credited to the member's DBS Program account for service greater than one year and compensation for limited term enhancements and retirement incentives.

2003

- For purposes of receiving CalSTRS DB Program survivor benefits, the definition of spouse was expanded to include a person who was continuously married to a member for less than 12 months prior to the accidental injury or diagnosis of the illness that resulted in the member's death. Qualified surviving spouses of retired CalSTRS' members will be able to receive an ongoing or lump-sum survivor benefit after the death of the member.
- Retirement Incentive Programs: The deadline to offer the existing retirement incentive, which provides an additional two years of service credit to DB Program members, was eliminated. There is also a new program ending January 1, 2005, which allows school districts that pay the actuarial cost to provide an additional two years of service credit plus add two years to the age factor that determines the retirement benefit. The additional two years of service credit granted under either retirement incentive program do not count towards qualifying for benefit enhancements, such as one-year final compensation, career factor or longevity bonus, or towards qualifying to receive a retirement benefit.
- Effective January 1, 2005, AB 205 (Goldberg) established spousal rights and obligations for domestic partners registered with the California Secretary of State; except where prohibited by federal law, all provisions of the Teachers' Retirement Plan applying to spouses also apply to a member or participant's registered domestic partner.

2004

- An existing exemption for post-retirement earnings was expanded to include DB Program members who return to work in an emergency situation to fill a vacant administrative position.
- The date by which a member must retire to qualify for a post-retirement earnings exemption was extended from July 1, 2000 to January 1, 2004, for DB Program members who retire and return to provide direct remedial instruction.
- The date by which a member must retire to qualify for a post-retirement earnings exemption was extended from January 1, 2000 to January 1, 2004, for DB Program members who retire and return to provide direct classroom instruction to pupils enrolled in grades K-12.
- The existing K-12 earnings limit exemption was expanded to include members providing instruction in special education and English language learner programs and the sunset date for this exemption was also extended from July 1, 2005 to January 1, 2008.
- Up to two-tenths of one year of sick leave may be used to qualify for one-year final compensation, longevity bonus and the career factor.
- Effective July 1, 2005, the criteria for mandatory membership in the DB Program changed for employees at California Community Colleges so that the basis of employment for the school year, as defined by the employer, determines membership; a part-time basis of employment (service for less than 60% of the time an employer requires of a full-time position) does not require membership.
- The minimum age requirement for a member of the DB Program who elects to receive a partial lump-sum payment in return for an actuarial reduction in the monthly benefit was eliminated.

An existing 5-year prohibition on employment with the employer that provided a Retirement Incentive was expanded to employees of a county office of education or Community College who receive an additional retirement benefit under the CalSTRS Retirement Incentive Program.

- The 1-year prohibition on employment with any California public school employer for K-12 members who receive an additional retirement benefit under the CalSTRS Retirement Incentive Program was eliminated.

2005

- An elected offical who is a member of the DB

Program as a result of that employement who is convicted of a felony arising out of his or her official duties will be required to forfeit the retirement benefits that accrue solely as a result of his or her service in office; the elected member will receive only the employee contributions made during his or her term in office. Applies to benefits earned on or after January 1, 2006.

- The one-year waiting period that a member of the DBS Program or CB Benefit Program is required to wait before receiving his or her termination benefit was reduced to six consecutive months; payment of more than one termination benefit under either program during a single five-year period was prohibited.

General Fund Contributions

The State General Fund has contributed money to CalSTRS since the Plan's inception in 1913. Until 1972, contributions by the State were made on a pay-as-you-go basis. In 1972, as part of a major reform of the Plan, the contribution was changed to pre-fund the plan liabilities. The basis of the State's contribution was changed again in 1990. Beginning in 1990, General Fund contributions have been based on the prior year's payroll covered by CalSTRS. Since fiscal year 2002-03, the General Fund contribution has been based on the payroll in the fiscal year ending in the prior calendar year.

Education Code Section 22955 requires the General Fund to contribute 1.975 percent of the creditable compensation of the immediately preceding calendar year upon which members' contributions are based in 2001-02. Beginning in 2003-04, the General Fund contribution is 2.017 percent of total creditable compensation of the fiscal year ending in the prior calendar year (i.e., creditable compensation in 2003-04 for the 2005-06 fiscal year). This continuous appropriation is calculated annually on October 1st and deposited quarterly into the TRF to finance the 1998 legislated benefit increases payable under the DB Program.

Up to an additional 1.505 percent of payroll from the fiscal year ending in the prior calendar year is transferred to the TRF to eliminate any normal cost deficit attributable to benefits in effect as of July 1, 1990, or if assets based on member and employer contributions are less than the cost of benefit 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 actuarial valuation, as of June 30, 2003, there was no normal cost deficit for benefits in effect as of July 1, 1990. There was, however, an unfunded actuarial liability associated with the benefits in effect as of July 1, 1990, identified in that valuation. As a result, an additional contribution equal to 0.524 percent of the 2002-03 payroll was made by the General Fund beginning on October 1, 2004.

In October of each year, the CalSTRS Accounting Office obtains the creditable earnings from monthly reports of retirement contributions submitted by employers. 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 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 of the budget 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 ensure the transfers are made. A final adjustment is made immediately prior to the October 1 transfer, based upon the complete data available.

SUPPLEMENTAL PAYMENTS

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 measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index 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 the table on page 27.

2 Percent Simple Benefit Adjustment

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 payments". These are School Lands Revenue and the Supplemental Benefit Maintenance Account. Supplemental 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

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 payments in quarterly installments. Chapter 840, Statutes of 2001 increased the payment to provide for up to 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 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:

1. Amount of money available from School Lands that year;
2. Number of benefit recipients whose allowance purchasing power is below 80 percent; and
3. 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 2005-2006, School Lands revenue provides only 2 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 payment paid from School Lands revenue equal to 2 percent of the amount necessary to raise the purchasing power of the allowance to 80 percent.

Since School Lands revenue for 2005-2006 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 make up the difference.

Supplemental Benefit Maintenance Account

An amount equal to 2.5 percent of CalSTRS' member payroll for the prior fiscal year (ending in the calendar year immediately preceding) was contributed each year from the State of California General Fund to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund. The SBMA provides annual supplemental payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 80 percent of the purchasing power of the initial allowance, after application of the School Lands monies, 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. Since 2001 funding from the General Fund has been a contractually enforceable obligation of the state. However, Chapter 6, Statues of 2003 reduced the General Fund contribution for 2003-2004 by $500 million because of a significant shortfall in the State's General Fund during this period of time. The Teachers' Retirement Board is pursuing litigation to compel payment of the $500 million. 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 from SBMA 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 Payments

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

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

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

Current Allowance (the sum of your Normal Allowance and COLA on the Direct Deposit Advice/Check stub),

And

Change in the California Consumer Price Index is determined by dividing the CCPI for June of 2005 by the CCPI for June of the calendar year of retirement. The chart on the following page provides the result of this division for each calendar year of retirement.

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:	$1,580
Purchasing Power Factor:	3.871

In this example, the benefit effective year is 1975, and the corresponding Purchasing Power Factor is 3.871. (Change in CCPI is determined by dividing the CCPI for June of 2005 by the CCPI for June of the calendar year of retirement, in this example, 1975.)

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

A. Obtain the Purchasing Power Factor for the benefit effective year: 3.871

B. Multiply the initial allowance by the Purchasing Power 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 3.871 = $3,871.00

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

$1,580.00 / $3,871.00 = 40.82%

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

Total Quarterly Supplemental Payment

The total supplemental payment is determined as follows:

A. Multiply the fully Adjusted Allowance by .80 to determine the 80 percent Purchasing Power Amount.

$3,871.00 x .80 = $3,096.80

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

$3,096.80 - $1,580.00 = $1,516.80

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

$1,516.80 x 3 = $4,550.40

For this example, $4,550.40 would be the Quarterly Supplemental payment that would be paid on October 1, 2005, January 1, 2006, April 1, 2006 and July 1, 2006.

Factors for Calculating 2005-2006 Purchasing Power

Year	June CCPI	Purchasing Power Factor*
1955	25.7	7.833
1956	26.2	7.683
1957	27.1	7.428
1958	28.1	7.164
1959	28.5	7.063
1960	29.1	6.918
1961	29.5	6.824
1962	30.0	6.710
1963	30.2	6.666
1964	30.8	6.536
1965	31.6	6.370
1966	32.1	6.271
1967	32.9	6.119
1968	34.3	5.869
1969	36.0	5.592
1970	37.9	5.311
1971	39.4	5.109
1972	40.5	4.970
1973	42.7	4.714
1974	47.1	4.274
1975	52.0	3.871
1976	55.2	3.647
1977	59.5	3.383
1978	64.6	3.116
1979	71.0	2.835
1980	83.3	2.417
1981	90.1	2.234
1982	98.5	2.044
1983	99.1	2.031
1984	103.6	1.943
1985	108.4	1.857
1986	112.2	1.794
1987	116.3	1.731
1988	121.7	1.654
1989	128.2	1.570
1990	134.3	1.499
1991	140.1	1.437
1992	145.2	1.386
1993	148.9	1.352
1994	150.7	1.336
1995	154.2	1.305
1996	156.6	1.285
1997	160.0	1.258
1998	163.6	1.230
1999	167.8	1.200
2000	174.0	1.157
2001	183.2	1.099
2002	185.9	1.083
2003	189.9	1.060
2004	195.8	1.028
2005	201.3	1.000

*The Purchasing Power Factor is obtained by dividing the CCPI for June of 2005 by the CCPI for June of the calendar year of retirement.

Estimation Worksheet - Quarterly Payments

Current Allowance Purchasing Power Percentage

1.	____________	x	____________	=	____________
	Initial Allowance Monthly Amount		Purchasing Power Factor for 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 Payment

1.	____________	x	.80	=	____________
	Fully Adjusted Allowance (a)		Purchasing Power Percentage		80% Purchasing Power Amount (b)
2.	____________	-	____________	=	____________
	80% Purchasing Power Amount (b)		Current Allowance Monthly Amount		Supplemental Payment Monthly Amount (c)
3.	____________	x	3	=	____________
	Supplemental Payment Monthly Amount(c)		Number of months in a quarter of a year		Total Quarterly Supplemental Payment

Status of the School Land Bank Fund

(Prepared by State Lands Commission staff in January 2003, updated October 2003)

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 were sold prior to the creation of the State Lands Commission in 1938. Proceeds were used primarily to pay for school construction. In 1984, the California Legislature directed school lands be retained and managed by the SLC to generate revenue to provide cost-of-living adjustments for retired teachers.

The school lands are difficult to manage because they are broken up into noncontiguous, square-mile parcels. The Legislature found the "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 SLC to sell the isolated, non-economic 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.

California Desert Protection Act of 1994

On October 31, 1994, the California Desert Protection Act was signed into law by the President of the United States (Public Law 103-433). The CDPA designated 3.6 million acres in southern California as wilderness to be administered primarily by the Bureau of Land Management, and designated an additional 4 million acres in southern California for inclusion in the national park system.

The purpose of the CDPA is to set aside areas in the California desert to protect its natural, cultural, scenic and historical values, and to provide for public enjoyment. 442 parcels (approximately 251,000 acres) of school lands and over 100 parcels encumbered by the State's reservation of mineral interests were identified within the boundaries of the CDPA.

Section 707 of the CDPA provides for the exchange of school lands in holdings within these designated areas for other federal lands. The SLC receives compensation for the exchange of its fee and mineral interests on a value-for-value basis determined by fair market appraisals. Compensation for the State's assets may be made in various forms, including cash or exchange for other lands.

To date, there have been four CDPA land exchange transactions completed between the SLC and the BLM. The four transactions have resulted in the sale or exchange of approximately 63,700 acres of school lands and have generated over $14.2 million for the SLBF.

There are several additional transactions nearing completion, which are anticipated to generate over $6.4 million dollars for the SLBF. The completion of these transactions will leave 326 parcels of school lands valued at over $26.5 million within the designated national parks, monuments, preserves and wilderness areas available to exchange with the BLM.

School Land Bank Fund Balance

The SLBF has accumulated over $50 million. The Commission staff anticipates receiving requests for land exchanges and land sales throughout the year, including CDPA land transactions resulting in additional growth of the SLBF.

School Land Bank Fund Investment Activities

With the enactment of the School Land Bank Fund Act of 1984, the Commission was given the authority, as trustee for the SLBF, to select and acquire real property or any interest in real property using funds contained in the SLBF with the objective of facilitating management of school lands for the purpose of generating revenue. To accomplish this objective, the Commission has contracted with consultants to review and analyze potential investment alternatives for the SLBF monies. Among the investment areas being explored are a proposed state office building near Eureka, various agricultural property investments, ground leasing a school land parcel in Barstow for commercial development and other ground leasing possibilities throughout California. In addition, other real estate investment alternatives will continue to be considered as possible investment avenues for SLBF monies.

Sale of Elk Hills Naval Petroleum Reserve

Description

The Elk Hills Naval Petroleum Reserve is comprised of school lands 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 Congress to sell the Elk Hills Naval Petroleum Reserve Number 1 while recognizing California's valid claim to two school land sections within the Reserve and compensate the State's retired teachers for their interest.

CalSTRS' Interest in Elk Hills

- The State of California and federal government had 78 percent interest in this reserve (school lands), with the remaining 22 percent of Elk Hills owned by Chevron Corporation in San Francisco.
- CalSTRS sold its 9 percent interest of the net proceeds to benefit California's retired teachers.

Terms of the Sale

- Occidental Petroleum purchased the Reserve October 6, 1997, for $3.65 billion (all-cash). Occidental sold its interest in MidCon for $3 billion, of which $2 billion funded the Elk Hills 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.

Under the settlement agreement, the State should receive $324 million for the TRF in seven annual installments, in each of the Federal Government's fiscal years, under the terms of the settlement between the State and DOE. Each installment is due by the 180th day of the fiscal year or 60 days after the funds are appropriated by Congress and become available.

Fiscal Year	Amount
1999	$36 million (paid)
2000	$36 million (paid)
2001	$36 million (paid)
2002	$36 million (paid)
2003	$36 million (paid)
2004	$72 million (paid $36 million)
2005	$72 million (paid $36 million)
2006	$48 million (appropriated)

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

- Ensure these appropriations for the settlement payments are included in the President's budget, which he submits to Congress in January of each year prior to the year 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.

Benefits to 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).

Current Status of Sale Proceeds

The federal government collected the $3.65 billion sales proceeds from Occidental Petroleum and saved approximately $84 million (direct operational savings evaporated from the budget baseline) in fiscal year 1999. The Defense Authorization Act requires 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. Through the 2005 federal fiscal year, $252 million has been paid and an additional $48 million has been appropriated for the 2006 fiscal year. This leaves $24 million of the $324 million remaining to be paid in future years.

ACTUARIAL PRINCIPLES and the VALUATION PROCESS

Actuarial Principles and the Valuation Process

CalSTRS has its consulting actuary prepare an actuarial valuation of the Defined Benefit Program as of June 30th of each odd-numbered year; in addition, the DB Program was subject to additional actuarial valuations as of June 30, 1998, and 2000. The Cash Balance Benefit Program has been subject to an annual actuarial valuation since June 30, 1997. Since June 30, 2002, the Defined Benefit Supplement Program is also subject to an annual valuation.

Since actuarial results and valuation reports are generally not well understood, 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 both the CB Benefit Program and the DBS 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, 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 begin;
- When that benefit will begin;
- What that benefit amount will be.

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

The amount of any benefit 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 earns investment income to supplement contributions 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) 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: 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 program 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 and unfavorable demographic experience will either decrease the current actuarial surplus or create an unfunded liability. Conversely, greater investment returns and favorable demographic experience will increase the actuarial surplus or reduce the unfunded liability. In order to prefund a defined benefit program properly, it is necessary to determine the appropriate amount of employer and state contributions to be made to the program. This is the function of an actuarial cost method – to produce a pattern of contributions that meet the goals and requirements of a defined benefit program.

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 unfunded actuarial obligation. The unfunded actuarial obligation is usually referred to as the:

- Unfunded liability;
- Unfunded actuarial accrued liability;
- Unfunded accrued liability.

The number of years it will take the current contribution schedule to fully amortize the UL fully is referred to as the Program's "funding period."

The normal cost may be thought of as the ongoing cost of the Program, if there were no UL. It is the annual cost for the benefits that will be earned by the average new member 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 UL is the annual rate this UL is being paid off, or "funded."

The technical definition of the UL depends on the specific actuarial cost methods used 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).

Different actuarial cost methods spread the incidence of actuarial cost in different ways. One approach is to spread cost on the basis of 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. The aggregate cost method does not create any UL at all.

CalSTRS uses the entry age normal cost method for valuing the DB Program. This is the most common method used for public pension 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 and the DBS Program use the traditional unit credit cost method, which is the method best suited for these types of programs.

Unfunded Liability

The UL 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 UL may either be positive (under-funded) or negative (over-funded).

The UL is not an accounting liability. It is also not the actuarial liability if the program is terminated or frozen.

The UL is the actuarial liability associated with prior years under the entry age cost method, assuming 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 program like the CalSTRS DB Program may have ended a prior year with an UL. As was the situation in CalSTRS' case, a part of the UL is due to those years in which the full actuarial cost was not contributed, i.e., the years before Elder Full Funding. UL can also be created by program improvements such as increases in the multiplier and retiree benefit increases. Actuarial gains and losses will also impact the UL. Gains and losses represent the difference between the actual experience of the Program and its assumed experience. The most dramatic example of actuarial gains occurred during the years 1995-1999 and has been the very favorable investment performance for funds allocated to the Program.

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

It is important to remember that the creation of an UL is a natural by-product of the entry age methodology. Whenever benefit improvements are granted and additional contributions are not made to the DB Program equal to the full cost of the benefit improvements relating to past service, the entry age method will cause an increase in the UL.

There is nothing wrong or bad about having an UL. What is important is whether or not the System is making systematic progress in amortizing that UL over a reasonable period of time. There is also nothing wrong with a benefit enhancement that increases the UL, as long as proper funding is included at the creation of the benefit enhancement.

If, however, the Board sees a consistent pattern of actuarial experience losses from one year to the next, it should have the 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 Program, they need to begin an education process to alert the legislature and plan members to the potential dangers of under-funding the Program. The creation of Elder Full Funding is an example of this course of action.

Actuarial Assumptions

Because of the long time horizon of a defined benefit program, 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 DB Program to meet its emerging liabilities may be impaired. Consider two examples:

In the first example, the Board assumes the DB Program will earn 9.5 percent in investment return but in reality the Program only averages 8 percent. 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 more money will be required to pay the benefits than had been planned. Therefore, the System could have problems paying its benefits over the long-term if corrective action is not taken.

As a second example, the Board sets retirement rates to assume members will retire on average at age 63. In reality, members 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 DB Program has lost three years of contributions 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 active member mortality rates against 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 2005 valuation of the DB Program showed the following present value of future benefits for active member death benefits versus retirement benefits (in millions):

Type of Benefit	Active Member	Retired Member
Death benefits	$ 1,470	$ 2,747
Present value of future retirement benefits	$121,001	$47,684

In contrast to the active member mortality assumption, retired member mortality is a major assumption in determining the overall actuarial condition of the Program. The longer the life expectancy in retirement, the longer benefits will be paid. From the plan's viewpoint, favorable experience would occur if there were more deaths among retirees than expected. This is because not as many benefits are being paid out as are anticipated. Therefore the UL 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 disability rates to the withdrawal and retirement rates. Using the 2005 DB Program 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	$ 2,497	$ 1,697
Retired	$121,001	$47,684

In general, fewer disabilities than expected are 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 actuarial assumption.

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 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 were fewer retirements than expected. In this scenario, CalSTRS would have funds longer than expected, receive contributions longer than expected and pay 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 were more deaths or recoveries than expected by the assumption. This would mean not as many disability benefits would be 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 3.25 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, which measures how much general salary increases exceed inflation; this is in addition to 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 adjustments occuring in salary for additional degrees or for promotions.

Currently, the salary scale for CalSTRS includes the inflation component of 3.25 percent, a productivity component of 1.00 percent and a promotional component that is a function of age and service and ranges from .25 - 1.75 percent.

Investment Return Assumption

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

It should come as no surprise that favorable experience relative to this assumption occurs when the invested assets earn a higher rate of return than expected. This is illustrated by the investment performance achieved during the Plan years between fiscal years 1995 and 2000. There are two components to the investment return assumption. The first component is inflation, which is not affected by the program's asset allocation. The second component is the real rate of return net of investment expenses, which is affected by asset allocation, market forces and manager performance.

The current investment return assumption for CalSTRS is 8 percent. This is the average rate used by large public plans. Because the inflation component is 3.25 percent, the current real rate of return assumption is 4.75 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 change will be equal to the change in the inflation assumption. If, on the other hand, the inflation component is changed, but there is no change in the total (nominal) investment return assumption, this implies 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 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 changes in funding periods 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 CB Benefit Program and the DBS 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 consulting actuary calculates, all results in these valuations are based on the assumptions and methods adopted by the Board.

The valuation report provides a great deal of information. As noted above, the primary focus of the DB Program valuation is to determine the funding period for amortizing the UL, based on the current contribution schedule.

The valuation also provides information on any assets and/or liability gains or losses, the size of the UL 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.

Viewing and Interpreting Valuation Results

A number of issues contribute to the perception that actuarial concepts are difficult to understand. These include the long-term nature of actuarial liabilities themselves. It also reflects the large number of actuarial variables 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 UL growing or declining as a percent of payroll? The UL 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 UL 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 UL, 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 the actuary performs when evaluating the valuation results.

INVESTMENT POLICY and MANAGEMENT PLAN

Investment Policy and Management Plan

(Approved July 2002, Revised December 2005)

Executive Summary

The California State Teachers' Retirement Board believes that to manage growth of assets in a prudent manner, it is necessary to establish a clear Investment Policy and 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, CalSTRS is not subject to ERISA that governs corporate pension plans. The CalSTRS investment decision-making criteria are based on the "prudent expert" standard for which the ERISA prudence standards serve as a basis. Additionally, the California Constitution Article 16, Section §17, and the California Education Code, Part 13 Teachers Retirement Law chapter 4, section §22250 require diversification of risk across asset classes and minimization of employer costs.

The Investment Policy and Management Plan have been 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 Policy and strategy as a result of implementing approved programs. In addition, the Investment Policy and 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 Board, investment staff, and the general consultants worked together to create a variety of optimal asset allocation alternatives. The Board has adopted the desired targets and set tight ranges around those targets to control risk and ensure the proper allocation of the portfolio.

Strategic asset allocation targets are established within a variety of sub-asset categories to achieve the identified performance objectives. In conjunction with the overall asset allocation targets, sub-asset class level tactical ranges provide 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:

1. The Funds' overall investment objectives, risk tolerance and performance standards.
2. The relative amount of active and passive management within each asset class.
3. The relative amount of internal and external management.
4. The appropriate direct and indirect costs of each asset category.
5. The appropriate reporting standards and time horizons.

Additionally, CalSTRS is committed to holding and managing securities investments in both the public and private markets and exercising the corporate governance rights that are a necessary part of that ownership. CalSTRS views these rights as plan assets and discharges its fiduciary duty solely in the interest of the plan participants and their beneficiaries."

Investment Policy

Standard of Care

Under California Constitution Article 16, Section §17, and the California Education Code, Part 13 Teachers Retirement Law chapter 4, section §22250, the board has the sole and exclusive fiduciary responsibility over the assets of the retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the members and their beneficiaries. The assets of the retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

The members of the retirement board of the retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, members and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. The retirement board's duty to its members and their beneficiaries shall take precedence over any other duty.

The CalSTRS retirement board shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

General Investment Objectives

The main goal for CalSTRS is to "maintain a financially sound Retirement System". Within this context and in conjunction with the State Constitution and State Education Code the following general investment objectives are designed to establish a framework for the operation of the investment portfolio.

1. **Provide for Present and Future Benefit Payments.** CalSTRS' investment program shall provide liquidity 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 and strive to meet the assumptions built into the actuarial model and strive to maintain a fully funded pension system.

2. **Diversify the assets.** Seek to diversify the assets to achieve the desired rate of return at a prudent level of risk. The asset structure must provide for diversification of risk between asset classes to manage the risk/return relationship through strategic asset allocation.

3. **Reduce CalSTRS' funding costs.** Within prudent levels of risk, the reduction of CalSTRS' funding costs shall be a consideration in the organization and structure of the investment portfolio.

4. **Maintain the trust of the participants and public.** Manage the investment program in such a manner that will enhance the member and public's confidence in the CalSTRS investment program.

5. **Establish Policy and Objective Review Process.** A formal review of the CalSTRS Investment Policy and management Plan will be conducted annually, with an updated financial projection developed every two years.

6. **Create Reasonable Pension Investments Relative to Other Pension Funds.** The selection of investment vehicles and policies will be judged against other private and public pension funds. Investment performance, asset management costs, staffing and overall expenses will be compared to other public and corporate pension plans, with special emphasis on comparisons with other large public funds.

7. **Minimize costs.** Management fees, trading costs, and other expenses will be aggressively monitored and controlled.

8. **Comply with State and Federal Laws.** The investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets.

Investment Performance Objectives

The general investment objectives designed a framework for the operation of the investment function. The performance objectives can be divided into three components: (1) performance objectives for the overall investment portfolio, and (2) performance objectives for each asset class, and 3) performance objectives for the individual investment managers within each asset class. CalSTRS incorporates all three levels of analysis in its monitoring of the investment portfolio performance.

In 2001, a survey of the Board members confirmed the Board's primary objective is to meet the actuarial assumptions and to strive to maintain a fully funded pension plan. Further, the Board reaffirmed its focus on a long-term investment horizon of 10 years. As a long-term pension plan, the Board emphasizes that the primary time horizon for measuring investment performance will be over a three, five and ten year period rather than quarter-to-quarter or year-to-year.

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 plus 3.5 percent. The CCPI is used in the calculation of the estimated salary increases for the members. 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%. 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 Benchmarks

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 blend of the Russell 3000 Index excluding Tobacco, combined with the MSCI ACWI, excluding U.S. Index, excluding Tobacco.

- U.S. Equity—Russell 3000 Index (excluding Tobacco)
- Non-U.S. Equity—MSCI ACWI (excluding U.S. Index and Tobacco)

Total Public Debt—Lehman Brothers U. S. Aggregate and High Yield cash pay Index (excluding Tobacco)

- U.S. Dollar denominated—Lehman Brother U.S. Aggregate Index (excluding Tobacco)
- High Yield Debt—Lehman Brothers cash pay Index (excluding Tobacco)

Private Equity—Weighted blend of the NCREIF Property Index and the Custom Alternative Investment Index

- Real Estate—NCREIF Property Index
- Alternative Inv.—Custom Alternative Investment Index

Blended indices are weighted based upon the CalSTRS target allocations to each respective index.

Each investment manager, for U.S. and Non-U.S., equity and fixed income, has an individualized benchmark designed to measure its performance relative to the objective identified in each manager's respective investment guidelines.

Risk Constraints

The CalSTRS investment portfolio will be invested to maximize return at a prudent level of risk in accordance with the CalSTRS Investment Policy, the California Constitution, and the Education Code.

