

ANNUAL REPORT ON THE EROSION OF PURCHASING POWER
OF
STATE TEACHERS' RETIREMENT SYSTEM ALLOWANCES

APRIL 1, 1990

STATE TEACHERS' RETIREMENT SYSTEM

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STATE TEACHERS' RETIREMENT SYSTEM

1989 REPORT TO THE GOVERNOR AND LEGISLATURE AS REQUIRED BY SECTION 24700 OF THE EDUCATION CODE

I. Legislative Requirement for Report

Chapter 802, Statutes of 1979 (AB-604), added Education Code Section 24700 which reads:

"The Legislature recognizes that inflation erodes the purchasing power of benefits paid under the State Teachers' Retirement system. It is the intent of the Legislature to understand the degree of erosion of these benefits. The board shall report to the Governor and Legislature no later than April 1 of each year on the extent of which inflation has eroded the purchasing power of benefits under the State Teachers' Retirement system. The board shall indicate the amount of supplementary increases in retirement allowances required to preserve the purchasing power of benefits provided by the system. The board shall also determine and report on the increases."

The legislation has been interpreted as requiring the Teachers' Retirement Board to prepare a report annually, as of the end of the calendar year, including:

- A. The current purchasing power of the State Teachers' Retirement System (STRS) allowances.
- B. The amount of ad hoc (permanent) allowance increases needed to restore the full 100% of purchasing power of the initial allowances.
- C. Summary of all allowance increases granted to date.

(Note: As used in this report, the term "ad hoc increase" always refers to a permanent change to the allowance. The change is calculated once and is paid for life. By contrast a supplemental increase is dependent upon the level of funding that is made available in future years. COLA is used for pre-defined periodic adjustments to allowances independent of annual appropriations.)

II. Selection of Base Year and Reporting Period

- A. The STRS implemented the 1/60th benefit formula in 1956 and recalculated all previous allowances on the basis of the new formula. As of December 1, 1989, only 833 of these pre-1956 benefit recipients (about 0.7% of the total allowance roll count) are still on the roll. We have selected 1956 as the base year for this report and have grouped all of the pre-1956 benefit recipients.

B. The STRS has always maintained its benefit statistics and granted ad hoc increases on the July 1 through June 30 fiscal year basis to match the school year. For this report, however, we have used the calendar year basis for two reasons:

1. The calendar year is more logical in calculating purchasing power and developing purchasing power ad hoc increases because the majority of the system's retirants have effective dates in June and July. The base California Consumer Price Index (CCPI) as of June in the year of retirement is effectively the CCPI as of the retirement date for most retirants.
2. This report to the Governor and the Legislature is due on April 1 each year. Updating through the preceding December gives the most current data reasonably available.

III. CCPI Increases from Year of Retirement through December 1989

The percentage increases in the CCPI are measured from June of the calendar year of retirement through December 1989. Historically, about 85% of all retirements have effective dates in either June or July. The June index figures are, therefore, essentially the index as of the month of retirement for most of our retirants.

Table 1 displays the CCPI figures for June of the calendar year of retirement and the percent of increase in the CCPI that has occurred from the year of retirement through December 1989 for all years from 1956 through 1989.

IV. Post Retirement Benefit Increases

Post retirement benefit increases are a relatively new feature, with the first STRS increase implemented as of July 1, 1967. The design of ad hoc allowance increases has varied from set percentage increases by year of retirement on the first \$300 of allowance, implemented as of July 1, 1967; July 1, 1972; July 1, 1976; and July 1, 1978; to minimum guarantee increases implemented as of July 1, 1972, October 1, 1980, and September 1, 1981; to a purchasing power increase implemented as of January 1, 1980. It is this purchasing power concept which attempts to maintain allowances at a specified percentage of the retirant's original purchasing power.

In addition to the continuing ad hoc allowance increases which permanently increase the allowance, one-year supplemental benefit payments, payable in quarterly installments, have been implemented. The amount of the supplemental benefit payments for any one year is dependent upon monies made available for that year. Beginning with the 1983/84 budget year, a sum of money based upon the average increase in the statewide payroll for certificated school employees over the previous three years is to be included in the Governor's budget. This sum of money is to provide quarterly payments during the year to STRS benefit recipients whose allowances are below 75% of purchasing power, increasing those allowances to a common minimum purchasing power level. The 1989/90 budget included an appropriation of \$167.3 million from the Teachers' Retirement Fund which restored purchasing power to a minimum of 68.2% for the year after all increases are applied.

