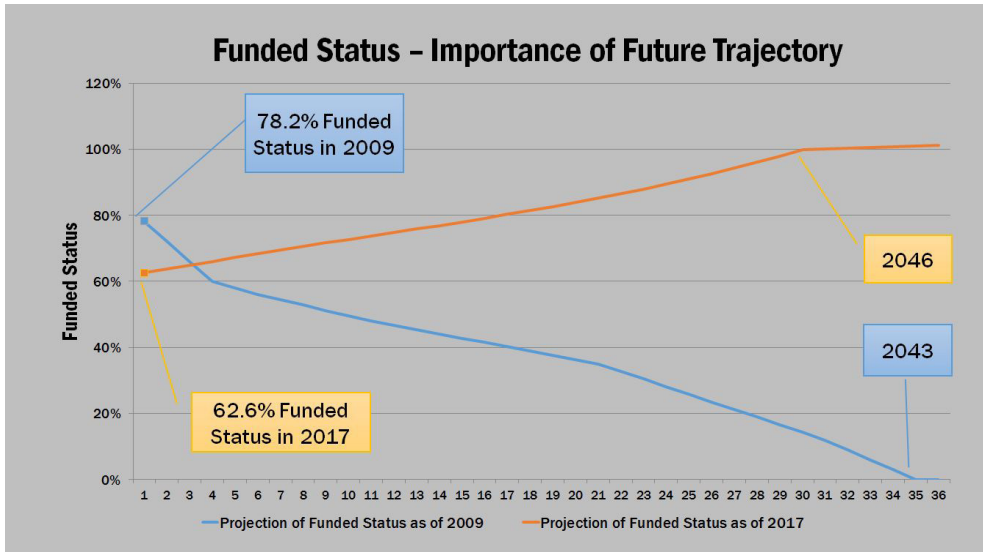


Why Full Funding Matters

When the funding of pension systems is mentioned in media reports, the notion of 80 percent funding as a benchmark for a “healthy” pension system is often noted. But according to [a CalSTRS report](#), it's not the snapshot in time that denotes the health of the system, but the funding trajectory over time. For example, in 2009, CalSTRS was nearly 80 percent funded. What the number alone did not tell was that the funding trend was moving downward toward depletion. CalSTRS is now on track to reaching full funding in three decades thanks to changes in contributions by members, employers and the state, despite being 63 percent funded.

The actuarial profession agrees full funding is the best option. In 2014, the American Academy of Actuaries published a report calling 80 percent funding a myth and advocated for all plans to aim at a 100 percent funding target. Funding toward a target of less than full funding may result in lower contributions in the short term, but doing so would simply push

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Board Receives Report on Purchasing Power Protection

The board's Benefits and Services Committee was provided with [an informational presentation](#) on the Supplemental Benefit Maintenance Account. The SBMA provides quarterly payments to CalSTRS benefit recipients whose purchasing power has fallen below 85 percent of their initial allowance, as long as funds are available.

At the May 2018 meeting, the board was presented with a required report on options for using excess SBMA resources. At that meeting, the board directed staff to work with stakeholders and the Legislature to analyze options that could be used to help CalSTRS members who are most in need of economic assistance while not compromising the financial integrity of the SBMA and its long-term ability to provide inflation protection. In September 2018, the board and stakeholders received an overview of how the program operates, how it is funded, how inflation is measured, which members receive inflation protection today, and how the financial integrity of the SBMA is directly related to future levels of inflation.

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Board Member Profiles:



Harry M. Keiley K-12 Classroom Teacher

Harry M. Keiley is a high school teacher with the Santa Monica-Malibu Unified School District, and was elected to the Teachers' Retirement Board in 2007.

He has served as the president of Santa Monica-Malibu Classroom Teachers Association and chair of the California Teachers Association Political Involvement Committee. Mr. Keiley serves as Chair of the Investment Committee, as well as on the Audits & Risk Management, Benefits & Services and Board Governance committees.



Nora E. Vargas School Board Representative

Nora E. Vargas has served as the vice president of Community & Government Relations for Planned Parenthood of the Pacific Southwest since 2009.