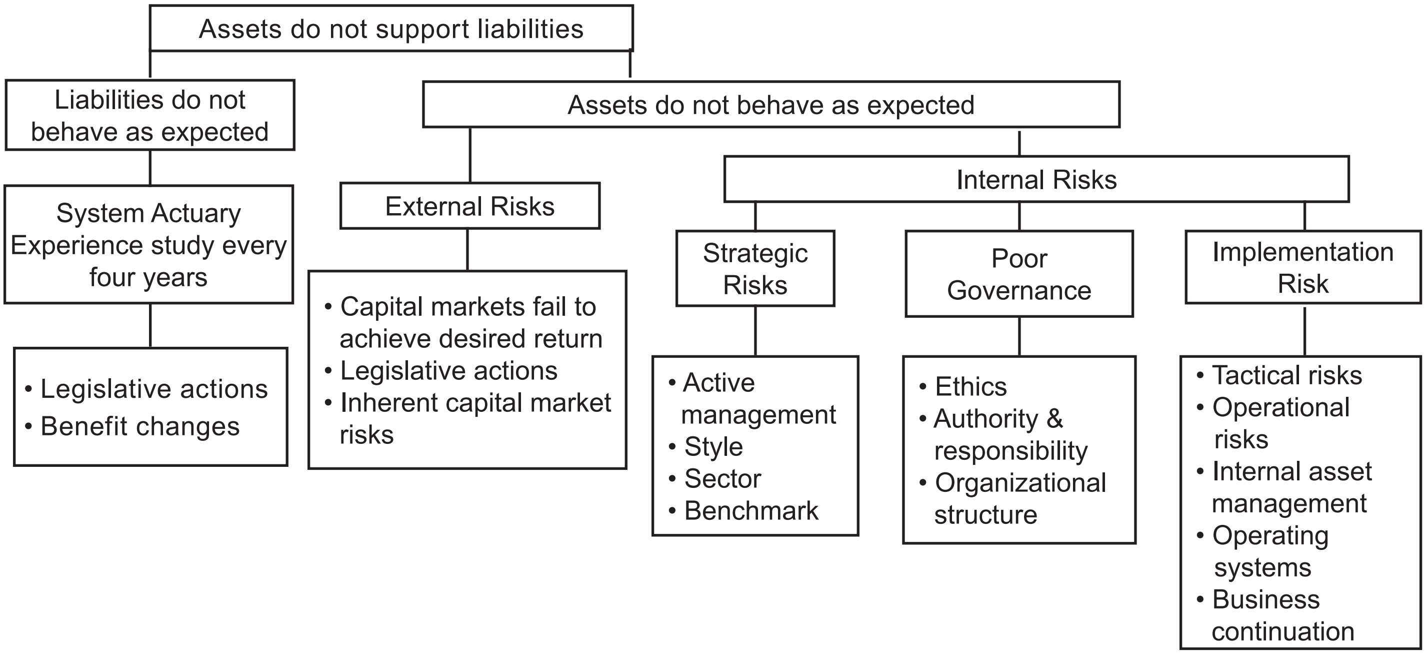
Risk Standards

With a few enhancements, CalSTRS has utilized the risk matrix "Statements of Key Investment Risk and Common Practices to Address Those Risks", June 2000, which is endorsed by the NCTR, GFOA, and APPFA. These standards promulgate a risk framework listed on the following page.

External risk—External risks are embedded and inherent within the capital markets. This policy defines the Fund's strategy and process to capture or in turn mitigate these risks.

Governance risk—Governance risk is mitigated within the Board's policy and the individual asset class policies. Roles and assignments are clearly stated in each policy.

Strategic investment risk & implementation risks—This Policy is designed to mitigate the strategic investment risk and implementation risks of the investment activity. A critical element to mitigate these risks is the asset allocation and sub-asset structure of each asset class. The Board has adopted target allocations and tight ranges to control and limit the strategic and tactical risk in the portfolio. To control the active manager style, sector and benchmark risks, the Board has delineated guidelines and structure through the asset allocation plan and equity manager policies and guidelines.



Risk Budget

The CalSTRS asset allocation plan is developed within the concept of a risk budget. In CalSTRS, view the public markets of U.S. equity, U.S. fixed income and to a lesser extent Non-U.S. equity, as fairly efficient market. Information is disseminated quickly and new information is quickly absorbed into the market prices of a given security. As a result, CalSTRS utilizes a more passive management style. The less efficient the investment the greater exposure to active management and hence the larger exposure to style, sector, and management risk.

In the less liquid and inefficient asset classes of high yield fixed income, private equity, and real estate, the Fund utilizes a complex active management style to capture the greater opportunity set offered by the larger risks.

Total Fund Risk

Liquidity Risk

No more than 30% of the total fund shall be invested in instruments that are not regularly publicly traded on a daily basis.

Maximum Investment

No more than 3% of the total fund shall be invested or exposed to any one security or corporation, with the exception of United States Treasury or Agency Obligations. No more than 15% of any asset class maybe invested in any one security, with the exception of United States Treasury or Agency Obligations.

Asset Allocation

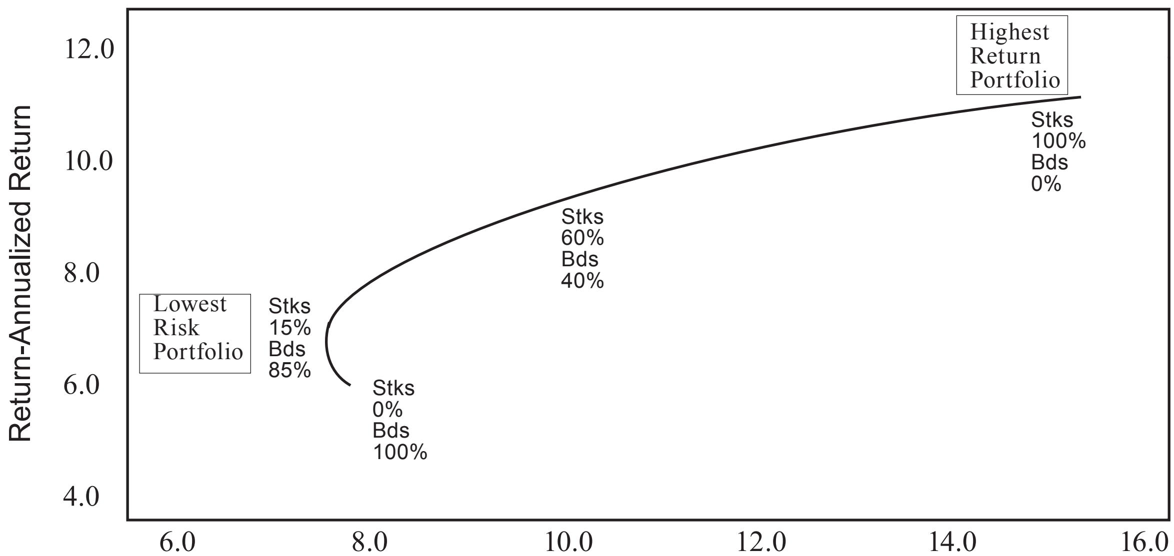
A Review of Asset Allocation

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 in the table above.

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

An Efficient Frontier for a Stock and Bond Portfolio



Asset Class	Expected Annual Return	Expected Annual Volatility
Domestic Stocks:	9.25%	22.0%
Domestic Bonds:	5.75%	8.0%
Stock-Bond Correlation:	0.25%	

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% 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 to develop an asset allocation policy that maximizes the likelihood that an investment portfolio’s assets will, over the planning horizon, fund Plan benefits.

Steps in Setting an Asset Allocation Policy

Overview and Planning Steps

1. Review rationale for policy.
   - Importance of diversification
2. Review financial condition of Plan.
   - Assets vs. projected liabilities (balance sheet)
   - Projected contributions vs. benefits

Investment-Related Steps

1. Review rationale for investment asset classes in light of plan financial requirements.
2. Develop expectations for asset class investment performance (returns, risks, correlations).
3. Identify investor-specific constraints possibly

limiting investment strategies (e.g., liquidity).

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

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

6. 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 include the future liabilities and expected cash flow of contributions less benefit payments. For example, over the next decade, CalSTRS expects to see a negative cash flow as more participants retire. 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

Total Return and Risk Estimates
Assumed Inflation Level: 2.5% per year
Adopted in December 2002

Asset Class	Expected Annual Return	Expected Risk (Annlzd. SD)
Cash	4.50	1.5
Domestic Bonds	5.75	8.0
TIPS (Inflation protected securities)	5.25	4.5
U.S. Stocks	9.25	22.0
Non-U.S. Stocks	9.25	22.0
Private Equity	12.50	35.0
Real Estate	7.50	13.5

Correlation among the asset classes:

	US Equity	Non-U.S. Equity	Fixed Income	TIPS	Private Equity	Real Estate
U.S. Equity	1.00					
Non-U.S. Equity	0.70	1.00				
Fixed Income	0.25	0.10	1.00			
TIPS	-0.40	-0.40	0.50	1.00		
Private equity	0.65	0.60	0.10	0.00	1.00	
Real Estate	0.50	0.40	0.50	0.50	0.15	1.00
Liquidity	0.10	0.00	0.40	0.40	0.10	0.30

These return and volatility estimates reflect several basic relationships:

1. Investors or lenders of capital require an incremental real return premium as a reward for making capital available.
2. Equity-oriented investment should, over long periods, produce return premiums that are higher than their fixed-income counterparts.
3. 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 fifteen years, CalSTRS' asset allocation policy has shifted modestly:

CalSTRS Asset Allocation Policy Trends (in %)

Asset Class	Long-Term*	1999	1995	1993	1986
U.S. Equities	38	38	34	33	40
Non-U.S. Equities	20	25	18	18	15
Public Equity	58	63	52	51	55
Real Estate	7	5	5	10	10
Private Equity	8	5	3	7	5
Total Equity	73	73	60	68	70
Global	0	0	5	1	0
Fixed-Income	26	26	34	30	30
Cash	1	1	1	1	0
Stable Assets	27	27	35	31	30
Total	100	100	100	100	100

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 4.5% to 12.5% per year

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

Strategic Asset Allocation

The System's asset allocation strategy utilizes a design for today's needs, while anticipating the future capacity and

CalSTRS Policy Target and Ranges

Asset Class	Long-Term Target	Range
U.S. Equity	38%	35% to 41%
Non-U.S. Equity	20%	17% to 23%
Total Public Equity	58%	52% to 64%
Private Equity	8%	4% to 10%
Real Estate	7%	4% to -9%
Total Equity	73%	68% to 77%
Fixed Income	26%	23% to 29%
Cash	1%	0% to 3%
Total Public Debt	27%	23% to 32%
Total Asset Allocation	100%	

Please note that the allocated not funded portion of the private equity and real estate will be invested in the U.S. equity portfolio.

To manage the shift to the new allocation targets established in 2001, the Board sets for the following plan. Each asset mix will be used at the end of the respective fiscal year for performance measurement. The respective ranges of +/- three percent for U.S. equity, Non-U.S. equity and fixed income will apply to each year's target. The range for private equity, real estate, and liquidity will be zero to + two percent of the long-term (fiscal year end June 30, 2006) target for the entire plan.

Asset Class	04-05 FY	05-06 FY	Long-term
U.S. Equity	41%	41%	38%
Non-U.S. Equity	20%	20%	20%
Private Equity	6%	6%	8%
Real Estate	6%	6%	7%
Fixed Income	26%	26%	26%
Liquidity	1%	1%	1%

growth of the investment portfolio. A strategic asset allocation target for public equity, private equity, liquidity, and public debt was last established in 2001 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 should be rebalanced to the strategic target. 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.

Rebalancing Procedure

The asset mix may deviate from the target as shown above. Deviations greater than described may require rebalancing within the range. The range around the allocation targets is intended to keep the actual allocation close to the target while minimizing the transactions costs that result from rebalancing.

1. The Board delegates to the Chief Investment Officer authority to rebalance the asset allocation across asset classes when market values of assets fall outside policy ranges. Rebalancing will be accomplished first using normal cash flows and second through reallocation of assets across asset classes. The timing of the re-balancing will be based on market opportunities and the consideration of transaction costs, and therefore need not occur immediately. The global financial markets and fund conditions are dynamic, not static. The optimum re-balancing will depend on market volatility and costs. The above policy ranges are long-term and may deviate in the short-term as a result of funding schedules, interim market movements and market impact costs of implementation.

2. Idle cash will be allocated to asset classes and investment managers based on target allocations.

3. In cases of major rebalancing, the Board authorizes the Chief Investment Officer to shift assets in a timely, prudent, and cost efficient manner to maintain the policy ranges established by the Board. The Board further authorizes the Chief Investment Officer to utilize futures, forward contracts and options for a temporary period, in order to maintain target range exposure in asset classes and to reduce transaction costs that would otherwise be incurred by the buying and selling of actual securities. Major rebalancing can occur to bring asset classes within their target ranges, or when there is transition between investment managers. The CIO will promptly report any major re-balancing to the Board at the next Investment Committee meeting.

4. Rebalance Within Asset Classes: the Board au-

thorizes the Chief Investment Officer to rebalance within each asset class by first using normal cash flows and second through reallocation of assets within asset classes. This reallocation will be based on individual policies and guidelines for each asset class.

5. Because of appraisal valuation and illiquid market nature of appraised assets, exceeding the maximum policy range allocation will trigger a conscious review by the Chief Investment Officer, the specialty and General Consultant, and the Investment Committee rather than automatic rebalancing.

Investment Structure

Investment structure guides and directs present and future investment decisions in a prudent manner. The structure is also used by CalSTRS to mitigate the strategic investment risk within the portfolio. Investment related issues addressed included:

1. The relative amount of active and passive management
2. The relative amount of internal and external management
3. The appropriate direct and indirect costs of each asset category
4. The appropriate reporting standards and time horizons

Asset Allocation Structure

1. Based on academic studies, it has been determined that 91% 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.

2. 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.

3. 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.

Coporate Governance Policy

CalSTRS has developed robust policies and standards for fair and open governance of corporations. As long-term owners and lenders to corporations around the world, it is the Fund's duty to protect those assets through the pursuit of good governance and operational accountability.

Equity Structure

1. The U.S. equity portfolio will be managed using both passive (70%target) and active (30% target) strategies. The structure of the active portfolio will follow the general percentage breakout of the Russell 3000 index between large and small capitalization and value and growth characteristics. The passive component may have both internal and external managers. The active component will be managed externally.

2. 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%) and passive management (50%) 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.

Fixed Income Structure

1. The long-term fixed income portfolio shall be comprised of investment grade and non-investment grade securities using an enhanced indexing strategy and an externally managed high yield strategy. The internally managed portfolio will emphasize tracking the risk characteristics of the performance benchmark.

2. Short term fixed income and cash securities, 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

1. 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. One of the alternative investment advisors and staff will analyze each partnership and conduct appropriate due diligence with the objective of achieving upper quartile performance, as identified by Venture Economics.

2. 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

1. The real estate portfolio will be comprised of direct real estate investments, joint venture investments, and commingled funds (opportunistic funds) with adopted targets of 50% to low-risk, 25% to moderate-risk and 25% to high-risk investments.

2. 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.

Reporting

On a monthly basis the CIO will prepare a comprehensive report on the investment program to include the asset allocation, movement of assets, System cash flow and market value of each portfolio. Semi-annually, the General Consultant and CIO will preview and present the investment performance of the Systems' investment portfolio.

SOCIAL SECURITY and CALSTRS MEMBERS

Social Security Benefits and CalSTRS Members

Introduction

Social Security pays retirement, survivor and disability benefits to over 45 million Americans. It is a broad-based program provided by the federal government. However, public educators in California do not participate in Social Security by virtue of their employment and are the largest single group of State and local government employees in the country who do not participate in the Social Security system. As a result, a CalSTRS member's relationship to Social Security is significantly different than for most people in this country.

Background

1935

Social Security was established originally as a modest retirement system for employees of private industry as the Old Age and Survivors Insurance program. 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. Some states overcame this restriction 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.

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, all current and future employees would be covered.

1955

In California, an every-member vote was conducted by the California Teachers Association. (In 1955, administrators were also members of CTA.) The election resulted in rejection of Social Security by 4 to 1.

1956

Social Security coverage could be extended to current 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, the Disability insurance program was added, providing income to disabled workers. The program has since been referred to as the Old-Age, Survivors, and Disability Insurance program.

1965

Title XVIII, "Health Insurance for the Aged," of the Social Security Act created the Medicare program, which established medical coverage for persons age 65 and older.

1977

Legislation was passed establishing the Government Pension Offset, which reduces Social Security spousal benefits under certain circumstances if there is a pension based on employment not covered by Social Security. The offset became effective in 1982 and only if the spouse was not eligible for retirement as of that date.

1983

Legislation was passed establishing the Windfall Elimination Provision. This provides for an alternate calculation, 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 taxes long enough to become eligible for covered benefits.

1985

Mandatory Medicare for new hires of state and local governments became law as part of the Consolidated Omnibus Budget Reconciliation Act of 1985. All new hires in California public schools after April 1, 1986, are subject to a payroll tax equal to 1.45 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 integration be avoided and "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) was enacted, 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 that 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, 1989.

1990

As part of the Omnibus Budget Reconciliation Act of 1990, 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.

2004

Effective January 1, 2005, public employers that are not covered by Social Security must disclose the effect of WEP and GPO to employees hired on or after January 1, 2005. The law requires newly hired public employees to sign a statement that they are aware of a possible reduction in their future Social Security benefit entitlement. The employers are also required to provide a copy to the retirement system, such as CalSTRS.

Administration of the Social Security System

Social Security was designed to provide workers and their dependents with protection against poverty in the event of declining income due to retirement, disability or death. To achieve that purpose, Social Security redistributes income in the following ways:

- From workers who have higher lifetime earnings to those who have lower earnings;
- From people who have no dependents to those who do have dependents;
- From unmarried wage earners and two-earner couples to one-earner couples;
- From those with shorter life spans to those who live longer.

Although changes have been made over the years to improve benefits payable under Social Security, it was never intended for Social Security to meet all of a worker's financial needs. Rather, it was intended to supplement a worker's private pension and personal savings.

Funding

Social Security benefits are funded by payroll taxes collected from the salary earned by covered workers. Most, but not all, workers and their employers each pay a tax of 6.2 percent of the workers' employment earnings, up to a specified amount of earnings, which in 2005 was $90,000. Self-employed individuals pay both the worker and employer shares of the payroll tax for a total tax of 12.4 percent of earnings. With the payroll taxes collected, the federal government is able to pay Social Security benefits to workers who retire or become disabled and to dependents of retired, disabled and deceased workers.

In order to be entitled to Social Security benefits, a worker must have earned a minimum of 40 credits (generally 10 years of work). A worker must have a certain minimum salary in order to earn one credit, and a worker cannot earn more than four credits in any calendar year. The amount of earnings required to earn one credit in 2006 is $970 and four credits would be earned with wages of $3,880 in the year. The amount required to earn a credit increases annually based on wage inflation.

It is important to realize that the nature of Social Security benefits is different from the nature of pension benefits provided by many public and private employers. A pension represents an agreement between the employer and employee. It is a benefit earned by virtue of employment with the specific entity that agrees to provide benefits in exchange for the services of the employee. In contrast, Social Security benefits are not earned through any particular employment agreement. They represent a promise from the federal government to help workers enhance their financial standing in their post-employment years. This promise is made in exchange for the Social Security payroll tax the workers pay during their working years.

Likewise, the payroll taxes that fund Social Security benefits are not contributions in the sense that many workers and employers contribute to the funding of many private and public pension plans. For instance, CalSTRS members are credited with the amount of contributions they make to the CalSTRS and the CalSTRS periodically determines the normal cost rate for crediting service. Benefits are funded at the time they are earned by the contributions paid by members and employers when the service is performed and liability for a benefit related to the service is assumed by the CalSTRS. At retirement, member and employer contributions made throughout a worker's career help fund the member's benefit and remaining funds needed come from investment earnings on the contributions. Members who terminate employment and do not want a monthly benefit can request a lump-sum return of their own contributions with interest.

Unlike CalSTRS, Social Security operates on a pay-as-you-go basis. At any point in time the federal government pays Social Security benefits using the payroll tax collected from the salaries earned by individuals who are working at that time (i.e., the combined 12.4 percent of salary mentioned above). The formula used to determine Social Security benefits favors lower paid workers by providing a benefit that represents a higher percentage of the low-wage earner's salary than the benefit paid to a person who earned a higher salary. This is not the case with a pension payable from most private or public defined benefit plans. In most instances, a pension provided to employees is determined on an individual's age and years of service with the entity providing the pension and the individual's salary level. The longer an employee works for the specific entity and the higher the salary he or she earns, the higher the pension benefit is likely to be.

Exclusions from Coverage

All private sector employment is covered by Social Security. This means earnings from such employment (up to the maximum taxable earnings) are subject to the 6.2 percent Social Security payroll tax that is paid both by the employee and employer. Public sector work in most states is now covered by Social Security. In fact, Social Security estimates that more than 75 percent of State and local government employees have jobs where the work is covered by both Social Security and a supplemental pension system. However, in some states (including California), neither workers nor employers pay the Social Security payroll tax on salary workers earn from certain State and local government employment. For this reason, the earnings from such government employment are not included in the determination of Social Security benefits for these workers. California is one of only 15 states where some or all of the public employees are not covered by Social Security and do not pay the Social Security payroll tax on their employment earnings. Seven states, including California, account for more than 75 percent of the non-covered workers. The Social Security Administration estimates that 95 percent of non-covered state and local government employees at some point in time become entitled to Social Security as covered workers or as the spouse or dependent of a covered worker.

Although members of CalSTRS do not pay the Social Security payroll tax on earnings from CalSTRS-covered service, and therefore are not entitled to Social Security benefits for such service, many CalSTRS members are eligible for Social Security benefits because they had private employment that was covered by Social Security. Still others are eligible for Social Security benefits as the spouse or widow(er) of a worker who was covered by Social Security.

In California, public school teachers elected as a group to decline Social Security coverage primarily because the benefits available to them from CalSTRS were greater than the benefits payable under Social Security. An individual with earnings equal to the U.S. average (now about $35,648) can expect to receive a Social Security benefit at age 62 that would replace about 44 percent of annual pay after 35 years of employment. In contrast, with 35 years of service and retirement at age 62 under CalSTRS, the replacement ratio would be approximately 90 percent of pay. Under Social Security, the wage replacement ratio declines as an individual's earnings increase. A covered worker who always had maximum earnings under Social Security could expect to receive a benefit that replaces only about 24 percent of covered earnings. This replacement ratio is estimated to gradually increase to about 28 percent after the year 2010.

Social Security Benefits

Benefits for a Covered Worker

Potentially, there are two Social Security benefits that can be paid upon a covered worker's retirement—a benefit that is payable to the worker, and a benefit that also may be payable to the worker's spouse. The first step in determining Social Security benefits payable to a worker is to establish the worker's average indexed monthly earnings. AIME is based on a covered worker's lifetime Social Security earnings record using the highest 35 years of earnings, indexed for inflation. Only earnings on which the worker paid the Social Security payroll tax are included in AIME. If the worker paid the Social Security payroll tax for fewer than 35 years, then annual earnings of zero would be included for the number of years required to add up to 35 years for computing the worker's AIME. The maximum AIME for persons who reached age 62 in 2006 is generally $6,515. From AIME, Social Security determines the worker's primary insurance amount. A covered worker's PIA is always determined as of age 62 regardless of whether or not the worker begins collecting Social Security benefits at that time. If the worker delays retirement beyond age 62, the PIA will be increased by the percentage increase in the cost of living since December of the year in which the worker reached age 62.

The PIA for persons who attained age 62 in 2006 would be determined as follows:

> 90% of the first $656 of AIME, plus
> 32% of the next $3,299 of AIME, plus
> 15% of AIME in excess of $3,955
> ($656 + $3,299 = $3,955)

A worker who reached age 62 in 2006 and had the maximum AIME of $6,515 would have a primary insurance amount of $1,919. This PIA is the amount the worker would receive if he or she retired at full retirement age, although if retirement is delayed beyond age 62, the primary insurance amount resulting from the formula will be increased annually to reflect changes in the cost of living. While a worker can begin receiving Social Security benefits at age 62, full retirement age is age 65 for people who were born before 1938, gradually increasing to age 67 for those who were born in 1960 and later. Benefits are reduced when a worker retires at an age younger than 65. The full retirement age under Social Security for persons who attain age 62 in 2006 is age 66 years.

Benefits for a Spouse

The second benefit that can be paid upon retirement is a benefit for the spouse, former spouse or widow(er) of a worker who was covered under Social Security. As a social insurance program, Social Security pays an additional benefit if the spouse of a worker is financially dependent on the worker. Such benefits are intended to provide income for persons who have little or no pension from their own employment and the benefits in such instance are based on the more highly paid worker's earnings from covered employment. That worker may have provided all or most of the household income thus providing for a spouse who was financially dependent. For example, the worker's spouse may have been the primary caregiver for the children in the household and therefore may not have had significant years of employment.

The spousal benefit is equal to 50 percent of the higher wage earner's PIA while they are both living and is reduced by the amount of any benefit paid based on the lower paid spouse's own Social Security earnings record. If the worker predeceases the dependent spouse, the dependent surviving spouse would receive 100 percent of the worker's PIA. If the spouse also qualifies for a Social Security benefit based on his or her own earnings, generally speaking, the spouse could receive the greater of a benefit based on his or her own Social Security earnings record or the spousal benefit, but not both.

Differences Between Social Security Benefits and CalSTRS Benefits

As with Social Security, CalSTRS provides benefits to members of CalSTRS who retire or become disabled. CalSTRS also provides benefits to spouses and dependents of members. When a CalSTRS member retires, he or she may choose from a number of joint and survivor options that will provide a surviving spouse (or any other person named by the member) with a monthly allowance after the member's death. The member's retirement benefit is reduced under an option and the continuing monthly benefit for the surviving spouse or other beneficiary is equal to at least 50 percent (and as high as 100 percent) of the reduced amount payable to the retired member. A surviving spouse and eligible dependents may also be entitled to a benefit in the event the death of a CalSTRS member occurs before retirement.

The Social Security benefit formula is fundamentally different from the type of formula used in a defined benefit retirement plan, such as CalSTRS' DB Program. Under the CalSTRS DB Program, and most similar types of plans, the percentage of a worker's average salary that is replaced by the retirement formula is based on the number of years the worker was covered under the plan, the worker's age when he or she begins to receive the benefit and the worker's final average salary. For any given age or years covered under the plan, however, the amount of average salary that is replaced by the retirement formula is not affected by the amount of the average salary itself.

In contrast, the Social Security benefit, as social insurance, is directly affected by the amount of the worker's average salary. In addition, the Social Security benefit is affected by the number of years worked only to the extent that if the worker paid the Social Security payroll tax for fewer than 35 years, the worker's AIME is reduced because it reflects one or more years with zero earnings. Put in other terms, at one level the dollar value of the Social Security benefit increases with average income because the benefit is equal to a percentage of average income and will therefore increase as average income increases. On the other hand, when determining a worker's PIA the percentage of AIME that results from the formula decreases as average income increases. Consequently, a Social Security benefit does not increase as rapidly as does the average income.

The table below shows the percentage of a worker's AIME that would have been replaced by the Social Security benefit formula if the worker had been born in 1941 and retired in 2006 at age 65.

As indicated in the table, the social insurance component of the Social Security benefit formula pays a relatively lower benefit for a worker with higher average earnings. Although the worker with AIME of $4,000 would have received a monthly benefit of $1,751, that dollar amount represents only 44 percent of the worker's AIME; whereas, the worker with AIME of only $656 would have received a monthly benefit of $590 which represents 90 percent of that worker's AIME. Consequently, if the Social Security benefit were to be based on a level of earnings that was less than the level actually earned, the worker would receive a relatively higher benefit than was intended by the formula. Although an understatement of earnings would not happen in private employment, where all employment is subject to the Social Security payroll tax, it could happen with respect to any public employment that is not subject to Social Security coverage. For this reason, Social Security reduces the benefits paid to many people who also receive a pension from employment that was not covered by Social Security. How those benefits are reduced is discussed in more detail in the next section.

Comparison of Social Security Benefits

Average Indexed Monthly Earnings	Percentage of Worker's AIME Computed by Benefit Formula	Social Security Benefit Dollar Amount
$656	90%	$590
$1,000	70%	$700
$1,500	57%	$860
$2,000	51%	$1,020
$4,000	44%	$1,751

Social Security and CalSTRS Members

Given the current discussion concerning the long-term financial viability of Social Security, there is greater visibility to the details of how that program operates. As a result, there is a greater likelihood that the current relationship of CalSTRS members to Social Security could change if Congress enacts legislation to improve the level of Social Security financing. The two specific issues that dominate the discussion concerning CalSTRS members, and other public employees, are intricately related—the prospect that participation in Social Security will become mandatory for CalSTRS members and the current reductions in Social Security benefits faced by CalSTRS members.

Reductions in Social Security Benefits for Noncovered Employees

Because the reliance on Social Security-covered earnings understates the financial strength of members who receive a pension from employment, such as California public education, that is not covered by Social Security, Social Security adjusts the benefits paid to such pension recipients to offset that understatement, and provide a benefit more consistent with the financial strength of Social Security recipients with similar employment history that was covered by Social Security. These two offsets are called the Windfall Elimination Provision and the Government Pension Offset.