Beginning July 1, 1984, additional monies derived from the use of school lands are available for quarterly payments during the year. The income

derived from school lands is to be prorated among all allowance recipients whose allowances are below 75% of purchasing power. The 1990/91 budget estimates that \$3.14 million will be available from this source.

The Cecil Green-William Campbell-Dave Elder Act of 1989 (SB1407 and SB1513) established the Supplemental Benefit Maintenance Account consisting of an annual General Fund contribution which would provide quarterly supplemental benefit payments to restore purchasing power to 68.2%. Like other supplemental benefit payments, these are not vested and will only be made if funds are available in the account.

A summary of all the increases enacted to date is displayed in Exhibit I on page 9. Exhibit II on page 10 contains a detailed description of each ad hoc allowance increase and supplemental increase, complete with legislative references.

V. Current Purchasing Power

Exhibit III on page 15 is a detailed analysis as of December 31, 1989 of the increases in CCPI since specified years of retirement, the average permanent allowance increases granted to date, the current average purchasing power of allowances and the average percentage increases required to restore full purchasing power to the allowances.

Table 2 displays the average current allowance purchasing power by calendar year of retirement and the average percentage increases needed in the current allowance to restore the allowance to a full 100% of purchasing power of the initial allowance, based on the December 1989 CCPI. Table 2 does not address possible future levels of inflation; it only describes the effect of past inflation. If inflation continues at current levels, further increases will be needed in future years to maintain the purchasing power that will have been restored. The cost of maintaining purchasing power will depend on the extent of future inflation. The count of benefit recipients by year has been included to aid in assessing the impact of current allowance erosion.

Exhibit IV on page 16 displays the actual number of benefit recipients at specific allowance purchasing power levels on December 31, 1989.

VI. Erosion of Allowance Purchasing Power

In January 1980, the STRS benefit recipients were granted a major ad hoc increase intended to adjust allowances up to 72% of the purchasing power of the initial allowance based on an estimated September 1979 CCPI. However, the increase only raised the purchasing power to an average 71% of the actual June 1979 CCPI. The CCPI has risen 83.0% from the period June 1979 to December 31, 1989. During this period, eight annual 2% simple benefit improvements have been granted to all benefit recipients, one minimum guarantee increase to \$16 per month per year of service credit was granted to 7,786 retirants, and one minimum guarantee increase to \$18 per month per year of service credit was granted to 12,064 retirants, including the 7,786 from the previous minimum guarantee adjustments.

A review of Exhibit IV on page 16 indicates 47,727 (40.0%) benefit recipients below the 60% purchasing power level on December 31, 1989.

TABLE 1

INCREASE IN CCPI FROM YEAR OF
RETIREMENT THROUGH DECEMBER 1989

<u>Calendar Year of Retirement</u>	<u>California Consumer Price Index As of June</u>	<u>Percent Increase From Calendar Year of Retirement Through December 1989</u>
1956	26.2	395.8
1957	27.1	379.3
1958	28.1	362.3
1959	28.5	355.8
1960	29.1	346.4
1961	29.5	340.3
1962	30.0	333.0
1963	30.2	330.1
1964	30.8	321.8
1965	31.6	311.1
1966	32.1	304.7
1967	32.9	294.8
1968	34.3	278.7
1969	36.0	260.8
1970	37.9	242.7
1971	39.4	229.7
1972	40.5	220.7
1973	42.7	204.2
1974	47.1	175.8
1975	52.0	149.8
1976	55.2	135.3
1977	59.5	118.3
1978	64.6	101.1
1979	71.0	83.0
1980	83.3	55.9
1981	90.1	44.2
1982	98.5	31.9
1983	99.1	31.1
1984	103.6	25.4
1985	108.4	19.8
1986	112.2	15.8
1987	116.3	11.7
1988	121.7	6.7
1989	128.2	1.3