Ms. Vargas is president of the Southwestern Community College District Governing Board. She is the board chair of Hispanas Organized for Political Equality (HOPE), and has been active in public service since 1998, with a focus on access to education, health care and Latino issues. In 1997 and 1998, Ms. Vargas was a presidential appointee to the United States Selective Service System. Ms. Vargas serves as Vice Chair of the Board Governance Committee and sits on the Audits & Risk Management, Compensation and Investment committees.

Dana Dillon
Board Chair

Sharon Hendricks
Vice Chair

Keely Bosler
Ex-Officio Member, Director of Finance

John Chiang
Ex-Officio Member, State Treasurer

Joy Higa
Public Representative

Harry M. Keiley
K-12 Classroom Teacher

Paul Rosenstiel
Public Representative

Tom Torlakson
Ex-Officio Member, State Superintendent of Public Instruction

Nora E. Vargas
School Board Representative

Karen Yamamoto
Retiree Representative

Betty Yee
Ex-Officio Member, State Controller

Planning for Health Care Costs in Retirement?

A [study of health care trends](#) among retirees was presented to the Teachers' Retirement Board Benefits and Services Committee by Sudipto Banerjee of T. Rowe Price. Among the key findings nationally, nursing home stays have the highest costs and the greatest potential to impact retirement security. As we age, the chances of a health issue requiring a costly nursing home stay increases, especially for those in their 80s and 90s. The good news, however, is that most people will not need a nursing home stay in their lifetime. Or the stay will be short or infrequent enough to not accrue large expenses.

A wide range of health care costs exist in retirement. For most people, the costs are predictable and attributable to monthly health insurance and prescription drug coverage premiums. Budgeting within the context of all expenses in retirement, along with considering personal circumstances such as current health status, is the most prudent method to ensuring retirement security will not be impacted by health care.

According to the latest annual California Department of Education survey, employers who responded—representing 84 percent of active, full-time equivalent K-12 teachers—offered employer-subsidized health coverage for retirees under age 65. The annual average total cost of all plans for retirees under age 65 was about \$16,100, with the employee share of about \$7,500 (46 percent).

For retirees age 65 or older, employers who responded—representing 33 percent of active, full-time equivalent K-12 teachers—offered employer-subsidized coverage. The average total annual cost for all health plans offered by former employers for CalSTRS retirees over age 65 was about \$10,000. The employee share of this cost was \$5,400 (54 percent).

CalSTRS members who retired prior to January 1, 2012, may be eligible for the CalSTRS [Medicare Premium Payment Program](#). To understand more about Medicare options and eligibility, visit www.medicare.gov.

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Why Full Funding Matters

costs into the future, ballooning the size of the unfunded liability and making it more expensive to keep the fund solvent in the long term.

CalSTRS members have a constitutionally vested right to their promised benefit. A higher funding level protects members' retirement benefits from external market conditions. Recessions and market corrections are inevitable, and a higher funding level provides more assurance that CalSTRS' investment portfolio will be able to weather difficult market conditions when they occur and continue to fund member benefits over the long term.

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Board Receives Report on Purchasing Power Protection

Key findings:

- \$161 million in SBMA benefits was provided to 61,387 retirees who received average quarterly payments of \$687 (\$229 per month) in 2017–18.
- In 2018–19, all members who retired in 1999 or earlier will be receiving payments from the SBMA. It has taken close to 20 years for the 1999 retirees to start receiving SBMA benefits because inflation has averaged 2.6 percent over the last 20 years (below the assumed 2.75 percent).
- Due to 3.9 percent inflation in fiscal year 2017–18—the highest level of inflation in over a decade—the excess resources in the SBMA fell by \$700 million from \$9.8 billion to \$9.1 billion, an almost 10 percent decrease in one year.
- Any changes to the SBMA benefit would require legislative action to amend the law.

Due to the various factors affecting the SBMA, the Benefits and Services Committee expressed a desire to proceed thoughtfully and methodically when exploring options with stakeholders and the Legislature that could help members most in need of economic assistance while maintaining the financial integrity of the SBMA.

CALSTRS

California State Teachers' Retirement System | P.O. Box 15275 | Sacramento, CA 95851-0275

For more information on board meeting items and video archives, visit www.CalSTRS.com/teachers-retirement-board

Next board meeting dates:

- October 3–4, 2018, Off-site, San Diego
- November 7–9, 2018, West Sacramento

For board [minutes](#), [full items](#) and [video archives](#) of past meetings, go [here](#).