Windfall Elimination Provision

The WEP was enacted in 1983 to reduce the advantage previously realized by people who worked in jobs not covered by Social Security. The WEP is applied to the Social Security benefits of individuals who reach age 62 after 1985 and who also are eligible for a public pension. Prior to 1983, the Social Security formula computed benefits for these individuals as if they were long-term, low-wage workers, which resulted in these workers receiving a higher wage replacement ratio than they would have received if all of their employment had been covered by Social Security. When the WEP is applied, a modified formula is used to compute benefits and reduce the previous advantage, thereby recognizing the fact that the individuals were not really long-term, low-wage workers. Rather, for a portion of their working years these individuals did not pay the Social Security payroll tax on the salary they earned because their employment was not subject to Social Security coverage.

As noted previously, the Social Security benefit is calculated using a three-tier formula that gives greater weight to lower earnings. In paying a relatively higher benefit to lower-paid workers, in order to achieve the system's social insurance objective, the formula implicitly assumes that all of the earnings received by a worker are covered by Social Security. However, some employment is not covered by Social Security, meaning that the worker does not pay the Social Security payroll tax on his or her earnings from that employment. As a result, a worker with significant earnings from employment that was not covered by Social Security could receive a Social Security benefit that replaced the same relatively high percentage of earnings as would be received by a worker with an identical history of employment. The only difference in the two situations would be that all of one worker's earnings were from employment that was covered by Social Security and some, but not all, of the other worker's earnings were from covered employment.

This can be demonstrated by considering a woman born in 1940 who began work in 1965, at the age of 25. Assume she earned $10,000 in 1965 from employment that was covered by Social Security, and received a 5 percent salary increase each year thereafter, if covered employment continued for 40 years until she reached age 65 and 6 months and retired in 2005, her Social Security benefit would represent 34.9 percent of average indexed monthly earnings of $4,722. Now, assume she had Social Security-covered employment for only 15 years and then became a public school teacher in California. If the salary she earned as a teacher had been the same as the salary that would have been earned in Social Security-covered employment, her Social Security benefit would have been calculated on 15 years of covered earnings, and Social Security would have assumed the worker did not have other earnings. In this case, AIME would have been only $1,150, which is $3,572 less than AIME would be if her entire employment had been covered by Social Security, even though both examples had identical earnings. Because AIME is lower in the second example, her Social Security benefit reflects a higher percentage of AIME, specifically 65.6 percent (without WEP application), as compared to only 34.9 percent in the first example.

Career earnings for public employees who work at jobs not covered by Social Security actually are higher than it appears by looking only at the earnings that were covered by Social Security. To offset this effect, workers who have employment covered by Social Security and also have other employment that was not covered by Social Security are subject to application of the WEP when the monthly benefit payable from Social Security is determined. When the WEP is applied in determining Social Security benefits, the first tier percentage used in figuring a worker's AIME is reduced from 90 percent to 40 percent. As an example, consider the following situation for a worker whose AIME is only $2,970 (the monthly earnings for a worker at the U.S. average wage level of $35,648). If he had retired in 2003 at age 62, before the WEP was applied the PIA would have been $1,330.88. However, after including the WEP in the determination of benefits his PIA would have been reduced to $1,002.88. The PIA for those two situations would be computed as follows:

PIA Without the WEP
90% of $656 = $590.40
32% of $3,299 = $740.48
15% of $0 = $0.00
$1,330.88

PIA With the WEP
40% of $656 = $250.80
32% of $3,299 = $707.50
15% of $0 = $0.00
$1,002.88

This example shows that the monthly Social Security benefit would have been reduced by $328 under the WEP. As long as a worker's AIME was at least $656, monthly Social Security benefits generally would be reduced by $328 because under the WEP the reduction appears in the first tier of the formula.

The dollar amounts used in the formula for determining the primary insurance amount are the dollar amounts in effect at the time the worker actually reached age 62 regardless of whether or not the worker retired at that time. Thus, the reduction in benefits under the WEP continues to increase as the dollar amounts in the three tiers of the formula increase to reflect rising wages. For instance, if a worker turned 62 in 2001, the first tier amount is $561 as opposed to $656 for the worker turning 62 in 2006. This difference would mean that the reduction in Social Security benefits as a result of the WEP would be only $233 instead of $328. Again, as the breakpoints are increased annually to reflect rising wages and changes in the cost of living, the reduction in benefits by application of the WEP also will increase. Another way of looking at this phenomenon is that once a worker's AIME is established at age 62 it will not change even though the worker may retire at a later date, so the sooner a worker reaches age 62 the better; but the younger a worker is today the greater the reduction will be by the time that worker reaches age 62.

There are some exceptions to the WEP. For instance, a worker is exempt from application of the WEP if he or she has 30 or more years of "substantial earnings" under Social Security. The amount of wages a worker must earn in a year to meet the threshold for substantial earnings changes annually. For example, in 1954 a worker needed to earn only $900 to have substantial earnings, but in 2006 a worker had to earn $17,475 to have substantial earnings.

For workers who have between 21 and 30 years of substantial earnings there is graded application of the WEP. That is, the 90 percent factor in the first tier of the Social Security benefit formula is reduced on a sliding scale depending on the worker's years of substantial earnings. For a worker with 21 years of substantial earnings, the first tier percentage is 45 percent, rather than 40 percent. The first tier percentage increases by 5 percentage points for each additional year of substantial earnings, until the first tier percentage for a worker with 30 or more years of substantial earnings is 90 percent. So, a worker who had non-covered employment but also had 30 years of substantial earnings that were covered under Social Security would not have his or her Social Security benefits reduced under the WEP. In any case, the benefit reduction under the WEP cannot be more than one-half of the worker's pension benefit from the non-covered employment. In 2006, the reduction under the WEP is $328. However, if the individual were receiving a benefit of only $250 per month from CalSTRS, Social Security benefits would have been reduced by only $125 (one-half of $250) rather than $328 as prescribed by the formula with application of the WEP

Government Pension Offset

The Social Security benefit paid to a worker is based, at least in part, on the worker's earnings in covered employment. If that worker was the spouse of another worker and was financially dependent on the other worker, the Social Security benefit based on the dependent spouse's own earnings might not be significant. This could occur if the dependent spouse was the primary caregiver for children in the household and had limited outside employment. Social Security, as a social insurance program, pays an additional benefit if the spouse of a worker is financially dependent on the worker. The additional benefit is equal to 50 percent of the higher wage earner's primary insurance amount, and 100 percent of the higher PIA upon the worker's death. Generally speaking, a spouse can receive the greater of a benefit based on his or her own Social Security earnings record or a spousal benefit, but not both. Before the GPO was enacted, many people were able to receive a government pension based on their own employment in the public sector (e.g., teaching in the California public schools) and also could qualify for a spousal benefit under Social Security.

In 1977, the GPO was enacted to ensure that spousal and widow(er) benefits under Social Security would be paid only to individuals who are (or were) financially dependent on their spouses. Social Security benefits were intended to provide some protection to spouses or surviving spouses who had limited working careers. Those who work long enough in non-covered employment to earn a pension of their own do not meet Social Security's limited career criterion. For these individuals, the modified benefit formula used under the GPO reduces the amount of Social Security benefits payable. A spouse or surviving spouse can receive the equivalent of a Social Security benefit based on his or her own earnings record or the earnings record of a husband or wife, whichever provides a higher benefit, but cannot receive full benefits based on both earnings records. Prior to enactment of the GPO, many government employees received Social Security benefits based on their spouse's earnings, even though they were entitled to benefits based on their own non-covered government employment and were not financially dependent on a spouse. In this respect, there was disparate treatment of spouses who received government pensions based on their own work and spouses who had little or no employment history.

The 1977 amendments to the Social Security Act provided that Social Security benefits payable to a spouse or widow(er) would be reduced on a dollar-for-dollar basis by the amount of any government pension the spouse or widow(er) received based on his or her own government employment if that employment had not been covered by Social Security. This offset was changed in 1983 from a full reduction to a reduction that is just two-thirds of the amount of the government pension for persons who first became eligible for a public pension in 1983 or later. Theoretically, reducing or eliminating the spousal benefit for those people who receive a government pension based on non-covered employment makes eligibility for Social Security benefits for spouses and widow(er)s who also receive government pensions consistent with the benefit eligibility requirements imposed on spouses and widow(er)s who do not receive other pension benefits or receive such other benefits based solely on work that was covered under Social Security. For example, consider a CalSTRS member is entitled to a $1,500 per month benefit from CalSTRS and a Social Security widow's benefit of $1,000 per month. Two-thirds of the $1,500 CalSTRS benefit is $1,000 and would then be deducted from the $1,000 Widow's benefit. The result is the member would receive nothing from Social Security. Alternatively, if a person received a $600 per month CalSTRS benefit and was eligible for a $500 per month spousal, two-thirds of the $600 monthly CalSTRS benefit, or $400, would be deducted from the $500 per month Social Security benefit, leaving a net Social Security benefit of $100. In addition, because a benefit recipient receives a cost of living adjustment annually from both CalSTRS and Social Security, this benefit is recalculated every year.

Implications of the Two Offsets

Both the WEP and the GPO are intended to eliminate what is perceived as an excessive Social Security benefit that is paid to people who are receiving a pension from public service, such as California public education, that was not covered by Social Security. Although the intent of the two offsets is understandable. It isn't clear that the specific reductions appropriately reduce the benefit. CalSTRS' analysis of the offsets indicated one of the weaknesses of the WEP was that the adjustment made to the Social Security benefit effectively assumed that a person was working under noncovered employment in any year in which no covered wages were paid. The experience at CalSTRS, in contrast, is that many CalSTRS members will experience years with no compensation at all, such as when the member takes time off to raise a family. As a result, the WEP often overcompensates for the noncovered pension received by the worker. H.R. 4391 was introduced in Congress in 2004 to respond to that apparent weakness. It would have replaced the WEP with a new calculation that bases the adjustment on relative amount of noncovered wages received by the worker. If ended, this would more appropriately have adjusted the Social Security benefit. Similarly, reducing a spousal benefit by two-thirds of the public pension probably overcompensates for the increased financial security that the public pension provides. This is because the Social Security benefit that a CalSTRS member would have received if the CalSTRS service was covered by Social Security is substantially less than two-thirds of the resulting CalSTRS benefit. Consequently, a CalSTRS member subject to the offset would get less of a combined benefit than would a person whose employment was covered by Social Security.

In addition to the weaknesses in the specific adjustments made by the WEP and the GPO, these offsets could have a workforce implication. To the extent that covered workers recognize that noncovered employment could affect future Social Security benefits, there may be increased difficulty in recruiting people in the middle of their career from pursuing such employment. Not only could this affect the willingness of people in other professions to become teachers, it also could affect the willingness of experienced educators in other states, in which the employment was covered by Social Security, to relocate to California.

This raises another issue with respect to the offsets. CalSTRS members tend to fall into one of two categories; either they are not aware that public school employment could reduce their future Social Security benefits, or they overstate the extent to which their benefits are reduced. The first issue is being addressed both by CalSTRS and federal law. CalSTRS is developing more information to be made available to younger educators, so they understand the implication of their employment on their future benefits. In addition, beginning in 2005, federal law requires all new public educators to sign a document that discusses the two offsets, so they have earlier notice of their existence. The other problem is that many members overstate the impact of the offsets on their monthly income. Members often inquire about taking a refund of their CalSTRS contributions in order to avoid receiving a monthly CalSTRS benefit and therefore avoid being subject to an offset; not only does that strategy often fail to avoid the offset, but the amount lost in CalSTRS benefits could be significantly more than the avoided reduction in Social Security benefits.

Mandatory Social Security

One means to eliminate the impact of the Social Security offsets is to subject the CalSTRS service to Social Security. Mandating all new state and local government employees to pay Social Security taxes has been identified as a means to improve the fiscal viability of Social Security by increasing the resources available to pay benefits. The enactment of such a proposal, however, would have a major fiscal impact on new California teachers, employers, and CalSTRS. Currently, members contribute 8 percent and employers 8.25 percent of pay to fund DB benefits. If Social Security were mandated for CalSTRS members, there would be an additional burden of 6.20 percent of payroll to both new California teachers, and California school employers, resulting in a total required contribution rate of 28.65 percent of payroll for new hires. School district administrators have indicated to CalSTRS that a serious reduction in education services would be necessary in order to address the increased costs of mandatory Social Security coverage.

Mandatory Social Security coverage for new teachers could also necessitate the closure of the current CalSTRS program to new members and the enactment of a new, lower cost CalSTRS program that complements the Social Security program. The CalSTRS DB Program is designed as a fully independent program with a retirement benefit equal to 2 percent of final compensation per year of service at age 60 plus ancillary disability and survivor benefits. The average retirement benefit is equal to 65 percent of the member's final salary, although for 43 percent of the members retiring with at least 20 years of DB Program service, the benefit is equal to 80 percent or more of the member's final salary. The addition of Social Security on top of this program will create an overlap of disability and survivor benefits, and create a combined benefit that could be considered excessive by many people.

CalSTRS' consulting actuary, estimated the impact of mandating Social Security on California public schools and CalSTRS. In doing so, the Actuary identified two different approaches to reduce DB Program benefits to offset the potential of a mandatory Social Security tax. The first approach, termed the Level Benefit Approach, would reduce the DB Program benefit to exactly offset the Social Security benefit, resulting in a combined benefit that is equivalent to the benefit currently provided by the DB Program. The Actuary estimates that, under this approach, mandatory Social Security coverage for new teachers would drive up total retirement costs for California school districts by an additional 7.487 percent of payroll simply to fund the same level of retirement benefits as currently provided to California's teachers under the CalSTRS plan. The approximately 1,200 local school districts in California have a combined annual payroll for teachers of almost $24 billion annually. Therefore, a proposal to impose mandatory Social Security coverage for new teachers will increase local school costs by as much as $1.5 billion annually, just to provide the existing level of retirement benefits.

The second approach is called the Level Cost Approach. Under this approach, the benefits paid under the DB Benefit Program would be reduced to the level that could be funded by current member and employer contributions that would be remaining after paying the Social Security payroll tax. In other words, rather than having the member contribute 8 percent of earnings to CalSTRS, as current members do, the member would contribute a total of 8 percent, 6.2 percent would be paid as a Social Security payroll tax with the 1.8 percent balance being contributed to pay for the reduced DB Program benefit. However, under this approach, the combined benefit paid from Social Security and CalSTRS would be as much as 30 percent lower than a CalSTRS member now receives.

One particular complication of proposals to mandate Social Security on new employees is that the requirement to participate would be triggered when a person took a new previously uncovered job with a new employer. If, for example, an experienced teacher in one school district took a job at another school district after the effective date of the change, that teacher's new job would now be covered by Social Security, and the employee and employer would have to pay an additional 6.2 percent in payroll taxes. Because he or she was already a DB Program member, she would continue to be a member, and pay the existing 8 percent contribution rate, with the employer paying 8.25 percent. Although CalSTRS could provide a new benefit structure for new members that did not result in higher total employer and employee contribution rate, with Social Security, constitutional limitations on the impairment of benefits would preclude compelling existing members from opting into the new reduced CalSTRS benefit program. As a result, existing members, and their new employers, could find themselves paying substantially higher costs than existing members who remained with their current employers or people who are entirely new to CalSTRS. This problem could be avoided if a requirement to participate in Social Security was limited to people who were not already members of a retirement system, such as CalSTRS, in which the service was not covered by Social Security.

Historically, the Teachers' Retirement Board has expressed its opposition to mandating Social Security for California teachers. In September 1997 the Board voted to oppose mandatory Social Security. Subsequently, and most recently in June 2005,

LEGISLATED BENEFIT IMPROVEMENTS

Legislated Benefit Improvements

The following represents state and federal legislation 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 Board has sponsored, co-sponsored or supported initiatives significantly impacting 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.

2005

Federal

- Elk Hills Naval Petroleum Reserve - $48 million appropriated as the seventh installment from CalSTRS' share of the proceeds from the sale of the reserve.
- Bankruptcy reform legislation clarifies that the interest of a participant in a defined benefit plan is protected from creditors in the event of a participant's bankruptcy. The protection from creditors includes the participants' interest in the plan, plan loan repayments withheld from the employee's wages and direct trustee-to-trustee transfers and rollovers. Plan loans cannot be discharged in bankruptcy, thus avoiding a deemed taxable distribution to the participant.

2004

State

- Permits the recalculation of benefits paid to part-time and adult education community college employees who were members of the Defined Benefit Program prior to 7/1/96; AB 1586.
- Expands eligibility for the partial lump-sum benefit; eliminates 1-year prohibition on employment in a California public school for members who receive a Retirement Incentive benefit, and extends a 5 year prohibition on employment with a granting employer to Community College & County Office of Education members; AB 1852.
- Extends for up to two years an existing exemption for retired DB Program members who fill a vacant administrative position in an emergency situation; also extends required retirement date and sunset date for other existing exemptions; AB 2554.
- Bases the threshold for mandatory membership in the DB Program on an employee's basis of employment for the school year, rather than on the amount of service performed in one pay period, for part-time and adult education community college employees; AB 3076.
- Allows up to 2/10 of one year of unused sick leave to count towards qualifying for one-year final compensation, longevity bonus and other benefit enhancements; SB 102.

Federal

- Requires employers provide specific information to employees not covered by Social Security (such as employees covered by CalSTRS) of the effects of the Windfall Elimination and Government Offset provisions of the Social Security Act on their potential Social Security benefits; provides additional safeguards for Social Security and Supplemental Security Income beneficiaries with representative payees and enhance program protections; also requires employees to work at least 60 months for the participating employer prior to retirement.
- Elk Hills Naval Petroleum Reserve - $36 million appropriated as the sixth installment from CalSTRS' share of the proceeds from the sale of the reserve.

2003

State

- Extends existing benefits to a member's surviving spouse in cases where the marriage was less than 12 months in duration, if the member's death was accidental or the marriage was continuous for the period beginning prior to the injury or diagnosis of the illness that resulted in the member's death; AB 106.
- Extends the rights and duties of married spouses to persons registered as domestic partners on and after 1/1/05; AB 205.
- Authorizes school districts to offer 2 years of service credit under the existing early retirement incentive program and offers a new program for districts to offer 2 years of service credit plus 2 years of age, until 1/1/05; AB 1207.
- Eliminates the 10-year purchase restriction for DB Program members who performed eligible out-

of-state service and wish to purchase the full amount of service; SB 627.

- Allows members involved in a legal separation or dissolution of marriage to designate their spouse or former spouse as their sole option beneficiary under Option 8 for a stated percentage and keep a portion of their benefit unmodified; SB 627.

- Expands eligibility for the Medicare Premium Payment Program to include DB members age 65 or older who are receiving a disability payment and due to dependent children, do not convert to service retirement; SB 627.

Federal

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

2002

State

- Allows members of government defined benefit programs who retired in 2002 to purchase service credit using rollover funds allowed under the federal Economic Growth and Tax Relief Reconciliation Act of 2001; AB 131.

- Increases limits on annual contributions to 401(k), 403(b) and 457 plans; allows individuals to make maximum contributions simultaneously to both 401(k) and 457 plans; AB 1122.

- Increases defined benefit program limits on contributions for certain service credit purchases; AB 1122.

- Increases the defined benefit allowance payable at retirement; AB 1122.

- Increases the annual compensation limit used by defined benefit plans to determine contributions and benefits; AB 1122.

- Allows a CalSTRS employer to pay all or part of its credentialed employees' member contributions to the DB Program and Defined Benefit Supplement Program; SB 1318.

- Allows a DB Program member receiving an allowance under Options 6 or 7 to name a new option beneficiary after a member's option beneficiary dies; SB 1983.

- Allows a participant of the Cash Balance Benefit Program and a member of the DBS Program to designate a new annuity beneficiary after a participant's or member's designated annuity beneficiary dies, if the participant or member selected a joint and survivor annuity; SB 1983.

- Changes the basis for calculating the post-retirement compensation limitation from the All Urban California Consumer Price Index to the average compensation earnable of active members; SB 1983.

- Allows a CalSTRS member to consolidate his/her benefits under the DB Program by electing to receive service credit for previous eligible service performed while covered under the CB Benefit Program.

2001

State

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

- Eliminates sunset for eligibility of dependent children under Coverage A; authorizes conversion of CB Benefit Program participation to DB Program service credit; raises Home Loan Program loan limit; SB 499.

- Increases 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.

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

2000

State

- Expands earnings limit exemption for administrative positions; AB 141.

- Provides ad hoc increase to current benefit recipients; AB 429.

- Permits some state employees to elect CalSTRS coverage and authorizes certain state employees to convert educational leave to service credit; AB 649.

- Permits partial redeposits of withdrawn contributions by members and non-member spouses; purchase of previously excluded service; naming of new spouse by a retired member with an unmodified allowance; trustee participation in CB Benefit Program; AB 820.
- Bases final compensation on highest 12 consecutive months for members retiring with 25 years of credited service; AB 821.
- Establishes the DBS Program and redirects members' contributions to program; AB 1509.
- Eliminates post-retirement earnings limitation until 2008 for members who are retired for at least one year; increases limitations for others; AB 1733.
- Waives the earnings limitation for members retiring before 7/1/00 for direct remedial education for grades 2-12; AB 1736.
- Establishes longevity bonus; AB 1933.
- Expands eligibility under Public Employees Medical and Hospital Care Act for part-time employees and requires CalSTRS to report on a prescription drug and retiree health program; AB 2383.
- Permits portion of retirement allowance to be paid in lump sum; AB 2456.
- Expands compensation creditable to CalSTRS; AB 2700.
- Requires CalSTRS to pay Medicare Part A premiums for eligible members; SB 1435.
- Extends minimum allowance; SB 1505.
- Exempts members who retired on or before 1/1/2000 from earnings limitation if return to K-12 classroom; SB 1666.
- Permits some state employees to elect CalSTRS or 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.
- Congress provided relief from the Medicare late enrollment penalty for the CalSTRS Medicare Part A Premium Payment Program.

1999

State

- Extends earnings limit waiver for all class-size reduction teachers; AB 335.
- Enacts program to comply with Internal Revenue Code Section 415; AB 819.
- Encourages U.S. Congress and President to exclude state and local employees from mandatory Social Security; AJR 9.
- Requires development of CalSTRS health care benefits; SB 159.

1998

State

- Extends eligibility and eliminates the restriction on credit for unused sick leave; establishes a career bonus for members with 30 or more years of service; guarantees funding stream for purchasing power protection payments; AB 1102.
- Incrementally increases the benefit factor from 2 percent at age 60 to 2.4 percent at age 63; AB 1150.
- Extends earnings exemption for class size reduction and the sunset date to January 1, 2005, for certain Medicare coverage; AB 2765.
- Reamortizes the unfunded liability over 30 years; provides 65 percent of Elder Full Funding to pay for benefits; AB 2804.
- Authorizes the Board to study providing health care benefits to members and families; SB 1528.
- Establishes 100 percent financing Member Home Loan Program, as specified; SB 1945.
- Modifies SB 1027 (1997 legislative year) regarding the purchase of permissive and out-of-state service credit; permits purchase of "non-qualified" service; SB 2126.
- Adds Option 8 to allow for multiple option beneficiaries and modified existing options, as specified; SB 2047.
- Provides 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.)

- Implements 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 paying premiums in excess of $300 each month.

1997

State

- Enacts earnings limit exemption for teachers participating in the class size reduction program; AB 18.
- Expands disability benefits to victims of an unlawful act, as specified; SB 629.
- Extends the post-retirement earnings limit exemption; AB 686.
- Increases purchasing power protection from 68.2 percent to 75 percent, as specified; SB 1026.
- Authorizes members to redeposit contributions withdrawn by a non-member spouse; and purchase additional service credit for out-of-state public school employment; SB 1027.

Federal

- Elk Hills Naval Petroleum Reserve sold, net proceeds to benefit 75 percent purchasing power protection; National Defense Authorization Act.
- President signs 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

- Facilitates employers' option to offer the CB Benefit Program to part-time employees; AB 2673.
- Eliminates requirement for dependent child to maintain full-time student status to remain eligible for disability or family allowance under Coverage A; AB 3032.
- Compliance with the federal Uniformed Services Employment and Reemployment Rights Act of 1994; SB 1877.
- 1992 settlement claim relating to interest payments on the Elder Full Funding appropriation of $540,000; SB 2095.

Federal

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

- Extends the post-retirement earnings limit exemption to certain members under specified conditions; AB 948.
- Establishes minimum standards for full-time employment for all classes of employees for the purposes of crediting service; AB 1122.
- Establishes the CB Benefit Program to be administered by CalSTRS for part-time public school employees; AB 1298.
- Modifies pre-retirement option elections for survivor benefits; AB 1441.

1994

State

- Repeals the administrative fee for processing a refund to a member; AB 2550.
- Requires CalSTRS employers to inform part-time teachers of their right to elect membership in CalSTRS; AB 2554.
- Extends membership in CalSTRS to part-time and substitute adult education teachers; AB 2647.
- Requires CalSTRS to offer a Tax Sheltered Annuity program; AB 3064.
- Requires CalSTRS to offer a mid-career retirement planning information program; AB 3407.
- Allows CalSTRS to develop one or more deferred compensation plans; AB 3705.

- Re-establishes Retirement Incentive Program; provides additional 2 years service credit through December 31, 1998; SB 858.

Federal

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

1993

State

- Modifies direct deposit process regarding benefit arrangements for members, as requested by members; AB 798.
- "Float Suit" settlement ($8.9 million) 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 authorizes CalSTRS to make rollovers directly to other eligible retirement plans; AB 2721.
- Older Workers Benefit Protection Act (known as "Betts") establishes a new survivor benefits and disability program for all new members, allows persons already members of CalSTRS to elect to participate in the new program and makes other changes to bring CalSTRS into federal compliance with the Act; SB 1884, SB 1885 and SB 1886. Significant features:
    - Members eligible for lifetime disability at 50% of final compensation;
    - Increases lump-sum death payment from $2,000 to $5,000 or $20,000 as appropriate and includes automatic index;
    - Automatic children's benefit to age 21, if eligible;
    - Reduces offsets;
    - Eliminates 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 signs 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.
- Allows for the purchase of time spent in the Persian Gulf; SB 1171.

1990

State

- Extends sunset date of the Golden Handshake Program to December 31, 1993, as specified; allows disabled and inactive members to participate in the Dave Elder CalSTRS Home Loan Program; allows service credit for the time spent in the Persian Gulf; AB 2609.
- Increases the post retirement earnings limit to $15,000, adjusted annually according to the CCPI; AB 4048.
- Modifies calculations used in post disability service retirement allowances for those members who retired after reinstatement from disability; AB 4284.
- Authorizes CalSTRS to establish a loan program to assist with natural disaster situations; AB 53X.
- Memorializes Congress to establish a process by which CalSTRS retirees can purchase the quarters needed to meet Medicare Part A eligibility; AJR 71.
- Adds Options 6 and 7 settlements to allow a retiree return to the unmodified, as specified; SB 682.
- Elder Full Funding Act – revises the annual General Fund contribution to a level providing full funding of normal cost and provided amortization of the CalSTRS unfunded obligation; SB 1370.
- Equity Study appropriates funds to study the equity of benefits available under CalSTRS; SB 2469. The study idenitied the following inequities, which

were subsequently reported to the Legislature:

- 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;
- Service credit for part-time service – completed;
- Sick leave service credit upon 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, which required CalSTRS to enact new disability benefit programs that do not discriminate on the basis of age.

1989

State

- Federal compliance with IRC Section 415 "grandfather" benefit limitations; AB 50.
- Extends interest payments to option beneficiaries for late monthly allowance payments; SB 686.
- Modifies post-retirement earnings limit from 50 percent to 100 percent of the change in the CCPI; SB 1039.
- Establishes a funding mechanism, the SBMA, to restore purchasing power of CalSTRS benefits; SB 1407.
- Requires 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

- Defines the initial effective date for purposes of applying post-retirement benefit increases when converting from disability to service retirement allowance; AB 2042.
- Authorizes certain retirees of CalSTRS to elect to purchase up to four years of military service credit; AB 3195.
- Establishes separate accounts for service credit, contributions and interest awarded to a non-member spouse; SB 1190.
- Provides exemption from Probate Code to expedite death claim payments under certain conditions; SB 2080.
- Modifies membership qualifications for substitutes and part-time employees; SB 2082.

Federal

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

1987

State

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

HISTORY OF LEGISLATION

History of Legislation

The “History of Legislation” summarizes an eighteen-year history, from 1987 through 2005, of state legislation affecting CalSTRS, its members and their 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.