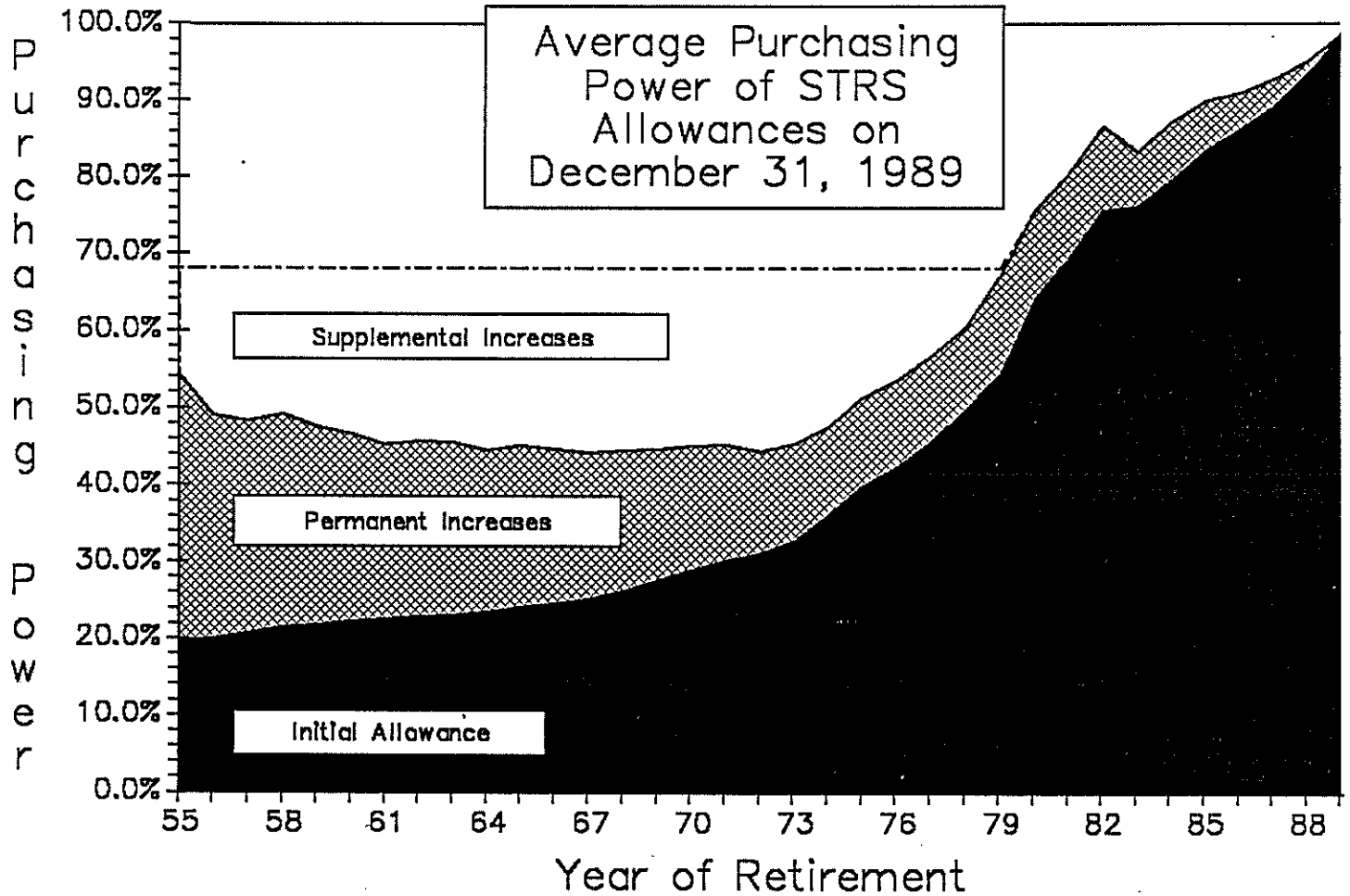
The percent increase from calendar year of retirement was calculated by dividing the December 1989 CCPI (129.9) by the index figure for the year of retirement and adjusting the results to reflect the percentage increase. For example, the calculation for 1956 is :

$$129.9 / 26.2 = 4.958 - 1.000 = 3.958 \times 100 = 395.8$$

TABLE 2

PURCHASING POWER AS OF DECEMBER 1989
AND
PERCENTAGE INCREASE NEEDED IN CURRENT ALLOWANCE
PAYABLE TO RESTORE FULL PURCHASING POWER

