CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

SUPPLEMENTAL PAYMENTS

FISCAL YEAR 2005-06

CALCULATION

AND

FUNDING INFORMATION

Revised 09/2005

California State Teachers' Retirement System
Supplemental Payments

Contents

California State Teachers' Retirement System
Supplemental Payments

Purchasing Power

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

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

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

2 Percent Simple Benefit Adjustment (Education Code Sections 22140, 22141 and 24402)

The CalSTRS Defined Benefit Program provides an automatic 2 percent simple benefit adjustment to allowances payable to all benefit recipients to provide some protection against the effects of inflation. This annual "benefit improvement factor" is applied September 1 of each year following the first anniversary of the effective date of the benefit.

There are two other sources of funds that provide additional purchasing power protection for CalSTRS benefit recipients through "supplemental payments". These are School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). 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 (Education Code Sections 24412 and 24413)

Since 1983, it had been the intent of the Legislature and the Teachers' Retirement Board to maintain the level of purchasing power of CalSTRS allowances to a minimum of 75 percent of the purchasing power of the initial allowance. To fulfill this intention, revenue generated from the use of State School Lands (land granted to California by the federal government to support schools) and Lieu Lands (properties purchased with the proceeds from the sale of school lands) during the prior year is transferred to CalSTRS each year for the purpose of providing annual supplemental 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 CalSTRS allowances to at least 80 percent, the available revenue is distributed on a proportional basis to all eligible benefit recipients. The amount of the School Lands payment for each benefit recipient depends on the: (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 is providing only 2.0 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 2.0 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 the fiscal year covered CalSTRS' member payroll (ending in the immediately preceding calendar year) was contributed each year from the State of California General Fund to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund. The SBMA provides annual supplemental 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:

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

Initial Allowance (identified by "Initial Date/Allow" on the Direct Deposit Advice/Check stub just below the TAX ID)

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

Change in the California Consumer Price Index (CCPI) is determined by dividing the CCPI for June of 2005 by the CCPI for June of the calendar year of retirement. Attachment A provides the result (Purchasing Power Factor) 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:	$1,600
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**.

$1,600.00 / $3,871.00 = 41.33%

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 - $1,600.00 = $1,496.80

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

$1,496.80 x 3 = $4,490.40

For this example, $4,490.40 would be the Quarterly Supplemental payment that would be paid on October 1, 2005 January 1, 2006 April 1, 2006 and July 1, 2006.

California State Teachers' Retirement System
Supplemental Payments

Factors for Calculating 2005-2006 Purchasing Power
All Urban CA Consumer Price Index
Attachment A

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

California State Teachers' Retirement System
Supplemental Payments

Year	June CCPI	Purchasing Power Factor*
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.

California State Teachers' Retirement System
Supplemental Payments

Estimation Worksheet - Quarterly Payments

v **Current Allowance Purchasing Power Percentage**

1.	____________ Initial Allowance Monthly Amount	x	____________ 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)

v **Total Supplemental Payment**

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