2005 STATE LEGISLATION (2005-06 Legislative Session)

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
AB 55 (Mullin) Intro: 12/06/04	Supplemental Benefit Maintenance Account	Increases contibutions to the Supplemental Benefit Maintenance Account beginning in fiscal year 2008-09 through 2012-2013 to offset reduced contributions in 2003-04. *Sponsor: Teacher’s Retirement Board, CTA, CRTA*	Governor Veto (10/7/05)
AB 224 (PER&SS) Intro: 2/3/05	Technical Housekeeping	Makes a variety of technical and conforming changes to the Teachers’ Retirement Law to facilitate efficient administration of the System. *Sponsor: Teacher’s Retirement Board*	Chapter 351, Statutes of 2005
AB 256 (De La Torre) Intro: 2/8/05	Study; Statewide Health Care Pool for School Employees	Among other things, requires CalPERS consult with CalSTRS to evaluate the feasibility of creating single statewide health care pool for all school employees and report its findings to the Legislature. *Sponsor: CSEA*	Chapter 708, Statutes of 2005
AB 310 (Umberg) Intro: 2/10/05	Defined Contribution Retirement Plans	Establishes performance requirements and fee limits on providers of mandatory defined contribution retirement plans to public employees. *Sponsor: CSEA*	Governor Veto (9/29/05)
AB 1044 (Aghazarian) Intro: 2/16/05	Elected Public Officers	Requires an elected public officer convicted of a felony arising out of his or her official duties to forfeit the retirement benefits that accrue on or after 1/1/06 solely as a result of his or her service in office and shall receive only the employee contributions made during his or her term. *Sponsor: Author*	Chapter 322, Statutes of 2005
ACA 5 (Richman) Intro: 12/6/04	Mandatory Defined Contribution Plan	Beginning 7/1/07, would have required all state, school and local public employers to offer their new employees only defined contribution retirement plans, and allows current public employees to transfer money from their existing defined benefit retirement plan to the employer-sponsored defined contribution plan offered to new employees. *Sponsor: Author*	Held in Assembly PER&SS
ACR 11 (Dymally) Intro: 1/31/05	Investments in Sudan	Encourages CalSTRS and CalPERS to persuade companies doing business in Sudan to avoid taking actions that promote or enable human rights violations in that country. *Sponsor: Author*	Resolution Chapter 98, Statutes of 2005

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
AB1X 3 (Richman) Intro: 4/14/05	Implementation of ACA1X 8	Among other things, would have implemented ACA 8X that would establish defined contribution and hybrid retirement programs under the Teachers' Retirement Plan for credentialed employees hired on or after 7/1/07. Also woudl have required any amendment to the DB Program benefit formula that determines retirement benefits to apply only to service performed by the member on and after the effective date of the constitutional amendment. *Sponsor: Author*	Died in Assembly
ACA1X 8 (Richman) Intro: 4/14/05	Defined Contribution and Hybrid Plans	Beginning 7/1/07, would have required all state, school and local public employers to offer their new employees the choice of hybrid or defined contribution retirement plans, and permitted current public employees to transfer money from their existing defined benefit retirement plan to the employer-sponsored retirement plan offered to new employees. *Sponsor: Author*	Died in Assembly
SB 439 (Simitian) Intro: 2/17/05	Public Records Act	Specifies which information relating to public retirement systems alternative investments is subject to disclosure or protected from disclosure under the California Public Records Act. *Sponsor: University of California; CalPERS*	Chapter 258, Statutes of 2005
SB 525 (Torlakson) Intro: 2/18/05	Termination Benefits	Reduces the one-year waiting period to six consecutive months for both members of the DBS Program and participants of the CB Benefit Program to receive a termination benefit; also prohibits the payment of more than one termination benefit under either program during a single five-year period. *Sponsor: CalSTRS*	Chapter 661, Statutes of 2005
SB 973 (Kuehl) Intro: 2/2/05	Registered Domestic Partnership	Makes various technical changes to the provisions of the Teachers' Retirement Law, which implemented the California Domestic Partner Rights and Responsibilities Act of 2003 (AB 205), and clarifies that a DB members' registered domestic partners must sign pre-retirement option election forms before they are submitted to CalSTRS. *Sponsor: Equality California*	Chapter 418, Statutes of 2005

2004 STATE LEGISLATION (2003-04 Legislative Session)

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
AB 212 (Maze) Intro 1/29/03	Retirement Incentive Program	Would have established a new retirement incentive program to allow school districts to add four years of service credit to those DB members who agree to retire prior to 5/16/07. *Sponsor: Author*	Died in Senate
AB 265 (Mullin) Intro 2/4/03	Supplemental Benefit Maintenance Account	Would have increased contributions to the SBMA beginning in fiscal year 2004-05 through 2010-11 to offset reduced contributions in 2003-04. *Sponsor: CalSTRS, CTA*	Died in Senate
AB 419 (PER&SS) Intro 2/14/03	Teachers' Retirement Board	Allows CB Benefit Program participants to vote in all Board elections; specifies candidates must run for the seat in which they accrued the most service during the prior school year and extends reimbursement provisions. *Sponsor: CalSTRS, CFT, CTA, ACSA, FACCC*	Chapter 11, Statutes of 2004
AB 849 (Lieber) Intro 2/20/03	Investments	Would have required state or local agencies that invest public funds with, or purchase financial instruments from, financial institutions utilize financial institutions that have a specified rating under the federal Community Reinvestment Act. *Sponsor: Author*	Died in Assembly
AB 1209 (Nakano) Intro 2/21/03	Public Records Act	Makes minor changes to the Public Records Act requirements related to agency plans in dealing with acts of terrorism or other criminal acts. *Sponsor: State and Consumer Services Agency, Office of Homeland Security*	Chapter 8, Statutes of 2004
AB 1586 (PER&SS) Intro 2/21/03	Community College Employees	Permits the recalculation of benefits paid to part-time adult education and community college employees who were members of the DB Program prior to 7/1/96. *Sponsor: CalSTRS, FACCC*	Chapter 442, Statutes of 2004
AB 1852 (Mullin) Intro 1/29/04	Partial Lump-Sum	Expands eligibility for the partial lump-sum benefit. *Sponsor: CTA*	Chapter 935, Statutes of 2004
AB 2036 (La Suer) Intro 2/17/04	Concurrent Retirement; Benefit Enhancements	Would have allowed Community College instructors who are concurrent members of the DB Program and CalPERS to use service credit in both systems to qualify for CalSTRS benefit enhancements. *Sponsor: Author*	Died in Assembly
AB 2232 (PER&SS) Intro 2/18/04	Service Credit from Unused Sick Leave	Would have changed the divisor used in the calculation to convert accumulated unused sick leave to service credit for members of the DB Program by requiring the divisor reflect the appropriate minimum full-time equivalent for each class of employees. *Sponsor: FACCC*	Died in Senate
AB 2233 (PER&SS) Intro 2/18/04	Technical Housekeeping	Makes a variety of technical and conforming changes to the Teachers' Retirement Law to facilitate efficient administration of the system. *Sponsor: CalSTRS*	Chapter 912, Statutes of 2004

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
AB 2391 (Koretz) Intro 2/19/04	Legal Services Contracts	Would have prohibited state agencies from contracting for legal services if the hourly rate is more than 250% the hourly rate billed to state agencies for attorneys in State Bargaining Unit 2. *Sponsor: CA Attorneys, Administrative Law Judges, Hearing Officers and Deputy Labor Commissioners in State Employment*	Died in Assembly
AB 2554 (Pavley) Intro 2/20/04	Post-retirement Earnings Exemption	Extends for up to two years an existing exemption for retired DB Program members who fill a vacant administrative position in an emergency situation. Extends required retirement date and sunset date for other existing exemptions. *Sponsor: L.A. Unified School District*	Chapter 934, Statutes of 2004
AB 2680 (Negrete McLeod) Intro 2/20/04	CalSTRS Headquarters Facility	Expands the geographic area in which CalSTRS may locate its headquarters facility within the Sacramento metropolitan area to include eastern Yolo County. *Sponsor: CalSTRS*	Chapter 378 Statutes of 2004
AB 2752 (Chu) Intro 2/20/04	Corporations	Would have required corporations doing business in California to make their election procedures available to shareholders; post them on their Web site, and file them with the California Secretary of State. *Sponsor: Secretary of State*	Governor Veto (9/22/04)
AB 2753 (Corbett) Intro 2/20/04	Retirement Incentive Program	Prohibits any member who retires with a Retirement Incentive Program benefit from accepting any job for up to one year from after their retirement date from the district they retire from and makes technical amendments to the incentive programs established by Chapter 313, Statutes of 2003 (AB 1207 – Corbett). *Sponsor: Author*	Died in Senate
AB 3076 (Mullin) Intro 3/11/04	DB Program Mandatory Membership	Bases the threshold for mandatory membership in the DB Program on a community college employee's basis of employment for the school year, rather than on the amount of service performed in one pay period. *Sponsor: CalSTRS, CTA, FACCC*	Chapter 474, Statutes of 2004
AB 3094 (PER&SS) Intro 3/11/04	Direct Deposit Funds	Permits state and county retirement systems to recover funds sent by direct deposit to financial institutions, following the death of the person entitled to receipt of the benefits. *Sponsor: CalPERS, CalSTRS*	Chapter 506, Statutes of 2004
AJR 79 (Chu) Intro 4/12/04	Shareholder Access	Requests the Securities and Exchange Commission to implement its proposed shareholder participation rules in order to address the need for reform in corporate transparency and give shareholders access to the proxy. *Sponsor: Secretary of State*	Resolution Chapter 92, Statutes of 2004
SB 102 (Burton) Intro 1/29/03	Unused Sick Leave	Allows up to 2/10 of one year of unused sick leave to count towards qualifying for one-year final compensation, longevity bonus and other benefit enhancements. *Sponsor: CalSTRS, CTA*	Chapter 911, Statutes of 2004

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
SB 147 (Torlakson) Intro 2/6/03	Health Security Accounts	Would have established Health Security Account Program for retired members, their spouses and dependents to be financed by employer contributions. *Sponsor: Author*	Died in Senate
SB 272 (Soto) Intro 2/18/03	Social Security Coverage	Would have required community college districts to offer Social Security coverage to part-time community college faculty no later than 7/1/04. *Sponsor: FACCC*	Died in Senate
SB 766 (Florez) Intro 2/21/03	Securities	Would have expanded ability of public pension funds to hold liable those who provide misleading information that is used when deciding to buy or sell a security. *Sponsor: Berman, Devalerio, Pease, Tabacco, Burt & Pucillo*	Died in Senate
SB 1137 (Burton) Intro 1/20/04	Teachers' Retirement Board Elections	Would have authorized the election of a retired member of the Board by retired members of the DB Program, participants of the CB Benefit Program receiving an annuity, and members who are receiving a disability allowance, to a 4-year term beginning January 1, 2006. *Sponsor: CRTA*	Governor Veto (9/15/04)
SB 1632 (Figueroa) Intro 2/20/04	Corporate Investments	Would have required public pension systems in California to obtain specific information from corporations in which they invest, related to their adherence to, and violations of, environmental, public health and human rights standards. This bill also requires the systems to report to the Legislature, to the extent feasible. *Sponsor: Natural Heritage Institute, California Right to Know Coalition*	Died in Senate

2003 STATE LEGISLATION (2003-04 Legislative Session)

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
AB 91 (Dutton) Intro 1/8/03	Cash Balance Benefit Program	Originally would have permitted part-time classified employees to participate in the CB Benefit Program as of July 1, 2004. *Sponsor: CalSTRS*	Provisions applicable to CalSTRS deleted
AB 106 (Corbett) Intro 1/10/03	Survivor Benefits	For purposes of receiving survivor benefits under the CalSTRS Defined Benefit Program, defines a spouse as a person who was continuously married to a member for less than 12 months prior to the accidental death of the member, or for the period beginning prior to the occurrence of the injury or diagnosis of an illness that resulted in the member's death. *Sponsor: Author*	Chapter 548, Statutes of 2003
AB 205 (Goldberg) Intro 1/28/03	Domestic Partnerships	Extends the rights, protections, benefits, responsibilities, obligations and duties of current, former and surviving married spouses to current, former and surviving registered domestic partners in California. This bill requires that any formal, same-sex union created in another state be recognized as a registered domestic partnership in California. *Sponsor: California Alliance for Pride & Equality*	Chapter 421, Statutes of 2003
AB 434 (Hancock) Intro 2/14/03	Defined Benefit Program; earnings limitation exemption	Originally would have extended an existing exemption from the earnings limitation for CalSTRS DB Program members who return to provide direct classroom instruction to pupils in K-12, as specified. Also would have extended the exemption to members who retired on or before January 1, 2003 and would have extended the sunset date from July 1, 2005, to January 1, 2010. *Sponsor: CTA, CCRTA*	Provisions applicable to CalSTRS deleted
AB 1207 (Corbett) Intro 2/21/03	Defined Benefit Program; Retirement Incentive Program	Reopens and makes permanent an existing retirement incentive program that provides an additional two years of service credit to members of the DB Program employed by participating school districts able to demonstrate cost savings. It also establishes a new retirement incentive program that allows school districts to add two years of service credit and two years of age to the age factor calculation in determining a member's retirement allowance. *Sponsor: Association of California School Administrators, CFT, CTA, FACCC, Small School Districts Association*	Chapter 313, Statutes of 2003
AB 1764 (Budget & Fiscal Review) Intro 3/11/03	Supplemental Benefit Maintenance Account	Originally would have decreased Supplemental Benefit Maintenance Account transfer by an additional $58 million in 2003-2004.	Provisions applicable to CalSTRS deleted
AJR 29 (Pavley) Intro 4/10/03	Social Security Act	Requests the President and Congress of the United States enact legislation removing the burdensome effects of the Government Pension Offset and the Windfall Elimination Provision of the Social Security Act. *Sponsor: CTA, United Teachers of Los Angeles*	Resolution Chapter 65, Statutes of 2003

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 269 (Soto) Intro 2/18/03	Management Compensation	Allows the Teachers' Retirement Board and the California Public Employees' Retirement System's Board of Administration to set salary levels and performance standards for the positions of Chief Executive Officer, System Actuary, Chief Investment Officer and investment managers. It also restricts individuals employed in these positions for less than five years from being paid to influence the actions of the retirement system, or decisions of its governing board for two years following the end of their employment with the retirement system.	Chapter 856, Statutes of 2003
SB 627 (PE&R) Intro 2/21/03	CalSTRS Technical Housekeeping	Makes various grammatical, technical and conforming changes to the Teachers' Retirement Law to facilitate efficient administration of the State Teachers' Retirement Plan. *Sponsor: CalSTRS*	Chapter 859, Statutes of 2003
SBX1 20 (Budget & Fiscal Review) Intro 3/3/03	Supplemental Benefit Maintenance Account	Reduces the General Fund transfer to the CalSTRS Supplemental Benefit Maintenance Account by $500 million for the 2003-04 fiscal year. Also requires the Teachers' Retirement Board, beginning in 2006 and based on an actuarial valuation, to report to the Legislature and the Director of Finance every four years on whether the full 80 percent purchasing power payment could still be maintained through June 30, 2036, despite the loss of the contributions. If the Board determines prior to July 1, 2036, that the loss of $500 million in contributions results in its inability to sustain the current program through 2035-36, then, subject to certification by the Director of Finance, the $500 million, plus interest, will be repaid the following year.	Chapter 6, Statutes of 2003
SCR 11 (Soto) Intro 2/18/03	Affordable HIV/AIDS Drugs	Encourages state and local public retirement systems to urge drug companies to make HIV/AIDS drugs affordable to patients in less developed countries. The bill also makes findings regarding the effects of the HIV/AIDS pandemic in Africa and the insufficiency of pharmaceutical manufacturers' response. *Sponsor: AIDS Care Foundation of Los Angeles*	Chapter 111, Statutes of 2003

2002 STATE LEGISLATION (2001-02 Legislative Session)

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
AB 131 (Corbett) Intro 1/22/01	Federal tax law conformity	Conforms California law to the rollover and service credit purchase provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001. Permits members retiring in 2002 to purchase service credit with newly authorized rollover funds. *Sponsor: California Chiropractic Association*	Chapter 30, Statutes of 2002
AB 979 (Cedillo) Intro 2/23/01	Members called to active military duty	Would have exempted members of the DB Program and the CB Benefit Program called to active military duty between 9/11/01 and 7/30/05 from paying the required member contributions for up to one year and receive retirement benefits for their military service. *Sponsor: California School Employees' Association, Service Employees International Union*	Died in Assembly
AB 1122 (Corbett) Intro 2/23/01	Federal tax law conformity	Among other things, conforms California law to the retirement plan provisions of the EGTRRA. *Sponsor: Franchise Tax Board*	Chapter 35, Statutes of 2002
AB 1710 (Negrete McLeod) Intro 3/7/01	Community College district alternative retirement plan offering	Would have required community college districts to offer an alternative retirement plan and Social Security to all part-time employees. Alternative retirement plans would impose a minimum employer contribution of 4 percent of the employee's salary and a minimum total contribution rate of 8 percent. *Sponsor: FACCC*	Governor Veto (9/30/02)
AB 1743 (Campbell) Intro 1/7/02	Federal tax law conformity	Among other things, would have conformed California law to the retirement plan provisions of the federal EGTRRA.	Died in Assembly
AB 1744 (Corbett) Intro 1/7/02	Federal tax law conformity	Would have conformed California law to the rollover and service credit purchase provisions of the EGTRRA. Permits members retiring in 2002 to purchase service credit with newly authorized rollover funds.	Died in Assembly
AB 1975 (Koretz) Intro 2/14/02	Leaves of absence	Would have required community college districts to grant paid leaves of absence, with benefits, to one community college employee per campus who serves as staff of an employee organization. *Sponsor: CFT*	Governor Veto (9/28/02)
AB 1995 (Correa) Intro 2/15/02	Corporate accountancy	Would have prohibited a California accountant from certifying corporate financial statements if his or her accounting firm performs non-audit services for the firm's client, other than tax preparation and SEC document review.	Died in Assembly
AB 2137 (Lowenthal) Intro 2/20/02	Additional years of service credit	Would have provided two additional years of service credit, at employer expense, to specified members with National Board certification who perform three years of credited service after January 1, 2003 in a low performing school.	Died in Assembly

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 2174 (Lowenthal) Intro 2/20/02	Age factor of new members	Would have changed age factors for new members to factors that are actuarially adjusted.	Died in Assembly
AB 2451 (Salinas) Intro 2/21/02	Unused sick leave	Would have permitted part-time community college employees to have value of unused sick leave at the time of retirement credited, at employer expense, to their existing alternative retirement plan account, or CB Benefit Program account. *Sponsor: FACCC*	Governor Veto (9/29/02)
AB 2506 (Steinberg) Intro 2/21/02	403(b) investment options	Establishes a 403(b) registration program in CalSTRS that provides information on 403(b) investment options on the CalSTRS Web site. *Sponsor: United Teachers Los Angeles*	Chapter 1095, Statutes of 2002
AB 2646 (Liu) Intro 2/22/02	Medicare Part B	Would have required CalSTRS to pay Medicare Part B premiums. *Sponsor: ACSA, CFT, CTA, FACCC*	Died in Assembly
AB 2767 (Pavley) Intro 2/25/02	Social Security	Would have required Department of Education to conduct a study by July 1, 2004, on the WEP and GPO of Social Security.	Died in Senate
AB 2970 (Wayne) Intro 2/25/02	Independent auditors	Requires a one-year cooling-off period before an independent auditor may accept a senior-management job with a former audit client.	Chapter 232, Statutes of 2002
AB 2982 (PER&SS) Intro 2/28/02	CalSTRS Technical Housekeeping	Makes a variety of technical and conforming changes to the Teachers' Retirement Law to improve system administration. *Sponsor: CalSTRS*	Chapter 375, Statutes of 2002
ACR 55 (Migden) Intro 4/16/01	HIV/AIDS drug costs	Would have encouraged California's public employee retirement systems to support shareholder resolutions to reduce HIV and AIDS drug costs in less developed countries.	Died in Assembly
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 plans. *Sponsor: State Association of County Retirement Systems*	Resolution Chapter 121, Statutes of 2002
SB 461 (Torlakson) Intro 2/22/01	Prescription drug coverage	Would have required CalSTRS to provide high deductible coverage for prescription drugs to retired members of the DB Program with unspecified minimum levels of credited service. *Sponsor: ACSA, CTA*	Died in Assembly
SB 657 (Scott) Intro 2/23/01	Federal tax law conformity	Among other things, conforms California law to the retirement plan provisions of the federal EGTRRA. *Sponsor: Franchise Tax Board*	Chapter 34, Statutes of 2002
SB 728 (Machado) Intro 2/23/01	State employee members of CalSTRS	Ratifies collective bargaining agreements and temporarily reduces member contributions rates to specified state members of CalSTRS and CalPERS. *Sponsor: Department of Personnel Administration*	Chapter 14, Statutes of 2002

Initiative	Subject	Summary/Benefit(s)	Chapter # or Status
SB 1020 (Escutia) Intro 2/23/01	Increased school year	Would have offered fiscal incentives to schools to increase the school year in grades seven and eight and either grade six or nine by 20 days, or other specified days and hours for year round schools.	Died in Assembly
SB 1256 (Brulte) Intro 1/9/02	Federal tax law conformity	Among other things, would have conformed California law to the retirement plan provisions of the federal EGTRRA.	Died in Senate
SB 1315 (Sher) Intro 1/24/02	Prescription drug purchasing pool	Requires specified agencies to join a statewide pool to purchase prescription drugs at a reduced cost and permits other state agencies, such as CalSTRS, to participate in the pool. *Sponsor: California Public Interest Research Group*	Chapter 483, Statutes of 2002
SB 1318 (Karnette) Intro 1/24/02	Employer-paid member contributions	Allows an employer to pay all or part of a member's contributions to the DB and DBS Programs. *Sponsor: United Teachers of Los Angeles*	Chapter 115, Statutes of 2002
SB 1527 (Burton) Intro 2/20/02	Accountants	Would have required a California accountancy firm to certify that it will not perform non-audit services for a publicly-traded audit client, other than tax preparation and SEC document review.	Died in Assembly
SB 1580 (Burton) Intro 2/20/02	Teachers' Retirement Board	Requires 3 members of the Board who currently are appointed by the Governor to represent active CalSTRS members to be elected by the membership. Requires all Governor appointments be approved by the Senate. *Sponsor: CFT*	Chapter 1049, Statutes of 2002
SB 1746 (Polanco) Intro 2/21/02	Elected officials as appointees to public retirement boards	Expresses legislative intent to permit an elected official of a local agency to be appointed to a California public retirement board if he or she otherwise meets the specified requirements. *Sponsor: Author*	Chapter 289, Statutes of 2002
SB 1983 (Soto) Intro 2/22/02	Options 6 & 7	Modifies Options 6 and 7, changes calculation of post-retirement earnings limits and authorizes CalSTRS investments in employer surplus and real property. *Sponsor: CalSTRS, CTA*	Chapter 903, Statutes of 2002
SCA 2 (Burton) Intro 1/23/01	Annual Budget Act	Would have required CalSTRS and CalPERS support expenditures be approved in the annual Budget Act beginning in 2003-04 and authorizes the Governor and Legislature to request an independent actuarial review of CalSTRS and CalPERS.	Died in Senate
SJR 9 (Costa) Intro 3/7/02	Investments in foreign business	Would have requested that Congress identify and prohibit investments in foreign businesses that threaten U.S. national security interests.	Died in Senate
SR 22 (Dunn) Intro 9/14/01	Investments in wholesale energy	Would have requested that each state agency, including CalSTRS, determine whether to continue investing in any wholesale energy-related business that has refused to comply with a subpoena issued by a specified Senate Select Committee.	Died in Senate

2001 STATE LEGISLATION (2001-02 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 135 (Havice) Intro 1/23/01	Purchasing Power Protection	Increases purchasing power protection from 75 percent to 80 percent. *Sponsor: ACSA*	Chapter 840, Statutes of 2001
AB 607 (Negrete McLeod) Intro 2/22/01	Career Factor	Would have increased 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. Provisions deleted and replaced with provisions to ratify memorandum of understanding between the State and state employees. *Sponsor: Department of Personnel Administration*	Chapter 364, Statutes of 2001; effective 9/27/01
AB 804 (Committee on Education) 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 if the individual wants to return to the classroom after 39 months. *Sponsor: Department of Education*	Chapter 734, Statutes of 2001
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. *Sponsor: Department of Personnel Administration*	Chapter 365, Statutes of 2001; 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. *Sponsor: CFT*	Resolution Chapter 66, Statutes of 2001
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. *Sponsor: ACSA*	Chapter 77, Statutes of 2001
SB 191 (Karnette) Intro 2/28/01	Retirement and health benefits	Would have required CalSTRS make annual contributions to members' DBS Program accounts until 7/1/11 based on their years of credited service; pay the Medicare Part B premiums of active and retired DB Program members who are at least 55 years of age; and establish nominal accounts and credit each with $600 per year to pay healthcare insurance premiums for DB Program members who retired before 1/1/01. *Sponsor: California Legislative Council of Professional Engineers*	Died in Senate

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 334 (Ortiz) Intro 2/20/01	Teachers' retirement benefits following reinstatement	Increases benefits for members who retired from service, reinstate and perform creditable service for two years following reinstatement from a prior retirement. (Urgency statute)	Chapter 800, Statutes of 2001; 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 Program members who were former CB Benefit Program participants to purchase their prior CB service credit.	Chapter 802, Statutes of 2001
SB 501 (PE&R) Intro 2/22/01	CalSTRS Technical Housekeeping	Makes a variety of technical changes to the Teachers' Retirement Law to improve system administration.	Chapter 803, Statutes of 2001
SJR 4 (Soto) Intro 2/21/01	Elimination of the Social Security GPO and WEP	Requests that Congress eliminate the application of the GPO and the WEP on Social Security benefits.	Resolution Chapter 94, Statutes of 2001

2000 STATE LEGISLATION (2000-2001 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 107 (Knox) Intro 12/22/98	Tobacco divestment	Would have prohibited new or additional investments in tobacco companies by 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. *Sponsor: CFT*	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. *Sponsor: California Association of School Business Officials*	Chapter 22, Statutes of 2000; effective 6/1/00
AB 429 (Correa) Intro 2/12/99	Ad hoc payment	Provides ad hoc increase of 1-6% to the annual allowance for current benefit recipients. *Sponsor: CalSTRS*	Chapter 1027, Statutes of 2000
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. *Sponsor: Department of Personnel Administration*	Chapter 402, Statutes of 2000
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% simple cost-of-living adjustment (COLA) to a 2% compounded COLA. *Sponsor: California Federation of Teachers*	Died in Assembly
AB 816 (PER&SS) Intro 2/24/99	CalSTRS Technical Housekeeping	Annual CalSTRS technical housekeeping bill; various technical and conforming changes to the Teachers' Retirement Law. *Sponsor: CalSTRS*	Chapter 1025, Statutes of 2000
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. *Sponsor: California Retired Teachers Association, California Teachers Association*	Chapter 1020, Statutes of 2000
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. *Sponsor: California Federation of Teachers, California Teachers' Association, United Teachers' of Los Angeles*	Chapter 1028, Statutes of 2000

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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 DBS Program.	Chapter 74, Statutes of 2000
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. *Sponsor: California Teachers Association*	Chapter 896, Statutes of 2000
AB 1736 (Ducheny) Intro 1/6/01	Earnings Limit Exemption	Increases the earnings limit to $22,000 and eliminates the post retirement earnings limitation requirement until 2008 for members who return to work after at least one year of retirement.	Chapter 351, Statutes of 2000
AB 1933 (Strom-Martin) Intro 2/15/00	Longevity Bonus	Pays a "longevity bonus" of $200 - $400 per month for members who retire after 2000 and accrue at least 30 years of credited service by 2011. *Sponsor: California Teachers Association*	Chapter 1029, Statutes of 2000
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 2/24/01	Final Compensation; Purchasing Power; Board Elections	Would have calculated final compensation on the highest 12 consecutive months; would have increased retirement formula to 2% at age 55, provided a compounded COLA, increased purchasing power protection from 75% to 80% and required the election of board members to the Teachers' Retirement Board. *Sponsor: California Teachers Association*	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. *Sponsor: CalSTRS*	Chapter 874, Statutes of 2000
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. *Sponsor: Faculty Association of California Community Colleges*	Chapter 897, Statutes of 2000
AB 2700 (Lempert) Intro 2/25/00	Creditable Compensation	Makes all compensation for creditable service creditable to CalSTRS and credits member and employer contributions for service in excess of 1.000 years of service per school year to the DBS Program. *Sponsor: CalSTRS*	Chapter 1021, Statutes of 2000; 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) Intro 3/2/00	CalSTRS retirement formula	Would have increased the retirement formula to 2% at age 55, for CalSTRS members who retire on or after January 1, 2001. *Sponsor: California Federation of Teachers*	Died in Assembly