<u>Year of Retirement</u>	<u>Count of Benefit Recipients</u>	<u>Current Purchasing Power</u>	<u>Percentage Increase to Restore Full Purchasing Power</u>
Prior to 1956	833	54.4%	83.4%
1956	298	49.1%	103.7%
1957	342	48.4%	106.6%
1958	363	49.3%	102.7%
1959	459	47.6%	110.2%
1960	591	46.7%	114.2%
1961	687	45.3%	120.7%
1962	933	45.8%	118.5%
1963	962	45.6%	119.2%
1964	1,084	44.6%	124.2%
1965	1,305	45.2%	121.1%
1966	1,362	44.7%	123.8%
1967	1,579	44.3%	125.9%
1968	1,857	44.6%	124.3%
1969	2,340	44.8%	123.0%
1970	2,473	45.2%	121.4%
1971	3,047	45.4%	120.1%
1972	4,448	44.4%	125.1%
1973	4,292	45.5%	119.5%
1974	3,947	47.7%	109.6%
1975	4,217	51.5%	94.2%
1976	4,772	53.7%	86.2%
1977	4,702	56.9%	75.8%
1978	4,914	60.6%	65.0%
1979	5,337	67.3%	48.5%
1980	5,230	75.7%	32.0%
1981	5,579	80.4%	24.3%
1982	5,625	86.7%	15.8%
1983	6,495	83.4%	19.7%
1984	6,357	87.3%	14.5%
1985	6,532	90.0%	11.0%
1986	6,292	91.1%	9.8%
1987	6,290	92.9%	7.7%
1988	6,651	95.4%	4.8%
1989	7,059	98.7%	1.3%



Purchasing power measures how benefits keep pace with inflation. The solid area shows the average purchasing power of the initial allowance using the change in the California Consumer Price Index from June of the calendar year of retirement to June 1989. The hatched area shows how the permanent increases, both the various ad hoc increases and the annual 2% increase, have added to the purchasing power of the initial allowance. During the 1989-90 year, the purchasing power of the permanent allowance has been further increased to the dashed line by means of quarterly supplemental benefit payments. These quarterly payments are payable on an annual basis subject to a General Fund appropriation specifically provided by the state in the Budget Act and revenues from School Lands.

The cost of increasing benefit payments for the 1990-91 year for various levels of purchasing power is shown in Table 4.

TABLE 3

STATE TEACHERS' RETIREMENT SYSTEM

Restoration of Purchasing Power
through
Supplemental Payments

<u>Year</u>	<u>Purchasing</u>		<u>Total \$</u> <u>Required</u>	<u>Source</u>		
	<u>Power</u>	<u>Count</u>		<u>School</u> <u>Lands</u>	<u>Investment</u> <u>Earnings</u> *	<u>Budget</u> <u>Appropriation</u> **
83-84	58.4%	35,654	\$ 21,394,183	\$ n/a	\$ 894,183	\$ 20,500,000
84-85	62.4%	57,189	54,306,976	10,119,124	2,426,456	41,761,396
85-86	65.5%	56,811	85,675,243	7,770,757	3,994,458	73,910,028
86-87	68.2%	57,343	122,275,289	4,167,970	5,511,448	112,595,871
87-88	68.2%	59,092	128,231,357	6,083,374	5,317,456	116,830,527
88-89	68.2%	58,037	143,061,285	4,479,266	5,956,019	132,626,000
89-90	68.2%	55,971	160,400,335	2,910,000	n/a	157,490,335

* Section 24701 of the Education Code requires that the General Fund appropriation be transferred to the Teachers' Retirement Fund on July 1. Because the Teachers' Retirement Fund is receiving investment income on the General Fund appropriation during the time between receipt of the appropriation and its' later disbursement in the form of four quarterly payments, interest is added to the Retirees' Purchasing Power Protection Account. School lands income is both received and disbursed throughout the year, and thus does not materially contribute to STRS investment income. Investment income represents a source of funding only when there are funds from external sources that are generating investment income for the account from which supplemental benefits are paid.

** Includes carryover from prior year, if any. The 89-90 appropriation was from the Teachers' Retirement Fund. This amount plus regular interest will be repaid from the future General Fund contributions to the Supplemental Benefit Maintenance Account.