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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 1/1/00. *Sponsor: California Teacher's Association*	Died in Senate
SB 318 (Burton) Intro 2/8/99	Repeal of multiple employer restriction in Cash Balance Benefit Program	Would have repealed provisions of current law that prohibit a member of the DB Program employed to perform less than 50% of the full-time equivalent for more than one employer from electing to participate in CB Benefit Program unless all of that member's employers participate in CB Benefit Program. *Sponsor: CalSTRS*	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 county office of education to pay all or part of a member's costs for nonqualified service credit. *Sponsor: CalSTRS*	Died in Senate
SB 1435 (Johnston) Intro 2/7/00	Health Benefits	Requires CalSTRS pay the premium of Medicare Part A for retired members of the DB Program not otherwise eligible for coverage without payment of premium. *Sponsor: CalSTRS*	Chapter 1032, Statutes of 2000
SB 1505 (Burton) Intro 2/15/00	Minimum Allowance Extension	Extends eligibility for the minimum guaranteed allowance paid to CalSTRS members, their option beneficiaries and surviving spouses, in varying amounts according to the member's years of credited service.	Chapter 1026 Statutes of 2000; effective 6/1/00
SB 1666 (Alarcon) Intro 2/22/00	Earnings Limit Exemption	Exempts from the earnings limit a member who retires 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 Preinternship Teaching Program, (b) an alternative certification program, or (c) the School Paraprofessional Teacher Training Program.	Chapter 70, Statutes of 2000
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. *Sponsor: California Retired Teachers Association, California Teachers Association, California Federation of Teachers, Faculty Attempting to Improve Retirement*	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. *Sponsor: California Retired Teachers Association, Association of Retired Teachers, California Teachers' Association, California Federation of Teachers*	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; likewise permits CalSTRS members who work for the State to remain in CalSTRS. *Sponsor: State Department of Education*	Chapter 880, Statutes of 2000

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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. *Sponsor: Author*	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.	Chapter 466, Statutes of 2000
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. *Sponsor: State Controller Kathleen Connell*	Chapter 320, Statutes of 2000
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

1999 STATE LEGISLATION (1999-2000 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 29 (Pacheco) Intro 12/7/98	Suspension and expulsion of pupils	In its original form, would have 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 and no longer affects CalSTRS	Chapter 345, Statutes of 2000
AB 81 (Cuneen) Intro 12/9/98	Income tax credits; donation of teachers to high schools; open enrollment spaces in company-sponsored classes	Would have authorized 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. *Sponsor: Semi-conductor Equipment Manufacturing International*	Died in Assembly
AB 311 (Honda) Intro 2/8/99	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 of the group to which they belong for four-year terms. The terms would have commenced on January 1, 2001 or on January 1, 2002. *Sponsor: California Teachers Association*	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. *Sponsor: CalSTRS*	Chapter 40, Statutes of 1999
AB 596 (Honda) Intro 2/19/99	Purchase of Service Credit	Member purchase of credit for Peace Corps and VISTA service (amended to exclude CalSTRS)	Chapter 834, Statutes of 1999
AB 724 (Dutra) Intro 2/24/99	"Y2K" remediation by state agencies	Y2K remediation by state agencies (amended to exclude CalSTRS)	Chapter 784, Statutes of 1999
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; requires CalSTRS to restore benefits to certain members previously limited by federal law. *Sponsor: CalSTRS*	Chapter 465, Statutes of 1999
AB X12 (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. *Sponsor: CalSTRS*	Resolution Chapter 40, Statutes of 1999

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 73 (Murray) Intro 12/9/98	State contracts	State contracts; participation goals for small businesses (amended to exclude CalSTRS).	Governor Veto (10/10/99)
SB 105 (Burton) Intro 12/10/98	CalSTRS/CalPERS; investments; Northern Ireland	Requires CalSTRS and CalPERS to investigate the extent to which the U.S. and international corporations operate in Northern Ireland. *Sponsor: Author*	Chapter 341, Statutes of 1999
SB 159 (Johnston) Intro 1/7/99	CalSTRS health care benefits	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. *Sponsor: CalSTRS*	Chapter 740, Statutes of 1999
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. *Sponsor: Author*	Chapter 432, Statutes of 1999
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. *Sponsor: CalSTRS*	Chapter 632, Statutes of 1999
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. Also would 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. *Sponsor: California Retired Teachers Association, Association of Retired Teachers, California Teachers Association, California Federation of Teachers, United Teachers of Los Angeles, Faculty Attempting to Improve Retirement, Faculty Association of California Community Colleges, Association of California School Administrators*	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 Teachers' Retirement Law. *Sponsor: CalSTRS*	Chapter 939, Statutes of 1999
SB 1245 (Hayden) Intro 2/26/99	CalSTRS/CalPERS; investments; corporations owing compensation for using slave/forced labor in WWII	Authorizes any World War II slave labor or forced labor victim, or heir of the victim, to bring a court action in California 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 until 12/31/10, on investments in companies that do business in California that owe compensation to victims of slave labor from 1929 to 1945.	Chapter 216, Statutes of 1999

1998 STATE LEGISLATION (1997-1998 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 88 (Baca) Intro 12/30/96	Rule of 85	Would have allowed 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 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)	1) Extends 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) eliminates 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.	Chapter 1006, Statutes of 1998
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.	Chapter 966, Statutes of 1998
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.	Chapter 678, Statutes of 1998
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 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	Makes 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.	Chapter 965, Statutes of 1998

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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 have been provided by LAUSD.	Died in Senate
AB 2804 PER&SS Intro 3/12/98	Public retirement systems benefits	Reamortizes the unfunded liability over 30 years; provide 65 percent of Elder Full Funding to pay for benefits.	Chapter 967, Statutes of 1998
SB 1021 (PE&R Committee) Intro 2/27/97	Federal compliance; pension simplification	Amends the TRL to bring CalSTRS into compliance with federal changes applicable to the CalSTRS DB Program enacted by Congress under the Pension Simplification Act of 1996 and Taxpayers Relief Act of 1997. Sponsor: CalPERS	Chapter 1074, Statutes of 1998
SB 1486 (Rainey) Intro 2/4/98	CalSTRS Benefits	Under specified circumstances, authorizes a retired member to designate a spouse as his or her new option beneficiary.	Chapter 262, Statutes of 1998
SB 1528 (Schiff) Intro 2/10/98	CalSTRS health insurance	Authorizes the Board to study providing health care benefits to members and families. *Sponsor: California Retired Teachers Association*	Chapter 968, Statutes of 1998
SB 1945 (Karnette) Intro 2/19/98	CalSTRS benefits	Establishes 100% financing in Member Home Loan Program. *Sponsor: Author, CalSTRS*	Chapter 419, Statutes of 1998
SB 2047 (Lewis) Intro 2/20/98	CalSTRS benefits	Adds Option 8 to allow for multiple option beneficiaries and modifies existing options, as specified. *Sponsor: Author, CalSTRS*	Chapter 349, Statutes of 1998
SB 2085 (Burton) Intro 2/20/03	CalSTRS Cash Balance Program	Merges the CalSTRS Cash Balance and Defined Benefit Plans and renames both plans the "State Teachers' Retirement Plan". The bill deletes the Cash Balance Fund and requires contributions, earnings, and any other amounts provided under the Cash Balance Plan to be deposited in the Teachers' Retirement Fund. The bill also deletes the Cash Balance Plan Expense Account and authorizes all administrative costs of the Cash Balance Benefit Program from the Teachers' Retirement Fund. Pursuant to the merger, the $1 million loan from the Defined Benefit Plan for the initial phase of the Cash Balance Plan is discharged.	Chapter 1048, Statutes of 1998
SB 2126 (Schiff) Intro 2/20/98	CalSTRS benefits	Modifies SB 1027/1997 regarding the purchase of permissive and out-of-state service credit, as specified; permits the purchase of "nonqualified" service. *Sponsor: CalSTRS*	Chapter 1076, Statutes of 1998
SB 2224 (Alpert) Intro 2/20/98	CalSTRS benefits	Provides for the return to an unmodified allowance for certain members, as specified. *Sponsor: California Retired Teachers Association*	Chapter 832, Statutes of 1998

1997 STATE LEGISLATION (1997-1998 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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.	Chapter 1, Statutes of 1997; retroactive to 7/1/96
AB 206 (Hertzberg) Intro 2/4/97	Citizen complaints to the State via the Internet	Requires state agencies to make available on their Internet Web sites, on or before 7/1/98, a plain-language form through which California residents can register complaints relating to the performance of that agency and requires agencies to provide certain information.	Chapter 416, Statutes of 1997
AB 373 (Morrissey) Intro 2/4/97	Extension of Post-Retirement Earnings Limit Exemption (Golden Handshake)	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. *Sponsor: Orange County Department of Education*	Merged with AB 686; Chapter 572, Statutes of 1997
AB 686 (Baugh) Intro 2/26/97	Establish classification of 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 Program 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. *Sponsor: Orange County Department of Education*	Chapter 572, Statutes of 1997
AB 884 (Honda) Intro 2/27/97	Compounded COLA	Would have revised compounding of "2% improvement factor" applied to benefit payments from the CalSTRS DB Program shall be compounded. *Sponsor: California Federation of Teachers*	Died in Senate
AB 885 (Honda) Intro 2/27/97	Teachers' Retirement Board	Would have required that the four "teacher" members of the Board be elected to the Board from their respective constituencies, rather than appointed by the Governor. *Sponsor: California Teachers Association*	Governor Veto (9/29/97)
AB 1421 (Lempert) Intro 2/28/97	Nonmember spouse final compensation	Would have amended the TRL to 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 proposed a similar change to CalPERS Law.	Died in Assembly
AB 1597 (PER&SS Committee) Intro 3/20/97	CalSTRS Technical Housekeeping	Would have made various technical and conforming changes to the TRL and 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. *Sponsor: CalSTRS*	Governor Veto (10/10/97); Author agreed to pursue next legislative session

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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.	Chapter 91, Statutes of 1997
SB 227 (Solis) Intro 1/30/97	CalSTRS/CalPERS elections; Chancellor's Office employee, change in status	1) Permits members of CalSTRS who are employed by a community college district and subsequently become employed by a state agency, as specified, requiring 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; CalPERS would transfer the actuarial present value of the assets of the person to CalSTRS. *Sponsor: Chancellor's Office, California Community Colleges*	Chapter 838, Statutes of 1997
SB 471 (Burton) Intro 2/19/97	CalSTRS Technical Housekeeping	Makes minor technical changes to the definition of "compensation," and related technical changes to other sections of the TRL. *Sponsor: CalSTRS*	Chapter 482, Statutes of 1997
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. *Sponsor: United Teachers of Los Angeles*	Chapter 386, Statutes of 1997
SB 1026 (Schiff) Intro 2/27/97	75 percent Purchasing Power Protection	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; allows the Board to a) transfer funds from the TRF; b) increase employer contributions; c) decrease the benefit when the 2.5 percent annual General Fund contribution is insufficient to support 75 percent purchasing power. *Sponsor: California Retired Teachers Association, Association of Retired Teachers, California Teachers Association, California Federation of Teachers*	Chapter 939, Statutes of 1997
SB 1027 (Schiff) Intro 2/27/97	Member redeposit of nonmember spouse refund; out-of-state service credit	Authorizes members of CalSTRS to redeposit contributions withdrawn by a nonmember spouse and purchase additional service credit for out-of-state public school employment without any date restriction. *Sponsor: CalSTRS*	Chapter 569, Statutes of 1997

1996 STATE LEGISLATION (1995-1996 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 166 (Cannella) Intro 1/19/95	Medicare	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. *Sponsor: California Teachers' Association*	Chapter 318, Statutes of 1996; 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. *Sponsor: California Retired Teachers' Association*	Died in Assembly
AB 850 (Morrissey) Intro 2/22/95	Federal tax compliance	As an urgency measure, adds provisions to the Revenue and Taxation Code that "qualified retirement income" from sources within California 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 California will still remain subject to tax on their California earnings.	Chapter 506, Statutes of 1996; effective 7/1/96
AB 978 (Thompson) Intro 2/23/95	Education Code Revision	Would have established a 21 member commission on 1/1/97 to revise the Education Code; 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 the commission would be required to submit a recommended revised Education Code to the Legislature by 1/1/98. *Sponsor: 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. CalSTRS pursued an urgency measure in January `98 to correct the double-joining problem. *Sponsor: Association of Low Wealth Schools*	Chapter 948, Statutes of 1996; (never became operative)
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. *Sponsor: United Teachers of Los Angeles*	Died in Assembly
AB 2400 (Miller) Intro 2/16/96	Local retirement systems	Deletes specific prohibitions in PERS law regarding classified school employee 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. *Sponsor: School Services of California, Inc.*	Chapter 1164, Statutes of 1996

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 2673 (Ducheny) Intro 2/22/96	Cash Balance Benefit Program; Technical Housekeeping	As an urgency measure, amends the CB Benefit Program statutes as necessary to facilitate employers' "option" to offer the Program. 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. *Sponsor: CalSTRS*	Chapter 608, Statutes of 1996; 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. *Sponsor: CalSTRS*	Chapter 1165, Statutes of 1996
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. *Sponsor: CalSTRS*	Chapter 383, Statutes of 1996
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. *Sponsor: Author*	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. *Sponsor: California Teachers' Association*	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 Board members and their agents and employees.	Died in Committee

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 168 (Hughes) Intro 1/30/95	Teachers' Retirement Board	Would have required that the four "teacher" members of the Board be elected from their respective constituencies rather than appointed by the Governor. *Sponsor: Association of Retired Teachers, California Teachers' Association*	Bill withdrawn by author
SB 471 (Dills) Intro 2/17/95	Health Insurance	Would have authorized the Board to contract for health insurance, including vision and dental care to members, beneficiaries, children and dependent parents. *Sponsor: California Retired Teachers' Association*	Died in Assembly
SB 747 (Hughes) Intro 2/23/95	Purchasing Power Protection	Would have required the Board 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. *Sponsor: Association of Retired Teachers, California Retired Teachers Association, Association of California School Administrators*	Bill withdrawn by author
SB 1517 (Johnston) Intro 2/13/96	Federal tax compliance	Would have added provisions to the California Revenue and Taxation Code to specify that, for state income tax purposes, qualified retirement income from a source within California 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 amended and no longer impacts CalSTRS.	Inactive File
SB 1658 (Costa) Intro 2/21/96	Options Benefit Survey	Would have required the Board 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 Board agreed to conduct the survey without legislation. Note: At the request of the sponsor, the Board agreed at its July `96 meeting to conduct the survey without legislation during 1997. *Sponsor: California Retired Teachers Association.*	Died in Senate
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. *Sponsor: CalPERS, 37 Act Counties*	Chapter 680, Statutes of 1996
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. *Sponsor: California Federation of Teachers*	Died in Senate
SB 2041 (Hughes) Intro 2/23/96	CalSTRS Technical Housekeeping	Makes technical and conforming changes made necessary by enactment of the CB Benefit Program and the new definition of member. *Sponsor: CalSTRS*	Chapter 634, Statutes of 1996
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. *Sponsor: Board of Control*	Chapter 487, Statutes of 1996

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SJR 27 (Costa) Intro 5/26/95	Sale of Elk Hills	Memorializes the President and 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 compensate California's retired teachers for their 9% interest in the Reserve upon its sale. *Sponsor: California Retired Teachers' Association, SLC*	Chapter 68, Statutes of 1996
SR 16 (Killea) Intro 2/16/95	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 # or Status
AB 107 (Boland) Intro 1/9/95	Los Angeles School District Reorganization	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).	Chapter 267, Statutes of 1995
AB 948 (Gallegos) Intro 2/22/95	Post-retirement Earnings Limit Exemption; 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. *Sponsor: CalSTRS, Association of California School Administrators*	Chapter 394, Statutes of 1995; effective 7/1/95
AB 1122 (Cannella) Intro 2/23/95	Minimum standards for full-time employment	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. *Sponsor: CalSTRS*	Chapter 390, Statutes of 1995; effective 7/1/96
AB 1298 (Ducheny, et al) Intro 2/23/95	Cash Balance Program	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' CB Benefit Program qualifies as an alternative retirement plan to Social Security. *Sponsor: CalSTRS*	Chapter 592, Statutes of 1995

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 1441 (Horcher) Intro 2/24/95	Survivor benefits, pre-retirement options modifications	1) Eliminates 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 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. *Sponsor: CalSTRS*	Chapter 524, Statutes of 1995
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).	Chapter 412, Stautes of 1995
SB 791 (Hughes) Intro 2/23/95	Federal compliance; 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. *Sponsor: CalPERS, CalSTRS, State Association of County Retirement Systems*	Chapter 829, Statutes of 1995; effective 7/1/96

1994 STATE LEGISLATION (1993-1994 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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. *Sponsor: Professional Engineer's in California Government, Association of California State Attorneys & Administrative Law Judges, California Association of Highway Patrolmen, California Department of Forestry Employee Association and Orange County Employee Association*	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. *Sponsor: Authors*	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 does not require action by CalSTRS. *Sponsor: Author*	Chapter 46, Statutes of 1994
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. *Sponsor: Mr. Nelson Mandela, President, African National Congress*	Chapter 31, Statutes of 1994; effective 3/31/94
AB 2512 (Epple) Intro 1/13/94	Extended Service Retirement 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. *Sponsor: California Teachers' Association*	Governor Veto (9/30/94)
AB 2550 (Karnette) Intro 1/19/94	Repeal of Administrative Refund fee	Repeals law requiring CalSTRS to charge administrative fees for processing member requests for a refund of member contributions; permits certain refunds to be canceled and membership restored. *Sponsor: CalSTRS*	Chapter 932, Statutes of 1994

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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 Program; and 2) requires the employer to return overpaid contributions to the member within 60 days of discovery or notification of the overpayment. *Sponsor: California Council for Adult Education*	Chapter 507, Statutes of 1994
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 and so the Board agreed to undertake the study using its own resources. *Sponsor: California Teachers' Association, CalSTRS*	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. *Sponsor: Author*	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. *Sponsor: California State Employees' Association, Bargaining Unit 21*	Governor Veto (9/11/94)
AB 3064 (Morrow) Intro 2/22/94	Tax Sheltered Annuity Program	Requires CalSTRS to offer a TSA program, as specified. *Sponsor: Association of California School Administrators, CalSTRS*	Chapter 291, Statutes of 1994
AB 3171 (Napolitano) Intro 2/23/94	CalSTRS Technical Housekeeping	As an urgency measure, makes various minor, corrective and technical changes to the TRL related primarily to the 1993 recodification. *Sponsor: CalSTRS*	Chapter 933, Statutes of 1994; 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. *Sponsor: Association of California School Administrators, CalSTRS*	Chapter 656, Statutes of 1994

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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. *Sponsor: Department of Education*	Chapter 1002, Statutes of 1994; 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. *Sponsor: California Teachers' Association, CalSTRS*	Chapter 489, Statutes of 1994
AB 3832 (PER&SS) Intro 3/16/94	Full-time; definition	Codifies the definition of "full-time" as a distinct code section, separate from the definition of "compensation earnable." *Sponsor: CalSTRS*	Chapter 193, Statutes of 1994
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. *Sponsor: California Retired Teachers' Association*	Governor Veto (9/30/94)
SB 277 (Hughes) Intro 2/12/93	Teachers' Retirement Board	Would have required that the four CalSTRS members of the Board 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 Board who have fulfilled those obligations; and, an elected Board should represent interests of the entire system, not individual constituencies. *Sponsor: Association of Retired Teachers*	Governor Veto (9/25/94)
SB 586 (Hughes) Intro 3/1/93	75% Purchasing Power Protection	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. *Sponsor: California Retired Teachers' Association*	Chapter 858, Statutes of 1994
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. *Sponsor: CalSTRS*	Chapter 20, Statutes of 1994; effective 3/16/94

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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.	Chapter 30, Statutes of 1994; 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. *Sponsor: Dymally, Ernest & Fair*	Chapter 1084, Statutes of 1994
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. *Sponsor: California Teachers' Association*	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. *Sponsor: CalPERS, CalSTRS*	Chapter 1281, Statutes of 1994; 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 California 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.

1993 STATE LEGISLATION (1993-1994 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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 California Attorney General has concluded that this bill is pre-empted by federal law and therefore not subject to implementation by CalSTRS. *Sponsor: Author*	Chapter 439, Statutes of 1993
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. *Sponsor: Margolin*	Chapter 440, Statutes of 1993
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 General Fund 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. *Sponsor: CalSTRS*	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. *Sponsor: CalSTRS*	Chapter 861, Statutes of 1993; 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. *Sponsor: California Teachers' Association*	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. *Sponsor: CalSTRS*	Chapter 468, Statutes of 1993

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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.	Chapter 1083, Statutes of 1993
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. *Sponsor: California State Employees' Association*	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. *Sponsor: Author*	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. *Sponsor: CalSTRS*	Chapter 920, Statutes of 1993
AB 1796 (Napolitano) Intro 3/5/93	TRL Recodification	Recodifies the TRL; makes structural changes only. *Sponsor: CalSTRS*	Chapter 893, Statutes of 1993
AB 2278 (Tucker) Intro 3/5/93	CalSTRS Technical Housekeeping	Makes technical, corrective and clarifying changes in various TRL provisions. *Sponsor: CalSTRS*	Chapter 1082, Statutes of 1993
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.	Chapter 1187, Statutes of 1993
SB 77 (Appropriations Committee) Intro 1/7/93	"Float" Suit	As an urgency measure, makes a General Fund 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.	Chapter 699, Statutes of 1993; effective 10/2/93

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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. *Sponsor: California Teachers' Association*	Governor Veto (10/9/93)
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. *Sponsor: California Teachers' Association*	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 Board. 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. *Sponsor: United Teachers of Los Angeles*	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. *Sponsor: California Federation of Teachers, CalSTRS*	Chapter 860, Statutes of 1993; 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. *Sponsor: California Retired Teachers' Association*	Chapter 911, Statutes of 1993

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 857 (PE&R Committee) 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. *Sponsor: CalSTRS*	Chapter 1144, Statutes of 1993

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 California students 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, would have a negative impact on the funding period at CalSTRS.

1992 STATE LEGISLATION (1991-1992 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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.	Chapter 1329, Statutes of 1992
AB 1074 (Epple) Intro 3/5/91	Extend Service Retirement 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. *Sponsor: California Teachers' Association*	Governor Veto (7/20/92)
AB 1399 (Eaves) Intro 3/7/91	Defined Contribution Study	Would have required the Board to conduct a study of defined contribution benefits and establish a defined contribution "account" that complies with IRC section 415 requirements. *Sponsor: Association Of California Life Insurance*	Died in Senate
AB 1522 (Campbell, et al) Intro 3/7/91	Additional service credit	As an urgency measure, authorizes the Trustees of the California 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. *Sponsor: California State University*	Chapter 450, Statutes of 1992; effective 8/7/92
AB 1719 (Horcher) Intro 3/8/91	Community property non-probate transfers	Amends various provisions of the Probate Code relating to the non-probate transfer of community property, including transfers of property under the terms of a pension plan. *Sponsor: California Law Revision Commission*	Chapter 51, Statutes of 1992

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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.	Chapter 1351, Statutes of 1992
AB 2282 (Elder) Intro 1/6/92	Member Home Loans	Would have required the Board 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 California Constitution and other statues to which the Board 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.)	Chapter 1238, Statutes of 1992; 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 Assembly
AB 2538 (Moore) Intro 2/6/92	Family Care Leave	Allows members 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.	Chapter 1272, Statutes of 1992

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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)
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.	Chapter 1047, Statutes of 1992
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.	Chapter 703, Statutes of 1992; 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.	Chapter 781, Statutes of 1992
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.	Chapter 1158, Statutes for 1992
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 California 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.	Chapter 1165, Statutes of 1992; effective 9/30/92

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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.	Chapter 1166, Statutes of 1992; effective 10/16/92
SB 1886 (C. Green) Intro 2/21/92	CalSTRS Disability; "Betts"	Makes various changes to CalSTRS' disability program: 1) technical revisions 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; 3) allows members to apply for disability while still working.	Chapter 1167, Statutes of 1992
SB 1887 (C. Green); Extraordinary Session Intro 2/21/92	State employees; personal leave program service credit; final compensation	Urgency measure: 1) Allows state employee CalSTRS members subject to the personal leave program to be credited with the service they would have received prior to being placed under this program; and 2) provides that, for non-represented 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.	Chapter 1372, Statutes of 1992, effective 10/27/92
SB 1902 (Johnston, et al) Intro 2/21/92	Health Benefits Study	Would have required the Board 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 California residential realty.	Chapter 540, Statutes of 1992; 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.	Chapter 431, Statutes of 1992; 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 Board 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. Effective 12/14/92

1991 STATE LEGISLATION (1991-1992 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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, if amended" position; however, suggested amendments were never adopted into the bill. *Sponsor: California Labor Federation*	Chapter 462, Statutes of 1991
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; 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; there were no requirements over the life of the early retirement program to reflect any cost savings to the program. *Sponsor: California Teachers' Association, Association of California School Administrators*	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 # or 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 General Fund to the TRF instead of monthly contributions, commencing 10/1/91.	Chapter 83, Statutes of 1991; 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.	Chapter 308, Statutes of 1991
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. *Sponsor: California Federation of Teachers, Faculty and Administration of California Community Colleges*	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. *Sponsor: California Teachers' Association*	Governor Veto (10/2/91)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 1171 (PE&R) Intro 3/8/91	CalSTRS 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. *Sponsor: CalSTRS*	Chapter 543, Statutes of 1991
SB 1173 (PE&R) Intro 3/8/91	State employees; embers of 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 # or 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. *Sponsor: United Teachers of Los Angeles, California Teachers' Association*	Chapter 83, Statutes of 1990; 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.	Chapter 11, Statutes of 1990
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.	Chapter 831, Statutes of 1990
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. *Sponsor: California Teachers' Association*	Chapter 996, Statutes of 1990; 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," therefore, petition the court to divide the retirement benefit as community property.	Chapter 1390, Statutes of 1990
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. *Sponsor: Long Beach Unified School District*	Chapter 903, Statutes of 1990
AB 4129 (Hughes) Intro 3/2/90	CalSTRS Technical Housekeeping	Makes technical, corrective and clarifying changes in various provisions of the TRL. *Sponsor: CalSTRS*	Chapter 560, Statutes of 1990
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.	Chapter 1201, Statutes of 1990; effective 9/22/90

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 53X (Elder) Intro 11/3/89	CalSTRS/CalPERS 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. *Sponsor: Santa Cruz County*	Chapter 35X, Statutes of 1990
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. *Sponsor: California Retired Teachers' Association*	Chapter 50, Statutes of 1990
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. *Sponsor: California Retired Teachers' Association*	Chapter 100, Statutes of 1990
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. *Sponsor: California Retired Teachers' Association*	Chapter 97, Statutes of 1990
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.	Chapter 709, Statutes of 1991
SB 1370 (C. Green, et al) Intro 3/9/89	Elder Full Funding Act	As an urgency measure, revises the annual General Fund contribution to CalSTRS to a level that provides full funding of normal cost and provides for the amortization of the CalSTRS unfunded obligation. *Sponsor: California Retired Teachers' Association*	Chapter 460, Statutes of 1990; 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.	Chapter 1172, Statutes of 1990
SB 2473 (C. Green) Intro 2/28/90	General Fund Contributions	Repeals the provision requiring the State General Fund to contribute .25 percent of CalSTRS' member salaries for the conversion of unused sick leave to CalSTRS credit and makes the contribution the responsibility of the employer.	Chapter 876, Statutes of 1990
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.	Resolution Chapter 131, Statutes of 1990

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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.	Resolution Chapter 113, Statutes of 1990

1989 STATE LEGISLATION (1989-1990 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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.	Chapter 1004, Statutes of 1989
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 Board and certain CalSTRS employees.	Chapter 542, Statutes of 1989
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. *Sponsor: 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.) *Sponsor: Untied Teachers of Los Angeles*	Chapter 1184, Statutes of 1989
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: CalSTRS has no role in any such election, nor would it affect any CalSTRS benefits. *Sponsor: California Teachers' Association*	Chapter 1006, Statutes of 1989