Table 4

Estimated Cost of Restoration of
Purchasing Power during the 1990-91 Year

<u>Purchasing</u>	<u>Power</u>	<u>Count</u>	<u>Total \$</u> <u>Required</u>	<u>School</u> <u>Lands</u>	<u>Additional \$ Required for</u> <u>Purch. Power Level</u>
68.2%		53,390	\$183,274,961	\$3,140,000	\$180,134,961
70.0%		54,363	200,655,968	3,140,000	197,515,968
75.0%		60,047	250,114,789	3,140,000	246,974,789

EXHIBITS

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STATE TEACHERS' RETIREMENT SYSTEM
HISTORY OF ALLOWANCE ROLL ADJUSTMENTS

Description of Increase	2% for 64-65 Up To 23% Prior To 7-1-56	2% for 70-71 Up To 14% Prior To 7-1-65	Minimum Guarantee From \$6.67 To \$10.00	2% Simple After 1st Anniversary Every 9-1 starting 9-1-73	9% Prior to 7-1-72 6% 72-73 3% 73-74	Adjusted Up To 72% of Estimated Sept. '79 Purchasing Power	Minimum Guarantee From \$10.00 To \$16.00 and From \$16.00 To \$18.00
Allowance Base Increased	First \$300	First \$300		All of Letter of Initial Allowance or 7-1-72 Allowance	First \$300	Calculated Against Initial Allowance	
Effective Date of Increase	7-1-67	7-1-72	7-1-72	9-1-	7-1-76 Service > 20 Yrs. 7-1-78 Services < 20 Yrs.	1-1-80 (See 2 Below)	10-1-80 & 9-1-81
Effective Date of Benefit							
Prior to 7-1-56							
1956-57	23% 19	14% 14	See 1 Below	18% 18	9% 9	Average Dollar Increase \$39)	See 4 Below
1957-58	19	14	\$42	18	9	39)	
1958-59	13	14	42	18	9	39) See 3 Below	
1959-60	10	14	42	18	9	76	
1960-61	9	14	42	18	9	79	
1961-62	7	14	42	18	9	82	
1962-63	6	14	42	18	9	79	
1963-64	4	14	42	18	9	96	
1964-65	2	14	42	18	9	84	
1965-66	-0-	14	42	18	9	89	
1966-67		12	36	18	9	94	
1967-68		10	30	18	9	94	
1968-69		8	24	18	9	87	
1969-70		6	18	18	9	73	
1970-71		4	12	18	9	50	
1971-72		2	6	18	9	35	
1972-73		-0-	-0-	16	6	25	
1973-74				14	3	19	
1974-75				12	-0-	-0-	
1975-76				10			
1976-77				6			
1977-78				6			
1978-79				4			
1979-80				2			
1980-81				-0-			

EXHIBIT II-REF.

- The minimum guarantee was changed from \$80 per year (\$6.67 per month) per year of service credit to \$120 per year (\$10 per month) per year of service credit as of July 1, 1972. All allowances, including those of individuals who retired prior to age 60 on a reduced allowance, were adjusted up to at least the \$10 per year of service level.
- The average dollar increase amounts are based on all benefit recipients in the effective year, including those who did not receive an increase.
- Ad hoc increase grouped all prior to July 1, 1958 effective dates into a single group so we do not have detailed data for these prior to 7-1-56, 56-7 and 57-8 groups. 52.5% of the individuals in these three groups did not receive an increase. The majority of these had current allowances above the purchasing power goal because of very large minimum guarantee increases in 1972.
- The minimum guarantee, for those already retired, was increased on October 1, 1980 from \$10 per month per year of service credit to \$16 per month per month per year of service credit. For those retired prior to January 1, 1982 the minimum guarantee was increased from \$16 per month per year of service credit to \$18 per month per year of service credit. On both occasions, the benefit level was actuarially reduced for early retirement and/or the election of joint and survivor options.
- The July 1, 1973 adjustment of survivor allowances not included in this exhibit was as follows:

STATE TEACHERS' RETIREMENT SYSTEM

POST RETIREMENT BENEFIT INCREASES
(All Section References are to the Education Code)Permanent Allowance Increases

- A. Chapter 358, Statutes of 1967 (AB-98), added section 14371.1. Chapter 896, statutes of 1969, recodified this section into Article 26, Sections 14330 through 14336. These sections were then amended in 1971 to cover the next ad hoc increase. Section 14371.1 specified that the allowance was to be increased by the amount derived by applying the percentage set forth in the following table opposite the period during which the retirement was effective to the portion of the allowance payable for such time, excluding any annuity provided by accumulated annuity deposit or accumulated tax-sheltered annuity contributions and prior to any modification under an option, which did not exceed three hundred dollars (\$300).

	<u>Period During Which Retirement Became Effective</u>	<u>Percentage of Increase In Monthly Allowance</u>
1.	Prior to and including July 1, 1956	23
2.	12 months ending on July 1, 1957	19
3.	12 months ending on July 1, 1958	14
4.	12 months ending on July 1, 1959	13
5.	12 months ending on July 1, 1960	10
6.	12 months ending on July 1, 1961	9
7.	12 months ending on July 1, 1962	7
8.	12 months ending on July 1, 1963	6
9.	12 months ending on July 1, 1964	4
10.	12 months ending on July 1, 1965	2
11.	After July 1, 1965	-0-

The increase was first applied to the allowance payable for July 1967.

- B. Chapter 1305, Statutes of 1971 (AB-543), amended sections 14330 through 14335, repealed 14336 and added sections 13838.5, 14186.5, 14224.5, 14334.6, and 14334.8. Chapter 1010, Statutes of 1976 (AB-3100), recodified the law again, deleting sections 14330 through 14334 and section 14334.6 and renumbering section 13838.5 as 22131, section 14186.5 as 23808, section 14224.5 as 23917, section 14335 as 24401, and section 14334.8 as 24400. The basic ad hoc increase read the same as the 1967 increase and applied the following percentage increases to the first \$300 of the allowance.

<u>Effective Date of Retirement</u>	<u>Percentage</u>
1. Prior to July 2, 1965	14
2. July 2, 1965 through June 30, 1966	12
3. July 1, 1966 through June 30, 1967	10
4. July 1, 1967 through June 30, 1968	8
5. July 1, 1968 through June 30, 1969	6
6. July 1, 1969 through June 30, 1970	4
7. July 1, 1970 through June 30, 1971	2
8. After July 1, 1971	0

Section 14334.6 provided for a retroactive change, applied after the increase described above, which increased all allowances to an amount equal to at least ten dollars (\$10) per month for each year of creditable service. This was an increase of 50% over the previous minimum guarantee allowance of \$6.67 per month for each year of service. For individuals who had retired prior to age 60 and taken a reduced allowance, the increase was even more than 50% because the adjustment did not specify reducing the new minimum level for early retirement.

Sections 13838.5, 14186.5, 14224.5, and 14334.8 established the annual improvement in benefits and provided the first 2.0% simple improvement effective on September 1, 1973. Section 13838.5 defined the improvement factor as an increase of 2% in benefits for each year commencing on September 1, following the first anniversary of the effective retirement date, or the date on which monthly benefits commenced to accrue to any beneficiary other than a retiree or such other periods as specifically stated in the law. The 2% improvement factor is not compounded.

Sections 14186.5 and 14224.5 made the improvement factor applicable to family allowances, service retirements, and disability allowances which began to accrue after June 30, 1972. Section 14334.8 specified that allowances which began to accrue prior to July 1, 1972 and were payable on August 1, 1972, exclusive of annuities from the annuity Deposit Fund and Tax Sheltered Annuities, would be increased by application of the benefit improvement factor on September 1, 1973, and annually thereafter:

- C. Chapter 1433, Statutes of 1974, added this section 14186.6. Chapter 1010, Statutes of 1976, renumbered this as section 23809. All previous increases had ignored the old survivor benefit program and left the allowance set at a fixed \$90, \$180, or \$250 for 1, 2, and 3 or more beneficiaries respectively. Effective July 1, 1973, this section increased those fixed allowances to \$105, \$210, and \$290, respectively, and specified that the improvement factor would be applied to those allowances starting on September 1, 1974.

D. Chapter 323, Statutes of 1976 (SB-1641), added section 14245 which was renumbered in 1978 as section 24403. This section provided that the first \$300 of the monthly allowance payable would be increased as follows - if the member had 20 or more years of service credit.

<u>Effective Date of Retirement</u>	<u>Percentage</u>
Prior to July 1, 1972	9
July 1, 1972 to June 30, 1973	6
July 1, 1973 to June 30, 1974	3

E. Chapter 931, Statutes of 1978 (AB-2360), added section 24402. This section provided the same increase as the 1976 legislation above, except that it was only payable if the member had less than 20 years of service credit.