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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. *Sponsor: Untied Teachers of Los Angeles*	Governor Veto (9/16/89)
AB 1284 (Quackenbush) Intro 3/3/89	CalSTRS/CalPERS; Chief Investment Officer issues	Authorizes the Board 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.	Chapter 177, Statutes of 1989
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 that incorporate in California to divide their board of directors into two or three classes to serve terms of two or three years. It also allows 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.	Chapter 876, Statutes of 1989
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 with which the retirement system's assets are invested adhere to the principles of nondiscrimination and freedom of workplace opportunity; and 2) whenever feasible, sponsor, co-sponsor, or support shareholder resolutions designed to encourage corporations in which the system has invested to pursue a policy of affirmative action in NI. *Sponsor: American Irish Political Education Committee*	Governor Veto (9/26/89)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 683 (C. Green) Intro 2/27/89	Workload balancing programs; spousal signature requirements	Authorizes governing boards of Community College districts to adopt workload balancing programs, subject to the TRL, for certificated employees; requires a spousal signature to withdraw CalSTRS annuity deposits. *Sponsor: Faculty and Administration of California Community Colleges*	Chapter 270, Statutes of 1989
SB 684 (C. Green) Intro 2/27/89	Scientific surveys of CalSTRS membership	Would have required 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. *Sponsor: California Teachers' Association*	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.	Chapter 327, Statutes of 1989
SB 751 (Royce) Intro 3/1/89	CalSTRS Technical Housekeeping	Makes technical, corrective and clarifying changes in various provisions of the TRL. *Sponsor: CalSTRS*	Chapter 118, Statutes of 1989
SB 915 (McCorquodale) Intro 3/6/89	Investments; corporate governance center	Would have established the California Center for Corporate Research to facilitate the study and understanding of issues concerning corporate governance and shareholder rights. Governor determined 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 California, 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. *Sponsor: California Federation of Teachers*	Chapter 227, Statutes of 1989
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 California 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.	Chapter 1338, Statutes of 1989; effective 10/2/89

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 1407 (C. Green, et al) Intro 3/9/89	SBMA; purchasing power; annual transfer from General Fund	Establishes funding mechanism, the Supplemental Benefit Maintenance Account, requiring an annual transfer from the General Fund to restore purchasing power of CalSTRS benefits. Amount transferred to increase annually to a maximum of 2.5 percent of the statewide teacher payroll. This bill was double-joined with SB 1513.	Chapter 115, Statutes of 1989
SB 1513 (W. Campbell, et al) Intro 3/10/89	SBMA; purchasing power adjustments	Requires annual distribution of the proceeds of the SBMA, in non-vested 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. *Sponsor: California Retired Teachers' Association*	Chapter 116, Statutes of 1989
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 # or 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. *Sponsor: California Retired Teachers' Association*	Chapter 985, Statutes of 1988
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.	Chapter 743, Statutes of 1988
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 California 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. *Sponsor: California Federation of Teachers*	Governor Veto (9/29/88)
AB 2874 (Elder) Intro	Investments; reporting requirements	Requires the Board to submit to the Legislature, by November 1 of each year, a report of the un-audited investment data compiled for the preparation of the annual report required in Education Code Section 22308.	Chapter 902, Statutes of 1988; effective 1/1/89
AB 2882 (Elder) Intro 1/28/88	One-year final compensation for 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. *Sponsor: California Teachers' Association, United Teachers of Los Angeles*	Governor Veto (9/30/88)

Initiative	Subject	Summary / Benefit(s)	Chapter # or 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. *Sponsor: United Teachers of Los Angeles*	Chapter 688, Statutes of 1988
AB 2890 (Elder) Intro 1/28/88	Modify Member Home Loan Program	Authorizes the Board to add owner-occupied 2-4 family dwellings to the CalSTRS Member Home Loan Program.	Chapter 408, Statutes of 1988
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. *Sponsor: California Retired Teachers' Association*	Chapter 792, Statutes of 1988
AB 3194 (Elder) Intro 2/10/88	Teachers' Retirement 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. *Sponsor: Association of Retired Teachers*	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. *Sponsor: California State Employees' Association*	Chapter 370, Statutes of 1988
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. The Governor determined that funding this program would divert funds from the classroom; adding early incentives for retirement to experienced educators with many productive years of service remaining in their careers is contrary to predictions of teacher shortages; and, it places retirees in a position to require purchasing power protection earlier than normal. *Sponsor: 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).	Chapter 380, Statutes of 1988

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 3887 (Grisham) Intro 2/18/88	CalSTRS 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 Board may contract with investment managers to monitor and advise the Board 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. *Sponsor: CalSTRS*	Chapter 382, Statutes of 1988
AB 4095 (Elder) Intro 2/19/88	CalSTRS/CalPERS; fiduciary standards review	Requires the Board 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.	Chapter 241, Statutes of 1988
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. *Sponsor: National Association of Securities Dealers*	Chapter 716, Statutes of 1988
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. *Sponsor: Association of Retired Teachers*	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.	Chapter 542, Statutes of 1987; 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. *Sponsor: Senate Commission of Corporate Governance, Shareholder Rights and Securities Transactions*	Chapter 1360, Statutes of 1988

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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. *Sponsor: 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.	Chapter 462, Statutes of 1988; effective 8/22/88
SB 2082 (Royce) Intro 2/12/88	Membership qualifications for substitutes and part-time employees	Requires 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 become members on the first day of the following pay period. *Sponsor: Orange County Office of Education*	Chapter 497, Statutes of 1988
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. *Sponsor: Senate Commission of Corporate Governance, Shareholder Rights and Securities Transactions*	Chapter 265, Statutes of 1988; 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. *Sponsor: Senate Commission of Corporate Governance, Shareholder Rights and Securities Transactions*	Chapter 1339, Statutes of 1988
SB 2648 (Kopp) Intro 2/19/88	Clarifying statute; errors and omissions	Clarifies the statutes pertaining to the correction of errors and omissions. *Sponsor: CalPERS*	Chapter 1089, Statutes of 1988
SB 2680 (C. Green) Intro 2/19/88	Spousal signature on disbursements	Would have required a spousal signature on forms for applications to withdraw CalSTRS accumulated annuity deposit contributions; and authorized governing boards of community college districts to adopt workload balancing programs for certificated employees, as specified. *Sponsor: Faculty and Administration of California Community Colleges*	Governor Veto (9/23/88)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
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. *Sponsor: California Retired Teachers' Association*	Chapter 739, Statutes of 1988

1987 STATE LEGISLATION (1987-1988 Legislative Session)

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 165 (Stirling) Intro 12/29/86	Ancillary benefit disclosure requirements	Requires each quarterly supplemental benefit maintenance payment be accompanied by a specified statement regarding the contingent nature of those payments.	Chapter 123, Statutes of 1987
AB 763 (Frizzelle) Intro 2/19/87	Determining creditable and non-creditable earnings	1) Authorizes the Board 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.	Chapter 76, Statutes of 1987
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. *Sponsor: Association of California School Administrators, California Teachers' Association*	Chapter 601, Statutes of 1987
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 California residential realty; and 4) moved this provision from the Financial Code to the Education Code. *Sponsor: Variable Annuity Life Insurance Company*	Chapter 416, Statutes of 1987
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. *Sponsor: Variable Annuity Life Insurance Company*	Chapter 1419, Statutes of 1987
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 pre-retirement 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. *Sponsor: California Federation of Teachers*	Governor Veto (9/27/87)
AB 2042 (Hughes) Intro 3/6/87	Post-retirement benefit increases; service retirement	Defines the initial effective date for purposes of applying post-retirement benefit increases when a disability allowance is converted to a service retirement allowance.	Chapter 327, Statutes of 1987

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
AB 2042 (Hughes) Intro 3/6/87	Post-retirement benefit increases; service retirement	Defines the initial effective date when applying post-retirement benefit increases at the time a disability allowance is converted to a service retirement allowance.	Chapter 327, Statutes of 1987
AB 2192 (Grisham) Intro 3/6/87	CalSTRS 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.	Chapter 330, Statutes of 1987
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. *Sponsor: California Newspaper Publishers*	Chapter 1320, Statutes of 1987
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.	Chapter 373, Statutes of 1987; effective 1/1/88
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.	Chapter 1312, Statutes of 1987; effective 1/1/88
SB 998 (Hart) Intro 3/4/87	Education Code Housekeeping	Major clean-up of non-substantive items in the Education Code.	Chapter 1452, Statutes of 1987; effective 1/1/88
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.	Chapter 376, Statutes of 1987; effective 1/1/88
SB 1131 (McCorquodale) Intro 3/5/87	Teachers' Retirement Board; Community College member	Provides reimbursement to a Community College district for the cost of a replacement instructor when the regular instructor, while serving as an appointed Board member, is on official System business.	Chapter 1395, Statutes of 1987; effective 1/1/88
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. *Sponsor: Commission of Corporate Governance, Shareholder Rights and Securities Transactions*	Chapter 408, Statutes of 1987; effective 1/1/88

Initiative	Subject	Summary / Benefit(s)	Chapter # or Status
SB 1464 (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. *Sponsor: Commission of Corporate Governance, Shareholder Rights and Securities Transactions*	Chapter 627, Statutes of 1987; effective 1/1/88

GLOSSARY

Glossary

Active Member (Previously "Member")
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
Actuarial investigation of the plan's experience examining the factors influencing the cost of a retirement plan; it includes economic factors such as inflation, return on investment and wage increases, as well as non-economic factors, such as mortality and rates of retirement and is the basis for adopting valuation assumptions

Actuarial gains and losses
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
Long-term annual rate of return of investment assumed in the valuation; the actuarially assumed rate of return for the June 30, 2004, valuation was 8 percent

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

Actuarial valuation
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
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
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 may be included in the base for future COLAs

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

Amortization rate
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
Reserve established within the Teachers' Retirement Fund to which assets from a member's Defined Benefit Supplement Program account, or a participant's Cash Balance Benefit Program 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 the Cash Balance Benefit Program, the amount of money paid monthly to a member, participant or beneficiary

Annuity Beneficiary
Person(s) designated by a member to receive an

annuity under the Defined Benefit Supplement Program upon the death of the member

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

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

Beneficiary
Person(s) or entity(ies) designated by the member to receive an allowance or lump-sum payment under the Defined Benefit Program upon the death or disability of the member; under the Defined Benefit Supplement Program and the Cash Balance Benefit Program it is the person(s) or entit(ies) designated by the member or participant, respectively, to receive a final benefit upon the death of a member or participant

Benefit
Monthly or lump-sum payment made to a retired member, disabled member, retired participant, disabled participant, or beneficiary

Board
Teachers' Retirement Board

California service
Employment service performed in California for which service credit may be given

California State Teachers' Retirement System (CalSTRS)
Agency that administers the California State Teachers' Retirement Plan

Career factor (Previously "Career Bonus"): A 0.2 percentage point increase in the age factor, up to a maximum age factor of 2.4%, for Defined Benefit Program members with 30 or more years of credited service

Cash Balance Benefit Program (CB Benefit Program) (Previously "State Teachers' Retirement System Cash Balance Plan")
Program within the State Teachers' Retirement Plan available to persons employed to perform creditable service for less than 50% of full-time for employers who have elected to offer the program

Certificated
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
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
Annual creditable compensation 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 membership
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 the highest compensation under either system

Concurrent retirement
Simultaneous retirement from the Defined Benefit Program and another specified California public retirement system, 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, if service was not performed concurrently

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 cease

Contribution rate
Percentage of creditable compensation required to be paid by a member, participant, or employer to finance the benefits provided under the State Teachers' Retirement Plan

Cost-of-living adjustment (COLA)
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
Program of disability and family allowances available to persons who were members of the Defined Benefit Program on October 15, 1992 and did not elect Coverage B

Coverage B
Program of disability and survivor benefits available to persons who became members after October 15, 1992, or were members of the Defined Benefit Program on October 15, 1992 and elected Coverage B

Creditable compensation (Previously "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 a 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 beneficiary 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; the rate for 2005-06 is 2.75 percent

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

Death payment
Amount payable to the beneficiary of a member of the Defined Benefit Program or a participant of the Cash Balance Benefit Program, upon the member or participant's death

Defined Benefit Program (DB Program) (Previously "State Teachers' Retirement System Defined Benefit Plan")
Program of coverage available to members who perform creditable service, retire and receive a benefit based upon age, service credit and final compensation

Defined benefit plan
Retirement plan that 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 (DBS Program)
Program that increases, or supplements, the amount payable at retirement to members of the Defined Benefit Program, by the amount in the member's Defined Benefit Supplement Program account

Defined contribution plan
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 (Previously "Disabilitant")
Member of the Defined Benefit Program receiving a disability allowance

Disabled participant
Participant in the Cash Balance Benefit Program receiving a disability benefit

Disability allowance
Amount payable on a monthly basis to a disabled member subject to Coverage A

Disability benefit
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
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 Relief Reconciliation Act of 2001 (EGTRRA)
Federal legislation enacting a number of changes to federal law to enhance the portability of funds among different types of retirement plans, including 401(k), 403(b), 457 plans, IRAs and 401(a) retirement plans; in addition, it increases the contribution limits to 403(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; 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
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
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 benefit
Lump-sum benefit payable to the beneficiary of a member under the Defined Benefit Supplement Program upon the member's death

Final compensation
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 from another California public retirement system, in which case the salary under 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
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 standards for full time as specified in the Education Code

Full-time equivalent (FTE)
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
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 rates 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
Cost, expressed as a level percentage of payroll, of paying the normal cost of services and eliminating the actuarial unfunded obligation over a specified period of time; the sum of the normal cost rate plus the amortization rate

Gain and Loss Reserve
Separate reserve accounts 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 (GPO)
Provision under the Social Security Act, which reduces the Social Security benefits paid to a spouse if the spouse receives a pension based on employment not covered by Social Security

Hybrid plan
Retirement plan having 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; the ultimate benefit to the employee is determined by the rate of return earned by employee and employer contributions and therefore, the plan acts like a defined contribution plan

Improvement factor
Simple increase of 2% 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 beneficiary; more commonly referred to as a cost-of-living adjustment

Inactive member
Member who is not a retired member or a disabled member and has not earned creditable compensation during the school year ending June 30, including members who terminate CalSTRS-covered employment and delay retirement

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
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
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 the member retires

Medicare Premium Payment Program (MPP Program)
Program under which CalSTRS pays the Medicare Part A premiums and applicable late enrollment surcharges for retired Defined Benefit Program members who do not qualify for Medicare Part A coverage on a premium-free basis; the Teachers' Retirement Board has extended coverage to eligible members retiring prior to July 1, 2006; however, CalSTRS cannot pay any late enrollment surcharges for DB Program members who enrolled in Medicare after July 1, 2001

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

Minimum interest rate
Annual rate determined by the Board and credited to employee 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 2004-05, the rate is 5 percent

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

Multiple retirements
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
Cost, expressed as a level percentage of payroll, of current or future service; when a plan or 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
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 participants in the Cash Balance Benefit Program is age 60

Option
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 joint and survivor options, all of which allow the member to name a new option beneficiary if the option beneficiary predeceases the member:

Option 2: Joint and survivor annuity with 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 survivor annuity with 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 survivor annuity with $66^2/_3$ 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 survivor annuity with 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 survivor annuity with 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 "pop up" to the unmodified allowance level.

Option 7: Joint and survivor annuity with 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 or, for members involved in a legal separation or dissolution of marriage provides benefits for former spouses, while keeping an unmodified benefit for the member. A 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 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 beneficiaries in that program

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

Participant
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
Election by a member who is eligible to retire wherein the member elects an option and designates a beneficiary to 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
Final compensation used under Coverage A when the disability allowance or family allowance was computed, increased by 2% 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 a family allowance for an eligible spouse after the death of a member

Projected service
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 a family allowance for an eligible spouse after the death of a member

Purchasing power protection payments
Supplemental payments made to retired members whose current allowance is worth less than 80% of the original allowance, when adjusted for increases in the All Urban California Consumer Price Index; also called supplemental benefit maintenance payments

Registered Domestic Partner
A member of a Registered Domestic Partnership

Registered Domestic Partnership
Established by Chapter 421, Statutes of 2003, effective January 1, 2005, two people registered with the California Secretary of State as Domestic Partners; registered domestic partners must be members of the same sex or one or both of the persons must be over the age of 62

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; for 2005-06 the rate is 4.25 percent

Reinstatement
Termination of a service retirement allowance or disability retirement allowance and establishing status either as an inactive member or an active member

Retired member (Previously "Retirant")
Member receiving a service retirement allowance or a disability retirement allowance

Retired participant
Participant of the Cash Balance Benefit Program who is receiving a retirement benefit in the form of an annuity

Salary
In the Cash Balance Benefit Program, compensation payable in cash by an employer to a participant for

creditable service (similar to creditable compensation for 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
Monthly benefit payable to a member of the Defined Benefit Program upon retirement for reasons other than disability

Single life annuity
Election by a participant 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
Plan of retirement benefits and other ancillary benefits provided through the Defined Benefit Program, the Cash Balance Benefit Program and the Defined Benefit Supplement Program

State Teachers' Retirement System (System)
Department administering 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 80% of the original allowance, when adjusted for increases in the All Urban Consumer Price Index; also called purchasing power protection payments

Survivor allowance
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

System
California State Teachers' Retirement System

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

Teachers' Retirement Board (TRB or Board)
12-member board managing the State Teachers' Retirement System

Teachers' Retirement Fund (TRF)
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 (TRL)
Part 13 of the Education Code, governing administration of the Defined Benefit Program and the Defined Benefit Supplement Program and Part 14 of the Education Code, governing administration of the Cash Balance Benefit Program

Termination benefit
Benefit paid from the employee account and the employer account to a Cash Balance Benefit Program participant, or to a Defined Benefit Program 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
Method under which the actuarial accrued liability is equal to the present value of benefits for service accrued to the valuation date; 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
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 performed in the past; this figure does not include any liabilities incurred

for future service or any assets received in the future; liabilities are based upon anticipated future salary increases 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
Maximum monthly benefit paid to a retired member, which terminates upon the death of that member under the Defined Benefit Program

Valuation assumptions
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 (WEP)
A provision under the Social Security Act, under which an alternative formula is used to determine 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 held jobs where they paid Social Security taxes long enough to become eligible for a Social Security benefit

POPULATION INFORMATION

POPULATION INFORMATION

For Fiscal Year 2004-2005
(As of June 30, 2005)

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TABLE 1

Active Member Characteristics

Fiscal Year Ending June 30	Count	Average Earnable Salary [1]	Average Age	Average Service Credit	Average Service Projected to Age 60
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
2002	442,208	53,113	44.3	10.5	26.2
2003	448,478	54,065	44.3	10.5	26.2
2004	444,680	54,978	44.5	10.7	26.2
2005	450,282	55,900	44.5	10.7	26.2

[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 Year	Average Increase to 2005
1996	336,725	$12,994,673,531	38,591	41,577	1.3	3.3
1997	364,000	14,371,068,403	39,481	42,557	2.4	3.5
1998	385,530	15,725,658,541	40,790	43,766	2.8	3.6
1999	402,220	17,007,886,951	42,285	45,421	3.8	3.5
2000	420,530	18,224,271,726	43,336	46,677	2.8	3.7
2001	428,741	20,494,151,991	47,801	51,478	10.3	2.1
2002	442,208	21,731,775,317	49,144	53,113	3.2	1.7
2003	448,478	22,654,369,277 [2]	50,514 [2]	54,065 [2]	1.8	1.7
2004	444,680	22,589,060,244 [2]	50,798 [2]	54,978 [2]	1.7	1.7
2005	450,282	23,256,622,046	51,649	55,900	1.7	--

	Male	Female	Total
Count	131,764	318,518	450,282
Percent of Total	29.3%	70.7%	100.0%
Average Age	45.6 years	44.8 years	44.5 years
Average Service	11.2 years	10.5 years	10.7 years
Calculated Average Entry Age	34.4 years	34.3 years	33.8 years
Median Entry Age[2]	29.9 years	28.0 years	28.9 years
Average Earnable Salary	$57,265	$55,336	$55,900
Average Accumulated Contributions	$56,315	$49,241	$51,311

[1] Salary that would be paid if members worked on a full-time basis
[2] Total Salary, Average Earned Salary and Average Earnable Salary figures revised in 2005. Previous reported figures included Defined Benefit Supplement Program Extra Service Credit and Limited Term Enhancement earnings.
[3] 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, 2005)

ACTIVE MALE MEMBERS

	Years of Service					
Age	Less Than 1	1-5	6–10	11-15	16-20	21-25
Less than 25	417	539	0	0	0	0
25 to 30	1,375	7,882	408	0	0	0
30 to 35	925	9,145	6,708	151	0	0
35 to 40	772	6,029	7,682	3,236	88	0
40 to 45	632	4,409	4,453	3,804	2,312	67
45 to 50	658	3,842	3,443	2,820	3,334	1,814
50 to 55	610	3,831	3,154	2,483	3,082	2,615
55 to 60	515	3,429	2,759	2,128	2,417	2,051
60 to 65	252	1,838	1,230	993	1,028	712
65 to 70	127	701	411	245	258	157
70 and over	70	407	166	87	76	49
Age Unknown	1	3	0	0	0	0
Total	6,354	42,055	30,414	15,947	12,595	7,465

	Years of Service					
Age	26-30	31-35	36-40	41-45	Over 45	Total
Less than 25	0	0	0	0	0	956
25 to 30	0	0	0	0	0	9,665
30 to 35	0	0	0	0	0	16,929
35 to 40	0	0	0	0	0	17,807
40 to 45	0	0	0	0	0	15,677
45 to 50	118	0	0	0	0	16,029
50 to 55	3,193	278	0	0	0	19,246
55 to 60	3,763	4,817	384	0	0	22,263
60 to 65	1,001	1,552	998	15	0	9,619
65 to 70	161	179	162	93	5	2,499
70 and over	50	60	45	30	30	1,070
Age Unknown	0	0	0	0	0	4
Total	8,286	6,886	1,589	138	35	131,764

TABLE 3
(continued)

Distribution of Active Members by Age and Service
(Age and service to nearest full year as of June 30, 2005)

ACTIVE FEMALE MEMBERS

	Years of Service					
Age	Less Than 1	1-5	6–10	11-15	16-20	21-25
Less than 25	1,802	2,848	0	0	0	0
25 to 30	3,523	29,433	2,033	0	0	0
30 to 35	1,816	21,415	20,524	525	0	0
35 to 40	1,480	12,393	16,718	8,150	399	0
40 to 45	1,390	10,141	9,857	8,043	6,201	232
45 to 50	1,234	9,875	9,442	6,848	7,168	4,404
50 to 55	1,091	8,789	9,727	7,922	7,957	6,027
55 to 60	715	5,917	6,822	6,758	8,016	5,409
60 to 65	278	2,358	2,591	2,405	3,206	2,543
65 to 70	114	777	592	505	607	527
70 and over	57	407	211	143	159	143
Age Unknown	10	20	0	0	0	0
Total	13,510	104,373	78,517	41,299	33,713	19,285

	Years of Service					
Age	26-30	31-35	36-40	41-45	Over 45	Total
Less than 25	0	0	0	0	0	4,650
25 to 30	0	0	0	0	0	34,989
30 to 35	0	0	0	0	0	44,280
35 to 40	0	0	0	0	0	39,140
40 to 45	0	0	0	0	0	35,864
45 to 50	328	0	0	0	0	39,299
50 to 55	6,068	523	1	0	0	48,105
55 to 60	6,302	6,727	806	2	0	47,474
60 to 65	2,312	1,762	1,514	59	2	19,030
65 to 70	476	278	161	111	13	4,161
70 and over	140	102	62	35	37	1,496
Age Unknown	0	0	0	0	0	30
Total	15,626	9,392	2,544	207	52	318,518

TABLE 3
(continued)

Distribution of Active Members by Age and Service
(Age and service to nearest full year as of June 30, 2005)

TOTAL ACTIVE MEMBERS

	Years of Service					
Age	Less Than 1	1-5	6–10	11-15	16-20	21-25
Less than 25	2,219	3,387	0	0	0	0
25 to 30	4,898	37,315	2,441	0	0	0
30 to 35	2,741	30,560	27,232	676	0	0
35 to 40	2,252	18,422	24,400	11,386	487	0
40 to 45	2,022	14,550	14,310	11,847	8,513	299
45 to 50	1,892	13,717	12,885	9,668	10,502	6,218
50 to 55	1,701	12,620	12,881	10,405	11,039	8,642
55 to 60	1,230	9,346	9,581	8,886	10,433	7,460
60 to 65	530	4,196	3,821	3,398	4,234	3,255
65 to 70	241	1,478	1,003	750	865	684
70 and over	127	814	377	230	235	192
Age Unknown	11	23	0	0	0	0
Total	19,864	146,428	108,931	57,246	46,308	26,750

	Years of Service					
Age	26-30	31-35	36-40	41-45	Over 45	Total
Less than 25	0	0	0	0	0	5,606
25 to 30	0	0	0	0	0	44,654
30 to 35	0	0	0	0	0	61,209
35 to 40	0	0	0	0	0	56,947
40 to 45	0	0	0	0	0	51,541
45 to 50	446	0	0	0	0	55,328
50 to 55	9,261	801	1	0	0	67,351
55 to 60	10,065	11,544	1,190	2	0	69,737
60 to 65	3,313	3,314	2,512	74	2	28,649
65 to 70	637	457	323	204	18	6,660
70 and over	190	162	107	65	67	2,566
Age Unknown	0	0	0	0	0	34
Total	23,912	16,278	4,133	345	87	450,282

TABLE 4

Active Members Classified by Age
(As of June 30, 2005)

MALE

Age	Count	Average Service Credit	Average Earnable Salary [1]	Age	Count	Average Service Credit	Average Earnable Salary [1]
20	26	0.542	$38,667	47	3,114	11.020	$58,833
21	5	0.304	25,389	48	3,335	11.516	59,616
22	25	0.504	26,390	49	3,346	12.262	60,791
23	274	0.542	28,022	50	3,472	12.466	59,911
24	626	0.814	30,638	51	3,592	13.530	61,774
25	1,089	1.147	33,125	52	3,781	14.798	63,697
26	1,601	1.600	35,674	53	4,081	15.275	63,666
27	1,992	2.088	37,421	54	4,322	16.465	65,249
28	2,355	2.536	38,683	55	4,497	17.667	66,902
29	2,628	3.073	40,652	56	4,522	18.674	67,836
30	2,957	3.641	42,679	57	4,489	19.225	68,155
31	3,410	4.164	44,478	58	4,671	19.919	68,785
32	3,254	4.660	46,009	59	4,082	20.462	69,487
33	3,397	5.106	48,078	60	2,978	20.461	68,946
34	3,911	5.548	49,491	61	2,385	20.174	68,432
35	4,030	6.033	50,867	62	1,911	17.567	65,778
36	3,816	6.387	52,200	63	1,390	16.126	62,363
37	3,489	6.763	53,330	64	955	15.342	60,590
38	3,287	7.233	54,043	65	759	14.478	58,864
39	3,185	7.641	54,740	66	603	15.094	59,611
40	3,091	8.100	56,397	67	466	14.674	58,270
41	3,113	8.417	56,523	68	360	15.359	56,414
42	3,198	8.790	56,636	69	310	15.799	55,694
43	3,138	9.309	60,229	70	212	15.574	56,069
44	3,138	9.783	57,916	71	203	13.645	52,640
45	3,130	10.061	57,710	71+	655	11.709	47,123
46	3,104	10.773	58,685	Age Unknown	4	3.268	40,672
				Total	131,764	11.225 [2]	$57,223 [2]

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

[2] Overall averages

TABLE 4
(continued)

Active Members Classified by Age
(As of June 30, 2005)

FEMALE

Age	Count	Average Service Credit	Average Earnable Salary [1]	Age	Count	Average Service Credit	Average Earnable Salary [1]
20	78	0.726	$30,582	47	7,736	10.705	$56,900
21	28	0.581	26,159	48	8,115	11.280	57,489
22	182	0.391	22,897	49	8,442	11.966	58,688
23	1,288	0.566	27,719	50	8,811	12.243	58,795
24	3,095	0.890	31,930	51	9,285	13.286	61,782
25	4,723	1.331	35,194	52	9,641	13.973	61,561
26	6,275	1.838	37,538	53	10,101	14.713	62,339
27	7,178	2.426	39,764	54	10,267	15.403	63,145
28	8,148	2.979	41,426	55	10,112	16.568	65,679
29	8,644	3.547	43,431	56	9,961	17.276	65,150
30	9,000	4.113	45,089	57	9,595	17.974	65,615
31	9,212	4.661	46,536	58	9,726	19.030	66,621
32	8,729	5.190	48,390	59	8,080	19.475	66,926
33	8,562	5.639	49,509	60	5,831	19.620	68,870
34	8,779	6.036	50,475	61	4,764	19.309	66,719
35	9,244	6.404	51,631	62	3,765	18.350	65,105
36	8,463	6.794	52,256	63	2,832	17.618	63,052
37	7,587	7.166	53,134	64	1,838	17.110	62,137
38	7,096	7.624	53,696	65	1,331	16.447	60,314
39	6,749	7.972	54,034	66	986	17.220	59,361
40	6,825	8.344	54,432	67	780	17.311	59,404
41	6,902	8.661	54,458	68	615	16.824	57,993
42	7,214	9.196	55,106	69	449	16.970	57,510
43	7,417	9.390	55,029	70	354	16.383	54,552
44	7,506	9.753	55,316	71	263	15.190	53,352
45	7,433	10.099	55,849	71+	879	15.808	51,768
46	7,572	10.388	56,274	Age Unknown	30	2.157	33,219
				Total	318,518	10.462 [2]	$55,332 [2]

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

TABLE 4
(continued)
Active Members Classified by Age
(As of June 30, 2005)

TOTAL

Age	Count	Average Service Credit	Average Eanable Salary [1]	Age	Count	Average Service Credit	Average Earnable Salary [1]
20	104	0.680	$32,603	47	10,850	10.795	$57,455
21	33	0.539	26,042	48	11,450	11.348	58,108
22	207	0.405	23,319	49	11,788	12.050	59,285
23	1,562	0.562	27,772	50	12,283	12.306	59,100
24	3,721	0.877	31,712	51	12,877	13.354	61,779
25	5,812	1.297	34,807	52	13,422	14.205	62,162
26	7,876	1.790	37,159	53	14,182	14.875	62,721
27	9,170	2.353	39,255	54	14,589	15.717	62,768
28	10,503	2.880	40,811	55	14,609	16.906	66,055
29	11,272	3.436	42,783	56	14,483	17.712	65,989
30	11,957	3.996	44,493	57	14,084	18.373	66,425
31	12,622	4.527	45,980	58	14,397	19.318	67,323
32	11,983	5.046	47,744	59	12,162	19.806	67,786
33	11,959	5.488	49,102	60	8,809	19.904	68,896
34	12,690	5.885	50,172	61	7,149	19.598	67,291
35	13,274	6.291	51,399	62	5,676	18.086	65,331
36	12,279	6.667	52,239	63	4,222	17.127	62,826
37	11,076	7.039	53,196	64	2,793	16.506	61,608
38	10,383	7.500	53,806	65	2,090	15.732	59,787
39	9,934	7.866	54,261	66	1,589	16.413	59,456
40	9,916	8.268	55,045	67	1,246	16.325	58,980
41	10,015	8.585	55,100	68	975	16.283	57,410
42	10,412	9.071	55,576	69	759	16.492	56,786
43	10,555	9.366	56,575	70	566	16.080	55,120
44	10,644	9.762	56,083	71	466	14.517	53,042
45	10,563	10.087	56,400	71+	1,534	14.058	49,785
46	10,676	10.500	56,975	Age Unknown	34	2.720	37,714
				Total	450,28 [2]	10.685 [2]	$55,885 [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 Count	Non-Member Spouse Count	Male % of Total	Female % of Total
1996	56,424	0	26.8	73.2
1997	59,385	0	27.2	72.8
1998	61,848	0	27.4	72.6
1999	69,112	0	27.7	72.3
2000	75,580	0	27.8	72.2
2001	87,146	582	28.1	71.9
2002	96,159	653	28.0	72.0
2003	104,617	697	28.3	71.7
2004	116,128	707	28.7	71.3
2005	124,394	717	28.8	71.2

TABLE 6

Inactive Account Characteristics

Fiscal Year Ending June 30	Total Count	Average DB Contributions on Deposit	Average Age	Average Years Service Credit	Average Years Inactive	Vested Count
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	12,889	50.7	3.2	8.2	18,469
2002	96,159	12,997	46.0	3.1	7.3	19,703
2003	104,617	12,691	46.0	3.0	7.4	20,627
2004	116,128	12,418	45.8	2.9	7.3	22,511
2005	124,394	12,177	45.9	2.9	7.4	24,113

TABLE 7

Number of Members Retired for Service [1]

Fiscal Year Ending June 30	Total	Male % of Total	Female % of Total
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
2002	154,884	37.8	62.2
2003	159,172	37.6	62.4
2004	169,022	37.2	62.8
2005	176,008	36.9	63.1

[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
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
2002	60.7	25.7	3,539	2,183
2003	60.7	25.9	3,735	2,339
2004	60.7	26.0	3,931	2,488
2005	60.8	26.1	4,103	2,617

[1] Does not include formerly disabled members

TABLE 9

Members Retired for Service
During the 2004/2005 Fiscal Year [1]
Classified by Unmodified Allowance [3]

MALE

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	200	62.5	6.168	$3,396	$318
500 – 1,000	220	62.5	9.306	4,218	669
1,000 – 1,500	200	61.4	13.739	4,986	1,150
1,500 – 2,000	199	61.8	17.689	5,258	1,616
2,000 – 2,500	201	61.4	20.605	5,789	2,070
2,500 – 3,000	185	61.4	23.368	5,916	2,553
3,000 – 3,500	183	60.8	27.414	5,847	3,001
3,500 – 4,000	224	60.1	30.231	6,071	3,479
4,000 – 4,500	299	60.5	31.973	6,003	3,925
4,500 – 5,000	358	61.1	33.064	6,223	4,375
5,000 – 6,000	710	61.8	34.861	6,597	5,018
6,000 & Greater	891	62.8	37.551	8,069	6,638
Total	3,870	61.7 [3]	28.272 [3]	$6,262 [3]	$3,927 [3]

FEMALE

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	409	62.0	6.365	$2,916	$311
500 – 1,000	632	61.6	10.272	4,019	708
1,000 – 1,500	586	60.2	14.827	4,766	1,209
1,500 – 2,000	585	60.5	18.038	5,269	1,687
2,000 – 2,500	692	61.2	21.038	5,563	2,160
2,500 – 3,000	570	62.1	22.963	5,810	2,621
3,000 – 3,500	542	61.8	26.165	5,924	3,128
3,500 – 4,000	547	61.7	29.013	6,024	3,615
4,000 – 4,500	608	61.1	31.326	6,148	4,080
4,500 – 5,000	603	61.4	32.730	6,301	4,564
5,000 – 6,000	1,124	62.2	34.849	6,541	5,260
6,000 & Greater	856	63.1	37.322	7,821	6,795
Total	7,754	61.6 [3]	25.269 [3]	$5,785 [3]	$3,339 [3]

[1] Does not include formerly disabled members
[2] Overall averages
[3] Longevity bonus included in the unmodified allowance

TABLE 9
(continued)

Members Retired for Service
During the 2004/2005 Fiscal Year [1]
Classified by Unmodified Allowance [3]

TOTAL

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	609	62.2	6.300	$3,074	$314
500 – 1,000	852	61.5	10.022	4,071	698
1,000 – 1,500	786	60.5	14.550	4,822	1,194
1,500 – 2,000	784	60.8	17.949	5,267	1,669
2,000 – 2,500	893	61.2	20.940	5,614	2,140
2,500 – 3,000	755	61.9	23.062	5,836	2,604
3,000 – 3,500	725	61.5	26.480	5,904	3,096
3,500 – 4,000	771	61.2	29.367	6,038	3,575
4,000 – 4,500	907	60.9	31.539	6,100	4,029
4,500 – 5,000	961	61.3	32.855	6,272	4,494
5,000 – 6,000	1,834	62.1	34.854	6,563	5,166
6,000 & Greater	1,747	62.9	37.439	7,947	6,716
Total	11,624	61.7 [3]	26.266 [3]	$5,944 [3]	$3,535 [3]

[1] Does not include formerly disabled members
[2] Overall averages
[3] Longevity bonus included in the unmodified allowance

TABLE 10

Members Retired for Service
During 2004/2005 Fiscal Year [1]
Classified by Age and Joint & Survivor Option Elected [2]

MALE

		Options							
Age	Total	Unmodified	2	3	4	5	6	7	8
Under 55	10	6	2	0	0	0	2	0	0
55	75	36	7	2	0	1	24	4	1
56	208	95	29	4	0	0	63	16	1
57	204	67	30	10	3	2	59	30	3
58	280	88	39	6	1	1	94	50	1
59	315	85	58	15	0	1	104	49	3
60	395	99	63	15	6	3	145	60	4
61	511	162	78	16	2	4	171	76	2
62	591	150	94	24	12	4	209	91	7
63	353	103	57	10	3	3	127	45	5
64	240	73	41	8	1	5	77	34	1
65	157	57	28	7	1	1	47	15	1
66	129	40	23	3	2	2	38	19	2
67	89	29	14	1	0	1	29	13	2
68	66	19	9	1	2	0	29	5	1
69	43	20	3	0	2	1	11	6	0
70	42	17	7	3	0	0	12	2	1
71	37	16	5	2	0	0	8	5	1
72	20	9	2	1	0	0	3	5	0
73	27	4	3	1	1	0	11	7	0
74	19	9	2	0	0	0	5	2	1
75	10	4	2	0	0	0	2	1	1
Over 75	49	17	9	3	1	0	16	3	0
Age Unknown	0	0	0	0	0	0	0	0	0
Total	3,870	1,205	605	132	37	29	1,286	538	38
% of Total Males	100.0%	31.1%	15.6%	3.4%	1.0%	0.7%	33.2%	13.9%	1.0%

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

TABLE 10
(continued)

Members Retired for Service
During 2004/2005 Fiscal Year [1]
Classified by Age and Joint & Survivor Option Elected [2]

FEMALE

Age	Total	Unmodified	Options 2	3	4	5	6	7	8
Under 55	17	9	1	0	0	0	3	4	0
55	210	123	5	1	0	1	39	39	2
56	541	328	23	10	3	1	90	84	2
57	436	238	16	8	0	0	91	79	4
58	627	339	30	10	0	1	119	121	7
59	672	347	20	18	1	2	125	155	4
60	673	379	29	13	0	1	137	113	1
61	826	457	26	9	1	0	160	168	5
62	1,019	578	29	17	2	1	192	192	8
63	758	456	15	11	0	3	134	131	8
64	489	290	14	6	0	2	87	84	6
65	388	243	11	8	0	0	54	71	1
66	262	179	6	5	0	1	34	33	4
67	224	153	2	6	0	0	26	37	0
68	128	88	4	2	0	1	12	19	2
69	113	81	2	1	0	0	10	18	1
70	90	73	0	0	0	0	6	8	3
71	79	61	2	2	0	0	10	4	0
72	52	42	3	0	0	0	2	4	1
73	40	32	0	0	0	1	2	4	1
74	25	17	0	0	0	0	3	3	2
75	22	18	0	0	0	0	1	3	0
Over 75	63	51	4	0	0	0	2	5	1
Age Unknown	0	0	0	0	0	0	0	0	0
Total	7,754	4,582	242	127	7	15	1,339	1,379	63
% of Total Females	100.0%	59.1%	3.1%	1.6%	0.1%	0.2%	17.3%	17.8%	0.8%

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

TABLE 10
(continued)

Members Retired for Service
During 2004/2005 Fiscal Year [1]
Classified by Age and Joint & Survivor Option Elected [2]

TOTAL

Age	Total	Unmodified	Options 2	3	4	5	6	7	8
Under 55	27	15	3	0	0	0	5	4	0
55	285	159	12	3	0	2	63	43	3
56	749	423	52	14	3	1	153	100	3
57	640	305	46	18	3	2	150	109	7
58	907	427	69	16	1	2	213	171	8
59	987	432	78	33	1	3	229	204	7
60	1,068	478	92	28	6	4	282	173	5
61	1,337	619	104	25	3	4	331	244	7
62	1,610	728	123	41	14	5	401	283	15
63	1,111	559	72	21	3	6	261	176	13
64	729	363	55	14	1	7	164	118	7
65	545	300	39	15	1	1	101	86	2
66	391	219	29	8	2	3	72	52	6
67	313	182	16	7	0	1	55	50	2
68	194	107	13	3	2	1	41	24	3
69	156	101	5	1	2	1	21	24	1
70	132	90	7	3	0	0	18	10	4
71	116	77	7	4	0	0	18	9	1
72	72	51	5	1	0	0	5	9	1
73	67	36	3	1	1	1	13	11	1
74	44	26	2	0	0	0	8	5	3
75	32	22	2	0	0	0	3	4	1
Over 75	112	68	13	3	1	0	18	8	1
Age Unknown	0	0	0	0	0	0	0	0	0
Total	11,624	5,787	847	259	44	44	2,625	1,917	101

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

TABLE 11

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

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age At Retirement
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	6,011	26.6	$2,210	$4,206	60.9
7/1/1997 thru 6/30/1998	7,332	26.8	$2,310	$4,345	60.8
7/1/1998 thru 6/30/1999	7,248	27.2	$2,706	$4,541	61.2
7/1/1999 thru 6/30/2000	7,556	26.8	$2,872	$4,688	61.3
7/1/2000 thru 6/30/2001 [2]					
0 - 5	86	2.3	$226	--	--
5 - 10	505	7.3	$513	--	--
10 - 15	661	12.6	$1,067	--	--
15 - 20	707	17.4	$1,594	--	--
20 - 25	821	22.4	$2,165	--	--
25 - 30	988	27.3	$3,076	--	--
30 - 35	2,446	32.6	$4,138	--	--
35 - 40	2,041	37.2	$5,267	--	--
40 & over	446	42.1	$6,417	--	--
Total	8,701	28.1	$3,524	$5,312	61.2
7/1/2001 thru 6/30/2002 [2]					
0 - 5	86	2.4	$228	--	--
5 - 10	499	7.3	$512	--	--
10 - 15	679	12.6	$1,093	--	--
15 - 20	860	17.4	$1,714	--	--
20 - 25	886	22.3	$2,387	--	--
25 - 30	1,081	27.1	$3,288	--	--
30 - 35	2,912	32.7	$4,536	--	--
35 - 40	2,277	37.2	$5,738	--	--
40 & over	482	42.1	$6,907	--	--
Total	9,762	28.3	$3,869	$5,686	61.1

[1] Does not include formerly disabled members
[2] The Average Unmodified Allowance for this fiscal year includes the Longevity Bonus

TABLE 11
(continued)

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

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age At Retirement
7/1/2002 thru 6/30/2003 [2]					
0 - 5	103	2.4	$206	--	--
5 - 10	674	7.2	$525	--	--
10 - 15	749	12.6	$1,149	--	--
15 - 20	1,074	17.5	$1,821	--	--
20 - 25	1,063	22.6	$2,494	--	--
25 - 30	1,212	27.1	$3,372	--	--
30 - 35	3,384	32.7	$4,640	--	--
35 - 40	2,444	37.2	$5,855	--	--
40 & over	486	42.3	$7,114	--	--
Total	11,189	27.9	$3,879	$5,807	61.2
7/1/2003 thru 6/30/2004 [2]					
0 - 5	116	2.4	$242	--	--
5 - 10	883	7.2	$559	--	--
10 - 15	944	12.6	$1,178	--	--
15 - 20	1,277	17.6	$1,864	--	--
20 - 25	1,200	22.5	$2,614	--	--
25 - 30	1,393	27.1	$3,416	--	--
30 - 35	3,495	32.6	$4,761	--	--
35 - 40	2,477	37.2	$5,919	--	--
40 & over	516	42.1	$7,255	--	--
Total	12,301	27.1	$3,817	$5,891	61.2
7/1/2004 thru 6/30/2005 [2]					
0 - 5	122	2.5	$268	--	--
5 - 10	1,008	7.2	$591	--	--
10 - 15	897	12.6	$1,170	--	--
15 - 20	1,311	17.5	$1,906	--	--
20 - 25	1,286	22.3	$2,579	--	--
25 - 30	1,217	27.0	$3,475	--	--
30 - 35	3,208	32.5	$4,847	--	--
35 - 40	2,162	37.2	$6,100	--	--
40 & over	413	42.0	$7,422	--	--
Total	11,624	26.3	$3,744	$5,944	61.7

[1] Does not include formerly disabled members

[2] The Average Unmodified Allowance for this fiscal year includes the Longevity Bonus

TABLE 12

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

(As of June 30, 2005)

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	3,870	61.3	28.271	$6,262	$4,294 [5]	$3,927
1	3,985	61.4	29.123	6,225	4,402 [5]	4,054
2	3,812	61.3	30.343	6,166	4,520 [5]	4,233
3	3,212	61.3	30.657	6,046	4,499 [5]	4,307
4	3,036	61.4	30.894	5,723	4,224 [5]	4,149
5	2,495	61.4	29.890	5,159	3,396	3,468
6	2,524	61.4	30.519	5,001	3,237	3,346
7	2,515	60.9	30.056	4,745	2,839	2,920
8	2,088	60.9	29.795	4,571	2,700	2,853
9	2,486	60.7	29.961	4,530	2,665	2,900
10	2,511	60.8	29.616	4,390	2,543	2,820
11	2,583	60.6	29.896	4,416	2,586	2,942
12	2,867	60.9	29.952	4,357	2,564	2,965
13	2,420	60.9	29.699	4,223	2,458	2,865
14	2,742	60.8	29.780	4,119	2,356	2,793
15	2,268	60.4	29.271	3,834	2,155	2,663
16	2,306	60.4	28.936	3,585	1,967	2,487
17	2,013	60.4	27.309	3,386	1,849	2,416
18	2,105	60.2	27.667	3,252	1,764	2,345
19	1,639	60.0	27.303	2,979	1,576	2,133
20 and more	11,475	59.6	25.663	2,276	1,141	1,671
Total	64,952	60.7 [4]	28.850 [4]	$4,398 [4]	$2,772 [4(5)]	$2,980 [4]

[1] Does not include formerly disabled members

[2] Initial allowance before application of option factor; includes Longevity Bonus effective 1/1/2001

[3] Includes cumulative application of annual 2% benefit improvement factor

[4] Overall averages

[5] Includes Longevity Bonus

TABLE 12
(continued)

Members Retired for Service Classified by Years in Retirement [1]
(As of June 30, 2005)

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	7,754	61.2	25.269	$5,785	$3,470 [5]	$3,339
1	8,251	61.1	26.211	5,746	3,559 [5]	3,449
2	7,343	61.1	26.695	5,641	3,392 [5]	3,524
3	6,352	61.0	27.197	5,528	3,389 [5]	3,610
4	5,369	60.9	26.607	5,136	3,198 [5]	3,310
5	4,761	61.1	25.597	4,615	2,571	2,773
6	4,384	60.8	25.702	4,465	2,387	2,615
7	4,434	60.6	25.129	4,268	2,121	2,317
8	3,582	60.7	24.763	4,081	1,996	2,242
9	3,973	60.8	24.718	3,988	1,934	2,234
10	3,995	60.8	24.866	3,869	1,906	2,250
11	3,864	60.8	25.078	3,867	1,904	2,302
12	3,913	61.0	24.626	3,768	1,833	2,258
13	3,493	60.8	24.566	3,675	1,786	2,233
14	3,743	61.2	25.149	3,570	1,776	2,259
15	2,929	60.6	23.944	3,307	1,551	2,035
16	3,062	60.7	23.498	3,106	1,422	1,914
17	2,499	60.6	22.063	2,918	1,329	1,839
18	2,602	60.4	21.947	2,764	1,214	1,734
19	2,378	60.3	22.650	2,498	1,106	1,587
20 and more	22,375	59.9	21.511	1,708	730	1,192
Total	111,056	60.7 [4]	24.481 [4]	$3,930 [4]	$2,149 [4(5)]	$2,405 [4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor; includes Longevity Bonus effective 1/1/2001
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages
[5] Includes Longevity Bonus

TABLE 12

Members Retired for Service Classified by Years in Retirement [1]
(As of June 30, 2005)

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	11,624	61.2	26.269	$5,944	$3,744 [5]	$3,535
1	12,236	61.2	27.159	5,902	3,833 [5]	3,646
2	61.2	61.2	27.942	5,821	3,894 [5]	3,766
3	61.1	61.1	28.359	5,702	3,885 [5]	3,844
4	61.1	61.1	28.156	5,348	3,569 [5]	3,614
5	61.2	61.2	27.074	4,802	2,855	3,012
6	61.0	61.0	27.462	4,661	2,698	2,882
7	60.7	60.7	26.912	4,441	2,381	2,535
8	60.7	60.7	26.616	4,262	2,255	2,467
9	60.8	60.8	26.736	4,197	2,215	2,490
10	60.8	60.8	26.699	4,070	2,152	2,470
11	60.7	60.7	27.008	4,087	2,177	2,558
12	61.0	61.0	26.878	4,018	2,142	2,557
13	60.9	60.9	26.667	3,899	2,061	2,492
14	61.0	61.0	27.107	3,802	2,021	2,485
15	60.5	60.5	26.269	3,537	1,815	2,309
16	60.6	60.6	25.834	3,312	1,657	2,160
17	60.5	60.5	24.403	3,127	1,561	2,096
18	60.3	60.3	24.505	2,982	1,460	2,007
19	60.2	60.2	24.548	2,694	1,298	1,810
20 and more	59.8	59.8	22.918	1,901	870	1,354
Total	60.74	60.74	26.093 [4]	$4,103 [4]	$2,379 [4(5)]	$2,617 [4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor; includes Longevity Bonus effective 1/1/2001
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages
[5] Includes Longevity Bonus

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
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
2002	114	2,490	15.161	4,827	54.2
2003	146	2,407	14.649	4,921	53.7
2004	161	2,577	14.791	5,015	54.1
2005	135	2,403	13.049	5,043	53.4

FEMALE

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
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
2002	440	2,215	14.757	4,515	53.5
2003	468	2,378	14.971	4,826	52.8
2004	419	2,344	14.322	4,854	53.0
2005	403	2,517	14.340	5,124	53.5

TABLE 13
(continued)

Characteristics of Members Going on Disability

TOTAL

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
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
2002	554	2,272	14.840	4,580	53.6
2003	614	2,385	14.894	4,849	53.0
2004	580	2,409	14.453	4,899	53.3
2005	538	2,488	14.016	5,103	53.5

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
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
2002	154,884	6,723	15,465	177,072 [1]
2003	159,172	6,949	15,747	181,868
2004	169,022	7,311	16,912	193,245
2005	176,008	7,571	17,662	201,241

[1] Disability and Survivor counts revised in 2003

TABLE 15

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

MALE

Fiscal Year Ending June 30	From Active Status: Count by Amount of Service Credit: Less than 5 years	5 years or More	Average Service Credit	From Inactive Status [1]: Count by Amount of Service Credit: Less than 5 years	5 years or More	Average Service Credit	Average Refund	Total Count
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
2002	956	197	3.250	757	96	2.251	10,386	2,006
2003	949	183	3.161	763	93	2.295	9,805	1,988
2004	1,152	276	3.326	945	116	2.301	9,862	2,489
2005	845	254	3.678	1,018	146	2.289	10,129	2,263

[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
(continued)

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

FEMALE

	From Active Status			From Inactive Status [1]				
	Count by Amount of Service Credit			Count by Amount of Service Credit				
Fiscal Year Ending June 30	Less than 5 years	5 years or More	Average Service Credit	Less than 5 years	5 years or More	Average Service Credit	Average Refund	Total Count
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
2002	1,495	271	3.180	1,448	325	3.109	11,560	3,539
2003	1,415	306	3.254	1,401	282	3.024	11,261	3,404
2004	1,718	407	3.252	1,800	342	2.918	10,867	4,267
2005	1,369	368	3.639	2,082	442	3.036	11,541	4,261

[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

(continued)

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

TOTAL

	From Active Status			From Inactive Status [1]				
	Count by Amount of Service Credit			Count by Amount of Service Credit				
Fiscal Year Ending June 30	Less than 5 years	5 years or More	Average Service Credit	Less than 5 years	5 years or More	Average Service Credit	Average Refund	Total Count
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
2002	2,451	468	3.207	2,205	421	2.830	11,135	5,545
2003	2,364	489	3.218	2,164	375	2.778	10,724	5,392
2004	2,870	683	3.282	2,745	458	2.714	10,497	6,756
2005	2,214	622	3.654	3,100	588	2.800	11,051	6,524

[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

Fiscal Year Ending June 30	Market Value of Assets (in millions)	Annual Return on Investments
1985	$14,208	31.42%
1986	$19,412	27.8%
1987	$22,352	16.8%
1988	$24,348	.62%
1989	$28,984	16.46%
1990	$32,208	9.16%
1991	$35,259	8.82%
1992	$40,772	14.1%
1993	$46,828	13.84%
1994	$47,523	.56%
1995	$55,481	16.4%
1996	$63,368	13.2%
1997	$74,842	17.4%
1998	$88,289	17.05%
1999	$99,920	13.40%
2000	$112,600	12.69%
2001	$102,808	-9.12%
2002	$96,696	-5.95%
2003	$100,135	3.41%
2004	$116,200	17.38%
2005	$129,592	11.09%

TABLE 17

Defined Benefit Program
Members Retired for Service
Electing to Receive a Partial Lump Sum
(As of June 30, 2005)

Fiscal Year Ending June 30	# of Members Eligible for PLS at Retirement	# of Members Electing PLS	Average Amount of PLS Payment	Average Unmodified Monthly Allowance	Average Modified Monthly Allowance (after PLS)	Average % Reduction in Monthly Allowance
2002	3,717	89	$59,947.21	$4,539.89	$4,107.77	9.69
2003	6,944	282	$51,337.17	$4,064.92	$3,690.29	9.55
2004	7,652	433	$54,239.49	$4,047.67	$3,647.79	9.79
2005	9,911	364	$54,951.91	$3,894.39	$3,493.02	10.52

TABLE 18

Defined Benefit Program
Members Retired for Service
Receiving a CalSTRS Retirement Incentive
(As of June 30, 2005)

Fiscal Year Ending June 30	# of Members Receiving Retirement Incentive	Average Years of Service Credit
2002	136	30.58
2003	145	30.43
2004	874	30.90
2005	555	30.68

TABLE 19

Defined Benefit Program
Members Retired for Service Working after Retirement
(As of June 30, 2005)

Retired Members Earning in Excess of the Post-Retirement Earnings Limit
(Not working under a Post-Retirement Earnings Limit Exemption)

Fiscal Year Ending June 30	# of Retired Members Working After Retirement	% Exceeding the Earnings Limit
2000	19,579	4.20
2001	16,858	1.68
2002	20,641	2.02
2003	22,278	1.35
2004	23,540	1.53
2005	24,931	1.49

TABLE 20

Defined Benefit Supplement Program [4]
Total Active Member Characteristics [1]
(As of June 30, 2005)

Active DB Accounts with DBS Contribution Balances [3] Based on 2% of Regular Earnings:

			Averages		
Gender	Count	% of Total Active Population (based on gender)	2% Member Paid Balance	Total Accumulated DBS Balance	Age for Group
Male	131,620	99.89%	$5,021.01	$6,728.01	45.6
Female	318,153	99.89%	$4,632.08	$5,561.89	44.1
Total	449,773	99.89%	$4,745.90	$5,903.14	44.5

Active DB Accounts with DBS Limited Term Enhancement Contribution Balances [3]:

			Averages			
Gender	Count	% of Total Active Population (based on gender)	Limited Term Enhancement Member Paid Balance	Limited Term Enhancement Employer Paid Balance	Total Accumulated DBS Balance	Age for Group
Male	2,476	1.88%	$109.27	$109.29	$7,704.83	44.9
Female	6,790	2.13%	$99.62	$99.63	$6,231.71	42.8
Total	9,266	2.06%	$102.20	$102.21	$6,625.34	43.4

Active DB Accounts with DBS Excess Service Credit Contribution Balances [3]:

			Averages			
Gender	Count	% of Total Active Population (based on gender)	Excess Service Credit Member Paid Balance [2]	Excess Service Credit Employer Paid Balance [2]	Total Accumulated DBS Balance	Age for Group
Male	100,919	76.59%	$951.62	$1,269.32	$7,924.94	45.4
Female	236,905	74.38%	$532.66	$710.33	$6,571.49	44.2
Total	337,824	75.02%	$657.82	$877.32	$6,975.81	44.6

[1] Accounts are coded “active” when a person achieves “member” status and member contributions are received by the DB Program. Active accounts without DBS contributions are generally the result of these individuals achieving DB member status late in the fiscal year and their initial DBS contributions not being received until the following fiscal year.
[2] Excess Service Credit contributions are paid at the rate of 6% of earnings by the member and 8% of earnings by the employer.
[3] All balances represent contributions and associated interest credited on those contributions.
[4] The DBS Program is effective from January 1, 2001, through December 31, 2010.