F. Chapter 1036, Statutes of 1979 (SB-629), added section 24405. This section provided for increasing allowances to the amount that resulted when the initial allowance was multiplied by the percentage set forth opposite the year of disability retirement or member death in the following schedule:

<u>Period During Which Retirement or Death Occurred</u>	<u>Percentage</u>
On or before June 30, 1958	180.4
12 months ending June 30, 1959	175.8
12 months ending June 30, 1960	172.2
12 months ending June 30, 1961	169.8
12 months ending June 30, 1962	167.8
12 months ending June 30, 1963	165.5
12 months ending June 30, 1964	163.0
12 months ending June 30, 1965	159.8
12 months ending June 30, 1966	156.7
12 months ending June 30, 1967	153.1
12 months ending June 30, 1968	147.5
12 months ending June 30, 1969	141.6
12 months ending June 30, 1970	134.5
12 months ending June 30, 1971	128.7
12 months ending June 30, 1972	124.5
12 months ending June 30, 1973	119.6

The increases were effective as of January 1, 1980 and were applicable to those persons receiving allowances effective dates prior to June 30, 1973. For those retirants, disabilitants, and beneficiaries who were receiving an allowance with an effective date prior to July 1, 1965, the initial allowance was deemed to be the allowance payable on July 1, 1965. However, for purposes of determining the increased allowance payable under section 24405, the percentage corresponding to the actual year of retirement was applied.

This increase was calculated on the initial allowance amount and was not limited to any fixed portion of the allowance.

- G. Chapter 1286, Statutes of 1980 (SB-1557) added section 24407. This section provided for an increase in allowances payable to retirants whose allowance effective dates were prior to January 1, 1981, up to a minimum level of \$16 per month for each year of service credit. If the retirant had retired prior to age 60 and/or elected a joint and survivor option, the \$16 benefit level was actuarially reduced for early retirement and/or the option elected.
- H. Chapter 1089, Statutes of 1981 (SB-744) added section 24407.5. This section provided for an increase in allowances payable to current retirants who retired prior to January 1, 1982, to a minimum level of \$18 per month per year of service credit. If the retirant had retired prior to attaining age 60 and/or elected a joint and survivor option, the \$18 benefit level was actuarially reduced for early retirement and/or the option elected.

Supplemental Benefit Payments

- A. Chapter 1606, Statutes of 1982 (SB-1562) added section 24701. This section provides for annual budget appropriations equal to 5 percent of the average increase in statewide payroll for certificated employees for the last three years. Any such appropriation is to be placed in the Retirees' Purchasing Power Protection Account and is to be used to provide quarterly payments during the year, commencing on September 1, to those benefit recipients who, after application of the annual 2% improvement factor, remain below 75% of purchasing power. The payments are made to those benefit recipients whose allowances have lost the most purchasing power since retirement. Chapter 780, Statutes of 1983, clarified the author's intent that payment was to be made first to recipients with the lowest purchasing power.

These supplemental benefit payments will only be paid if money is made available to the Retirees' Purchasing Power Protection Account through the Budget Act. No payments may be made under this provision in any year in which supplemental payments will be made under the provisions of Chapter 116, Statutes of 1989 (refer to item C below). The supplemental payments are not a permanent change to the allowance.

- B. Chapter 1213, Statutes of 1983 added section 24702. This section provides that the income from school and lieu lands is to be used for additional quarterly supplemental benefit payments. The available funds are to be allocated on a pro-rata basis to all benefit recipients whose purchasing power has fallen below 75%. These funds are transferred directly to STRS and are not subject to annual appropriation.

These supplemental benefit payments are based upon the amount of available school lands revenue. There is no permanent change to the allowance.

- C. Chapters 115 and 116, Statutes of 1989 (SB-1407 and SB-1513), known as the Cecil Green-William Campbell-Dave Elder Act, established the Supplemental Benefit Maintenance Account and provided for annual General Fund contributions to the account beginning with 0.5% of payroll in 1990-91, increasing by 0.5% of payroll each year to a maximum of 2.5% of payroll. The proceeds of the account will be used to provide quarterly supplemental payments to restore purchasing power to 68.2%.

Because the General Fund contribution in the first few years is not sufficient to restore purchasing power to this level, supplemental financing will come from the Teachers' Retirement Fund until the annual appropriation

reaches the level needed to restore purchasing power to 68.2%. All sums advanced by the Teachers' Retirement Fund, along with regular interest, will then be repaid from the Supplemental Benefit Maintenance Account.