TABLE 20
(continued)

Defined Benefit Supplement Program [4]
Total Active Member Characteristics [1]
(As of June 30, 2005)

Summary of Active DB accounts with and without DBS Contribution Balances [3]:

	Total active DB accounts with DBS balances		Total active DB accounts without DBS balances [1]		Total active DB population	
Gender	Count	% of Total Active Population (based on gender)	Count	% of Total Active Population (based on gender)	Count	% of Total Active Population (based on gender)
Male	131,628	99.90%	136	0.10%	131,764	100.00%
Female	318,170	99.89%	348	0.11%	318,518	100.00%
Total	449,798	99.89%	484	0.11%	450,282	100.00%

[1] Accounts are coded "active" when a person achieves "member" status and member contributions are received by the DB Program. Active accounts without DBS contributions are generally the result of these individuals achieving DB member status late in the fiscal year and their initial DBS contributions not being received until the following fiscal year.

[2] Excess Service Credit contributions are paid at the rate of 6% of earnings by the member and 8% of earnings by the employer.

[3] All balances represent contributions and associated interest credited on those contributions.

[4] The DBS Program is effective from January 1, 2001, through December 31, 2010.

TABLE 21

Defined Benefit Supplement Program
Active Member Characteristics by Fiscal Year [1]
(As of June 30, 2005)

Active DB Accounts with Current Year DBS Contributions Based on 2% of Regular Earnings:

		Averages		
Fiscal Year	Count of Members with Current Year 2% Contributions	Current Year 2% Contribution Amount	Total Current Year DBS Contribution [4]	Total DBS Balance as of June 30 [3]
2002	441,593	$985.14	$985.14	$1,493.86
2003	447,844	1,066.47	1,446.21	2,999.58
2004	443,940	1,071.53	1,442.38	4,476.56
2005	449,269	1,090.55	1,470.74	5,907.15

Active DB Accounts with Current Year DBS Limited Term Enhancement (LTE) Contributions:

		Averages			
Fiscal Year	Count of Members with Current Year LTE Contributions	Current Year LTE Member Contribution Amount	Current Year LTE Employer Contribution Amount	Total Current Year DBS Contribution [4]	Total DBS Balance as of June 30 [3]
2002	N/A	N/A	N/A	N/A	N/A
2003	3,787	$79.04	$79.08	$1,667.95	$3,244.66
2004	2,883	118.47	118.48	1,868.89	4,845.20
2005	3,341	87.56	87.56	1,713.85	6,013.23

Active DB Accounts with Current Year DBS Excess Service Credit (ESC) Contributions [2]:

		Averages			
Fiscal Year	Count of Members with Current Year ESC Contributions	Current Year ESC Member Contribution Amount	Current Year ESC Employer Contribution Amount	Total Current Year DBS Contribution [4]	Total DBS Balance as of June 30 [3]
2002	N/A	N/A	N/A	N/A	N/A
2003	284,370	$255.16	$340.77	$1,831.72	$3,583.39
2004	274,903	255.59	340.84	1,848.13	5,435.11
2005	280,353	260.22	349.97	1,884.19	7,205.04

[1] Accounts are coded “active” when a person achieves “member” status and member contributions are received by the DB Program.
[2] Excess Service Credit contributions are paid at the rate of 6% of earnings by the member and 8% bof earnings by the employer
[3] Each balance amount represents the total contributions and associated interest credit for the indecated group
[4] Total current year contributions amounts reflect all 2%, LTE and ESC contributions made in the current year by the indicated group.

TABLE 22

Defined Benefit Supplement Program
Inactive Member Characteristics [1]
(As of June 30, 2005)

Inactive DB accounts with DBS contribution balances [3] based on 2% of regular earnings:

			Averages		
Gender	Count	% of Total Inactive Population (based on gender)	2% Member Paid Balance	Total Accumulated DBS Balance	Age for Group
Male	16,432	45.92%	$946.38	$1,050.46	42.9
Female	39,802	44.92%	$1,173.05	$1,258.52	39.9
Total	56,234	45.21%	$1,106.82	$1,197.72	40.8

Inactive DB accounts with DBS Limited Term Enhancement (LTE) contribution balances [3]:

			Averages			
Gender	Count	% of Total Inactive Population (based on gender)	LTE Member Paid Balance	LTE Employer Paid Balance	Total Accumulated DBS Balance	Age for Group
Male	43	0.12%	$127.95	$127.95	$3,273.63	41.1
Female	183	0.21%	$98.89	$101.42	$3,177.96	38.0
Total	226	0.18%	$104.42	$106.47	$3,196.16	38.6

Inactive DB accounts with DBS Excess Service Credit (ESC) contribution balances [3]:

			Averages			
Gender	Count	% of Total Inactive Population (based on gender)	ESC Member Paid Balance	ESC Employer Paid Balance	Total Accumulated DBS Balance	Age for Group
Male	2,629	7.35%	$275.47	$370.87	$3,375.40	39.5
Female	7,196	8.12%	$199.35	$268.25	$3,311.88	37.1
Total	9,825	7.90%	$219.72	$295.71	$3,328.88	37.7

[1] Accounts are coded “inactive” when a person who is in “member” status does not contribute DB Program contributions during the fiscal year. Inactive accounts without DBS contributions are the result of these individuals being inactive since DBS Program inception.

[2] Excess Service Credit contributions are paid at the rate of 6% of earnings by the member and 8% of earnings by the employer.

[3] All balances represent contributions and associated interest credited on those contributions.

TABLE 22
(continued)

Defined Benefit Supplement Program
Inactive Member Characteristics [1]
(As of June 30, 2005)

Summary of Inactive DB accounts with and without DBS contribution balances [3]:

	Total Inactive DB accounts with DBS balances		Total Inactive DB accounts without DBS balances [1]		Total Inactive DB population	
Gender	Count	% of Total Inactive Population (based on gender)	Count	% of Total Inactive Population (based on gender)	Count	% of Total Inactive Population (based on gender)
Male	16,432	45.92%	19,349	54.08%	35,781	100.00%
Female	39,799	44.91%	48,814	55.09%	88,613	100.00%
Total	56,231	45.20%	68,163	54.80%	124,394	100.00%

[1] Accounts are coded "inactive" when a person who is in "member" status does not contribute DB Program contributions during the fiscal year. Inactive accounts without DBS contributions are the result of these individuals being inactive since DBS Program inception.

[2] Excess Service Credit contributions are paid at the rate of 6% of earnings by the member and 8% of earnings by the employer.

[3] All balances represent contributions and associated interest credited on those contributions.

TABLE 23

Defined Benefit Supplement Program
All Members Retired for Service
(As of June 30, 2005)

MALES

Benefit Type	Average Accumulated Credits	Annuity Benefits: Count	Annuity Benefits: Average Monthly Amount	Annuity Benefits: Average Age	Lump Sum Benefits: Count	Lump Sum Benefits: Average Amount	Lump Sum Benefits: Average Age
Lump Sum Only	$4,179.89	N/A	N/A	N/A	13,060	$4,179.89	61.5
Single Life w/o Cash	6,825.11	134	$55.58	61.6	0	0.00	0.0
Single Life w/ Cash	7,135.40	91	55.62	61.1	3	1,433.99	62.7
100% Joint & Survivor	7,425.61	486	60.02	61.3	9	1,240.07	59.2
50% Joint & Survivor	7,429.94	89	59.65	60.7	2	1,450.00	62.5
Period Certain: 10 yrs	7,417.93	218	88.12	61.8	2	2,040.44	61.5
9 years	7,715.64	20	98.70	62.4	0	0.00	0.0
8 years	6,514.68	19	90.59	60.9	0	0.00	0.0
7 years	8,590.41	38	131.85	62.0	0	0.00	0.0
6 years	6,311.42	38	107.73	60.2	1	3,000.00	60.0
5 years	7,966.30	299	158.65	61.2	7	1,674.72	58.4
4 years	7,390.56	109	175.77	61.1	4	2,875.00	61.5
3 years	7,328.57	523	225.61	61.2	13	2,134.54	61.4
TOTALS	$4,622.14	2,064	$127.71	61.3	13,101	$4,173.59	61.5

FEMALES

Benefit Type	Average Accumulated Credits	Annuity Benefits: Count	Annuity Benefits: Average Monthly Amount	Annuity Benefits: Average Age	Lump Sum Benefits: Count	Lump Sum Benefits: Average Amount	Lump Sum Benefits: Average Age
Lump Sum Only	$3,839.77	N/A	N/A	N/A	25,494	$3,839.77	63.3
Single Life w/o Cash	5,860.92	474	$51.97	61.4	2	972.06	61.5
Single Life w/ Cash	6,081.54	370	52.59	62.1	9	2,267.32	61.8
100% Joint & Survivor	6,437.26	422	51.46	60.8	7	1,683.81	61.1
50% Joint & Survivor	6,296.72	142	50.70	61.5	2	3,354.18	58.0
Period Certain: 10 yrs	6,695.43	285	79.70	61.5	1	820.00	59.0
9 years	7,297.35	33	93.35	60.2	0	0.00	0.0
8 years	6,818.58	35	94.42	61.5	1	1,000.00	57.0
7 years	6,718.17	49	102.96	61.2	1	500.00	61.0
6 years	6,522.15	50	111.54	61.8	1	3,455.83	60.0
5 years	6,972.76	485	138.78	61.0	11	1,715.70	59.8
4 years	6,405.90	136	153.79	61.3	3	1,436.10	60.0
3 years	6,504.22	849	199.13	61.1	30	2,331.21	61.9
TOTALS	$4,140.58	3,330	$111.11	61.3	25,562	$3,835.02	63.3

TABLE 23
(continued)

Defined Benefit Supplement Program
All Members Retired for Service
(As of June 30, 2005)

TOTALS

		Annuity Benefits			Lump Sum Benefits		
Benefit Type	Average Accumulated Credits	Count	Average Monthly Amount	Average Age	Count	Average Amount	Average Age
Lump Sum Only	$3,955.29	N/A	N/A	N/A	38,554	$3,955.29	61.3
Single Life w/o Cash	6,496.26	608	52.77	61.47	2	972.06	62.0
Single Life w/ Cash	6,745.41	461	53.19	61.87	12	2,058.99	61.5
100% Joint & Survivor	6,966.26	908	56.04	61.08	16	1,434.20	60.1
50% Joint & Survivor	6,733.33	231	54.16	61.15	4	2,402.09	60.2
Period Certain: 10 yrs	7,008.56	503	83.35	61.64	3	1,633.62	60.7
9 years	7,455.19	53	95.37	61.05	0	0.00	0.0
8 years	6,711.65	54	93.07	61.26	1	1,000.00	57.0
7 years	7,535.93	87	115.58	61.52	1	500.00	61.0
6 years	6,431.15	88	109.9	61.13	2	3,227.92	60.0
5 years	7,351.67	784	146.36	61.06	18	1,699.76	59.3
4 years	6,843.97	245	163.57	61.20	7	2,258.33	60.8
3 years	6,818.46	1,372	209.22	61.14	43	2,271.75	61.7
TOTALS	$4,317.20	5,394	$117.46	61.27	38,663	$3,949.73	61.3

TABLE 24

Defined Benefit Supplement Program
All Members Receiving Disability Benefits
(As of June 30, 2005)

MALES

Benefit Type	Average Accumulated Credits	Annuity Benefits: Count	Annuity Benefits: Average Monthly Amount	Annuity Benefits: Average Age	Lump Sum Benefits: Count	Lump Sum Benefits: Average Amount	Lump Sum Benefits: Average Age
Lump Sum Only	$3,030.01	N/A	N/A	N/A	519	$3,030.01	53.5
Single Life w/o Cash	6,435.26	3	$61.84	54.4	0	0.00	0.0
Single Life w/ Cash	5,066.08	4	40.88	54.3	0	0.00	0.0
100% Joint & Survivor	8,261.88	4	79.09	51.8	0	0.00	0.0
50% Joint & Survivor	0.00	0	0.00	0.0	0	0.00	0.0
Period Certain: 10 yrs	5,457.78	2	65.00	55.0	0	0.00	0.0
9 years	0.00	0	0.00	0.0	0	0.00	0.0
8 years	0.00	0	0.00	0.0	0	0.00	0.0
7 years	0.00	0	0.00	0.0	0	0.00	0.0
6 years	0.00	0	0.00	0.0	0	0.00	0.0
5 years	4,095.39	1	81.97	55.0	0	0.00	0.0
4 years	0.00	0	0.00	0.0	0	0.00	0.0
3 years	8,385.93	4	213.69	54.0	1	2,988.87	53.0
TOTALS	$3,154.09	18	$82.60	53.7	520	$3,029.93	53.5

FEMALES

Benefit Type	Average Accumulated Credits	Annuity Benefits: Count	Annuity Benefits: Average Monthly Amount	Annuity Benefits: Average Age	Lump Sum Benefits: Count	Lump Sum Benefits: Average Amount	Lump Sum Benefits: Average Age
Lump Sum Only	$2,556.07	N/A	N/A	N/A	1,509	$2,556.07	52.2
Single Life w/o Cash	5,789.92	7	$54.54	53.3	1	798.86	37.0
Single Life w/ Cash	7,167.60	5	58.10	52.4	0	0.00	0.0
100% Joint & Survivor	5,757.76	2	54.68	53.0	0	0.00	0.0
50% Joint & Survivor	3,945.25	1	37.92	56.0	0	0.00	0.0
Period Certain: 10 yrs	5,415.10	6	64.49	59.7	0	0.00	0.0
9 years	0.00	0	0.00	0.0	0	0.00	0.0
8 years	0.00	0	0.00	0.0	0	0.00	0.0
7 years	5,924.73	1	90.94	52.0	0	0.00	0.0
6 years	7,269.43	1	125.66	65.0	0	0.00	0.0
5 years	4,962.86	2	99.33	50.5	0	0.00	0.0
4 years	9,376.11	2	226.22	59.0	0	0.00	0.0
3 years	5,373.60	6	166.62	59.5	0	0.00	0.0
TOTALS	$2,630.05	33	$80.76	56.5	1,510	$2,554.91	52.2

TABLE 24
(continued)

Defined Benefit Supplement Program
All Members Receiving Disability Benefits
(As of June 30, 2005)

TOTALS

		Annuity Benefits			Lump Sum Benefits		
Benefit Type	Average Accumulated Credits	Count	Average Monthly Amount	Average Age	Count	Average Amount	Average Age
Lump Sum Only	$2,677.36	N/A	N/A	N/A	2,028	$2,677.36	52.6
Single Life w/o Cash	5983.52	10	56.73	53.6	1	798.86	37.0
Single Life w/ Cash	6233.59	9	50.45	53.23	0	0.00	0.0
100% Joint & Survivor	7427.18	6	71.01	52.16	0	0.00	0.0
50% Joint & Survivor	3945.25	1	37.92	55.99	0	0.00	0.0
Period Certain: 10 yrs	5425.77	8	64.62	58.49	0	0.00	0.0
9 years	0	0	0	0	0	0.00	0.0
8 years	0	0	0	0	0	0.00	0.0
7 years	5924.73	1	90.94	52.02	0	0.00	0.0
6 years	7269.43	1	125.66	65	0	0.00	0.0
5 years	4673.7	3	93.54	51.99	0	0.00	0.0
4 years	9376.11	2	226.22	59	0	0.00	0.0
3 years	6578.53	10	185.45	57.29	2	2,988.87	53.0
TOTALS	$2,765.41	51	$94.24	55.2	2,031	$2,676.74	52.5

TABLE 25

Cash Balance Benefit Program
(As of June 30, 2005)

Participant Statistical Information

Fiscal Year Ending June 30 [1]	Number Of Participants			
	Active [2]	Inactive [2]	Retirees & Beneficiaries	Total
1997	N/A	N/A	0	495
1998	N/A	N/A	0	3,505
1999	N/A	N/A	21	6,425
2000	7,598	1,848	55	9,501
2001	8,412	3,603	102	12,117
2002	9,238	5,284	116	14,638
2003	8,977	7,311	203	16,491
2004	9,114	9,087	294	18,495
2005	9,385	10,534	369	20,288

Fiscal Year Ending June 30 [1]	Total Account Balances			Active Averages		Inactive Averages	
	Participant	Employer	Total	Account Balance	Age	Account Balance	Age
1997	$82,039	$82,039	$164,078	N/A	N/A	N/A	N/A
1998	$855,423	$872,282	$1,727,705	N/A	N/A	N/A	N/A
1999	$2,473,015	$2,527,598	$5,000,613	N/A	N/A	N/A	N/A
2000	$5,250,345	$5,100,375	$10,350,720	N/A	N/A	N/A	N/A
2001	$8,513,463	$8,425,011	$16,938,474	N/A	N/A	N/A	N/A
2002	$12,541,528	$12,538,528	$25,080,056	N/A	N/A	N/A	N/A
2003	$16,888,397	$16,948,456	$33,836,853	$2,903	47.3	$1,064	46.4
2004	$20,693,119	$21,278,923	$41,972,042	$3,384	47.9	$1,225	46.4
2005	$25,446,827	$26,281,904	$51,728,731	$3,867	47.8	$1,466	46.8

[1] Program established 7-1-96

[2] Active is defined as a participant with current year contributions and a balance. Inactive is defined as a participant without current year contributions but with a balance.

na = not available

TABLE 26

Cash Balance Benefit Program
(As of June 30, 2005)

Active Participants by Age Group

Fiscal Year Ending June 30 [1]	Age						
	Under 25	25-29	30-34	35-39	40-44	45-49	50-54
1998	52	172	328	442	604	662	555
1999	47	349	654	767	961	1,102	1,120
2000	57	372	713	952	1,062	1,307	1,319
2001	66	481	816	947	1,044	1,385	1,393
2002	122	579	941	1,041	1,192	1,474	1,429
2003	97	530	907	1,010	1,197	1,377	1,406
2004	106	504	883	995	1,206	1,303	1,388
2005	96	608	907	1,070	1,182	1,311	1,388

Fiscal Year Ending June 30 [1]	Age				
	55-59	60-64	65+	Unknown	Total
1998	347	196	147	0	3,505
1999	673	375	308	56	6,412
2000	884	510	384	38	7,598
2001	1,034	605	473	168	8,412
2002	1,160	641	506	153	9,238
2003	1,203	662	526	62	8,977
2004	1,264	768	659	38	9,114
2005	1,291	821	696	15	9,385

[1] Program established 7-1-96; statistics for 1996-97 not available

TABLE 27

Cash Balance Benefit Program
Breakdown By Type Of Benefit
(As of June 30, 2005)

Counts by Type of Benefit

Retirement Benefit:

Fiscal Year Ending June 30	Lump Sum Payout: Without Rollover	Lump Sum Payout: With Rollover	Lump Sum Payout: Lump Sum Total	Annuity Payout	Average Age at Benefit Start
1999	10	1	11	0	N/A
2000	11	6	17	0	N/A
2001	32	3	35	0	N/A
2002	34	11	45	0	N/A
2003	77	10	87	0	64.1
2004	137	21	158	3	67.7
2005	152	50	202	4	66.4

Termination Benefit:

Fiscal Year Ending June 30	Without Rollover	With Rollover	Termination Total	Average Age at Benefit Start
1999	7	1	8	N/A
2000	27	5	32	N/A
2001	42	18	60	N/A
2002	48	12	60	N/A
2003	88	13	101	43.5
2004	94	27	121	40.8
2005	101	33	134	41.8

Disability Benefit:

Fiscal Year Ending June 30	Lump Sum Payout: Without Rollover	Lump Sum Payout: With Rollover	Lump Sum Payout: Lump Sum Total	Annuity Payout	Average Age at Benefit Start
1999	0	0	0	0	N/A
2000	0	0	0	0	N/A
2001	0	1	1	0	N/A
2002	0	0	0	0	N/A
2003	1	0	1	0	57.1
2004	0	0	0	0	N/A
2005	0	0	0	0	N/A

na = not available

TABLE 27
(continued)

Cash Balance Benefit Program
Breakdown By Type Of Benefit
(As of June 30, 2005)

Counts by Type of Benefit

Death Benefit:

Fiscal Year Ending June 30	Without Rollover	With Rollover	Death Total	Average Age at Benefit Start
1999	2	0	2	N/A
2000	6	0	6	N/A
2001	6	0	6	N/A
2002	10	1	11	N/A
2003	12	2	14	56.9
2004	10	2	12	66.6
2005	24	3	27	58.8

na = not available

TABLE 28

Cash Balance Benefit Program
(As of June 30, 2005)

Average Benefit Paid by Type of Benefit

Retirement Benefit:

	Lump Sum Payout			
Fiscal Year Ending June 30	Without Rollover	With Rollover	Lump Sum Total	Annuity Payout
1999	$800	$432	$767	$0
2000	$1,331	$1,202	$1,286	$0
2001	$1,286	$1,621	$1,314	$0
2002	$1,464	$2,993	$1,838	$0
2003	$1,245	$2,133	$1,347	$0
2004	$1,759	$3,556	$1,998	$134
2005	$2,393	$3,288	$2,614	$171

Termination Benefit:

Fiscal Year Ending June 30	Without Rollover	With Rollover	Termination Total
1999	$652	$412	$622
2000	$816	$450	$759
2001	$1,034	$997	$1,023
2002	$1,545	$1,261	$1,488
2003	$1,330	$1,090	$1,299
2004	$1,756	$1,170	$1,625
2005	$1,930	$1,562	$1,839

Disability Benefit:

	Lump Sum Payout			
Fiscal Year Ending June 30	Without Rollover	With Rollover	Lump Sum Total	Annuity Payout
1999	$0	$0	$0	$0
2000	$0	$0	$0	$0
2001	$0	$4,529	$4,529	$0
2002	$0	$0	$0	$0
2003	$7,450	$0	$7,450	$0
2004	$0	$0	$0	$0
2005	$0	$0	$0	$0

TABLE 28
(continued)

Cash Balance Benefit Program
(As of June 30, 2005)

Average Benefit Paid by Type of Benefit

Death Benefit:

Fiscal Year Ending June 30	Without Rollover	With Rollover	Death Total
1999	$970	$0	$970
2000	$2,025	$0	$2,025
2001	$1,345	$0	$1,345
2002	$2,088	$1,948	$2,075
2003	$2,929	$5,211	$3,255
2004	$2,935	$7,755	$3,738
2005	$3,333	$3,612	$3,364

TABLE 29

Cash Balance Benefit Program
(As of June 30, 2005)

Total Dollars Paid by Type of Benefit

Retirement Benefit:

Fiscal Year Ending June 30	Lump Sum Payout			
	Without Rollover	With Rollover	Lump Sum Total	Annuity Payout
1999	$8,001	$432	$8,433	$0
2000	$14,645	$7,214	$21,859	$0
2001	$41,142	$4,864	$46,006	$0
2002	$49,767	$32,926	$82,693	$0
2003	$95,878	$21,335	$117,213	$0
2004	$240,983	$74,676	$315,659	$402
2005	$363,668	$164,400	$528,068	$684

Termination Benefit:

Fiscal Year Ending June 30	Without Rollover	With Rollover	Termination Total
1999	$4,563	$412	$4,976
2000	$22,036	$2,249	$24,285
2001	$43,413	$17,950	$61,363
2002	$74,141	$15,137	$89,278
2003	$117,038	$14,174	$131,212
2004	$165,064	$31,590	$196,654
2005	$194,930	$51,546	$246,476

Disability Benefit:

Fiscal Year Ending June 30	Lump Sum Payout			
	Without Rollover	With Rollover	Lump Sum Total	Annuity Payout
1999	$0	$0	$0	$0
2000	$0	$0	$0	$0
2001	$0	$4,529	$4,529	$0
2002	$0	$0	$0	$0
2003	$7,450	$0	$7,450	$0
2004	$0	$0	$0	$0
2005	$0	$0	$0	$0

TABLE 29
(continued)

Cash Balance Benefit Program
(As of June 30, 2005)

Total Dollars Paid by Type of Benefit

Death Benefit:

Fiscal Year Ending June 30	Without Rollover	With Rollover	Death Total
1999	$1,939	$0	$1,939
2000	$12,149	$0	$12,149
2001	$8,071	$0	$8,071
2002	$20,881	$1,948	$22,828
2003	$35,151	$10,422	$45,573
2004	$29,350	$15,510	$44,860
2005	$79,992	$10,836	$90,828

TABLE 30

Medicare Premium Payment Program

On July 1, 2001, the CalSTRS Medicare Premium Payment Program began paying Medicare Part A premiums and Medicare Part B surcharges for eligible retired members.

Retired Members Enrolled in Program

Fiscal Year Ending June 30	Total Number Paying Part A Premiums	Total Amount of Part A Premiums (in thousands)	Total Number Paying Part B Surcharges	Total Amount of Part B Surcharges	Total (in thousands)
2002	5,212	$20,735	1,620	$800,506	$21,536
2003	5,683	$21,249	1,568	$776,741	$22,026
2004	5,884	$24,999	1,517	$790,879	$25,789
2005	6,017	$26,596	1,437	$828,374	$27,424

Member Summary

	CalSTRS Paying Medicare Part A			CalSTRS Deducting Medicare Part B		
Fiscal Year Ending June 30	# of Members	Mean Age	Oldest	# of Members	Mean Age	Oldest
2002	5,212	74	100	9,963	72	111
2003	5,683	74	100	11,008	72	112
2004	5,884	74	101	12,046	72	103
2005	6,017	75	102	13,018	73	104

TABLE 31

Members Participating in the CalSTRS Home Loan Program (As of June 30, 2005)

Fiscal Year Ending June 30	Amount Outstanding (in thousands)	Number of Loans Funded
1987	$180,276	1,844
1988	$169,723	1,511
1989	$184,396	1,830
1990	$395,467	3,015
1991	$477,016	3,774
1992	$456,963	3,647
1993	$310,607	3,350
1994	$95,068	788
1995	$18,258	142
1996	$18,913	153
1997	$25,735	126
1998	$50,856	362
1999	$40,492	280
2000	$53,809	427
2001	$357,087	2,915
2002	$528,042	4,125
2003	$444,750	2,915
2004	$243,431	1,311
2005	$62,434	298

TABLE 32

Voluntary Investment Program
Participant/Asset Information
(As of June 30, 2005)

Fiscal Year Ending June 30	Total Participants	Total Assets (in thousands)
1996	660	$16,037
1997	1,010	$19,386
1998	1,498	$25,309
1999	1,700	$35,973
2000	2,300	$50.423
2001	2,655	$57,229
2002	2,981	$62,067
2003	3,193	$74,610
2004	3,388	$94,469
2005	3,519	$111,776

TABLE 33

Restoration of Allowance Purchasing Power Through Supplemental Payments

Fiscal Year Ending June 30	Purchasing Power Achieved after Payment	No. of Members Receiving Payments	Total Paid for Fiscal Year (in thousands)	Average Monthly Payment
1984	58.4%	35,654	$21,394	$50.00
1985	62.4%	57,189	$54,307	$79.13
1986	65.5%	56,811	$85,675	$125.67
1987	68.2%	57,343	$122,275	$177.69
1988	68.2%	59,092	$128,231	$180.83
1989	68.2%	58,037	$143,061	$205.42
1990	68.2%	55,971	$158,274	$235.65
1991	68.2%	52,199	$168,923	$269.68
1992	68.2%	48,650	$178,058	$305.00
1993	68.2%	54,029	$184,551	$284.65
1994	68.2%	49,113	$178,887	$303.53
1995	68.2%	46,459	$168,360	$301.99
1996	68.2%	41,703	$168,517	$336.74
1997	68.2%	38,939	$159,787	$341.96
1998	75.0%	44,887	$179,308	$332.89
1999	75.0%	42,624	$197,860	$386.83
2000	75.0%	41,048	$190,478	$386.70
2001	75.0%	44,699	$189,388	$353.08
2002	80.0%	60,428	$256,976	$354.38
2003	80.0%	58,591	$233,815	$343.93
2004	80.0%	55,779	$223,501	$333.91
2005 *	80.0%	57,079	$222,879	$325.40

* Current year estimated

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