After repayment of all sums advanced, if the balance in the Supplemental Benefit Maintenance Account is sufficient for restoring purchasing power to 68.2% for three years, the General Fund appropriation for the year may be adjusted to the level that would maintain a three year reserve. In no event may the appropriation be adjusted above 2.5% of payroll.

STATE TEACHERS' RETIREMENT SYSTEM
AVERAGE PERCENTAGE INCREASE NEEDED TO RESTORE FULL PURCHASING POWER
BASED ON ALLOWANCES PAYABLE AND ON CCPI AS OF DECEMBER 31, 1989

Calendar Year of Retirement	Increases in CCPI Through December 1989	Average Increases in Allowance Through December 1989	Average Purchasing Power of December 1989 Allowance	Average Increases Needed to Restore Full Purchasing Power
(1)	(2)	(3)	(4)	(5)
Prior to 1956	405.4	175.5%	54.4%	83.4%
1956	395.8	143.4%	49.1%	103.7%
1957	379.3	132.0%	48.4%	106.6%
1958	362.3	128.1%	49.3%	102.7%
1959	355.8	116.8%	47.6%	110.2%
1960	346.4	108.4%	46.7%	114.2%
1961	340.3	99.5%	45.3%	120.7%
1962	333.0	98.2%	45.8%	118.5%
1963	330.1	96.2%	45.6%	119.2%
1964	321.8	88.1%	44.6%	124.2%
1965	311.1	85.9%	45.2%	121.1%
1966	304.7	80.8%	44.7%	123.8%
1967	294.8	74.8%	44.3%	125.9%
1968	278.7	68.8%	44.6%	124.3%
1969	260.8	61.8%	44.8%	123.0%
1970	242.7	54.8%	45.2%	121.4%
1971	229.7	49.8%	45.4%	120.1%
1972	220.7	42.5%	44.4%	125.1%
1973	204.2	38.6%	45.5%	119.5%
1974	175.8	31.6%	47.7%	109.6%
1975	149.8	28.6%	51.5%	94.2%
1976	135.3	26.4%	53.7%	86.2%
1977	118.3	24.2%	56.9%	75.8%
1978	101.1	21.9%	60.6%	65.0%
1979	83.0	23.2%	67.3%	48.5%
1980	55.9	18.1%	75.7%	32.0%
1981	44.2	16.0%	80.4%	24.3%
1982	31.9	13.9%	86.7%	15.8%
1983	31.1	9.5%	83.4%	19.7%
1984	25.4	9.5%	87.3%	14.5%
1985	19.8	7.9%	90.0%	11.0%
1986	15.8	5.5%	91.1%	9.8%
1987	11.7	3.8%	92.9%	7.7%
1988	6.7	1.8%	95.4%	4.8%
1989	1.3	0.0%	98.7%	1.3%

Explanation of source and/or calculation for columns 3, 4, and 5.

Column 3 - Increases from all sources as a percentage of initial allowance. Obtained by dividing average current allowance by average initial allowance and adjusting to a percentage.

Column 4 - Purchasing Power as of December 1988. Obtained by dividing total current allowance payable by full CCPI adjusted allowance. Based on totals for all benefit types by calendar year effective date.

Column 5 - Percentage increase in current allowance payable required to restore full 100 purchasing power as of December 1989. Obtained by dividing the fully adjusted CCPI allowance factor by the percentage increase to date (column 3) and adjusting to a percentage.

$$405.4 + 100 = 505.4 / (175.5 + 100) = 1.834 \times 100 = 183.4 - 100 = 83.4\%$$

STATE TEACHERS' RETIREMENT SYSTEM

NUMBER OF BENEFIT RECIPIENTS
BY PURCHASING POWER LEVELS

PERCENTAGE PURCHASING POWER LEVEL	ESTIMATED JUNE 30, 1989	
	<u>NUMBER</u>	<u>PERCENT</u>
Over 75	58,594	49.1%
71 - 75	6,019	5.0
66 - 70	2,854	2.4
61 - 65	4,061	3.4
56 - 60	5,681	4.8
51 - 55	9,767	8.2
0 - 50	32,279	27.1
TOTAL	<u>119,255</u>	
<u>100.0%</u>		

Exhibit IV arrays the benefit recipients by percentage of allowance purchasing power levels. All recipients whose initial allowances plus permanent increases from all sources are above 75% of full purchasing power, are combined in one group. Also, those whose initial allowances plus increases from all sources are below 50% of full purchasing power are combined in one group.