

Connections

SEMIANNUAL PUBLICATION FOR ACTIVE AND INACTIVE CALSTRS MEMBERS



The Cost of Protecting Your Loved Ones Will Decrease January 1, 2010

The cost of making a pre-retirement election of an option will change for most members in 2010. If you want to make a pre-retirement election, it may cost less if you elect an option on or after January 1, 2010. Calculations for the cost of the election will be available after August 10, 2009.

Last year, the Teachers' Retirement Board evaluated the costs associated with providing lifetime benefits to beneficiaries and determined that members and their beneficiaries are living longer than ever before. At that time, the board believed longer life spans would require an increased reduction to the member-only benefit for members who elected an option.

The Winter 2008 issue of *CalSTRS Connections* stated that the cost of a pre-retirement option would increase for many members beginning in 2010. However, a more detailed analysis indicated that for most members their increased lifespan would result in lower costs to elect an option, as members' beneficiaries are now projected to live for fewer years after the members' deaths.

A Pre-Retirement Election of an Option Provides for Loved Ones

If you are eligible to retire, you can make a pre-retirement election of an option which will provide a lifetime monthly benefit for one or more beneficiaries if you die before you retire.

There is a cost to you when you make a pre-retirement election of an option: your monthly retirement benefit is reduced when you retire. In return, your beneficiary or beneficiaries receive a monthly benefit after you die.

CalSTRS must reduce your monthly benefit during your lifetime in order to pay for the cost of providing an ongoing monthly benefit to your beneficiaries during their lifetimes. The reduction to your benefit is based on your age, your beneficiaries' ages and the option you choose at the time you make the election.

There are advantages and disadvantages to electing an option prior to retirement. We strongly encourage you to contact a CalSTRS benefits counselor for more details before making this election.

Steps to Deciding about Electing an Option

1. Determine if you are eligible to retire.
2. Read about making a pre-retirement election of an option in the *Member Handbook* or at www.CalSTRS.com.
3. Go to CalSTRS.com/calculators or schedule an appointment to speak to a CalSTRS benefits counselor who will calculate the cost to you if you elect this option on or after January 1, 2010. Call 800-228-5453 to schedule an appointment.
4. To elect a pre-retirement election of an option, complete the Pre-Retirement Election of an Option form available at CalSTRS.com/publications.

INSIDE:

- 2 Promises Made, Promises Kept
- 4 CalSTRS Pension2: Helping You Achieve Retirement Success
- 5 Additional Earnings Credits Arrive
- 6 Cash Balance Benefit Alternative for Part-Timers
- 7 Steps to Plan Your CalSTRS Retirement
- 8 Longevity Bonus to End
- 10 Women Investment Professionals: Assets to Corporate Bottom Lines

SPECIAL INSERT:

- 2008 Summary Report to Members

Promises Made, Promises Kept

By Dana Dillon
CalSTRS Board Chair



These have been troubling economic times for everyone, including the Teachers' Retirement Fund. It's no secret the fund's value is down significantly from a high in 2008.

We're not alone, though. Pension plans and markets worldwide have experienced negative effects.

CalSTRS is built to last. Since 1913 there have been ups and downs in our fund, yet we've consistently kept our promise of providing a lifetime monthly retirement benefit to our members.

Good News from CalSTRS

The good news is your fund is secure. It's secure for a number of solid reasons.

1. Your benefit is a contractual right guaranteed in the United States and California Constitutions. As a public employee, you have a vested contractual right to your pension benefit.
2. You cannot outlive your benefit. It's a payment to you for life.
3. Your benefit is based on a formula, not the amount in your account or investment returns.
4. We have plenty of assets to pay benefits. The majority of the benefits come from our normal cash management process.

The Teachers' Retirement Board has a fiduciary responsibility—our primary responsibility—to make certain the fund is secure.

History Reveals that the Fund is Fine

I want to put the ups and downs of the fund in historic perspective. This is not the first time the economy has suffered, and this is not the first time the Teachers' Retirement Fund value has declined. We know that the stock market and the economy will rebound.

Investors, like CalSTRS, can expect a negative market every 25 years, and a subsequent rebound. Between the Civil War and 2008, there have been more periods of market growth than market decline.

Metrics Matter

CalSTRS investment professionals make decisions every day that strengthen the financial retirement security of more than 834,000 current and retired teachers:

- From July 2005 to June 2008, the decisions of these experienced fund managers added almost \$3 billion to the Teachers Retirement Fund.
- For that excellent service, those professionals earned incentive pay last year totaling less than \$3 million.

That's a return on investment that can't be beaten. Using CalSTRS employees to manage investments is about one-tenth the cost of using outside fund managers.

The most recent incentive payments, made last December, were paid for the three-year period that ran from July 2005 through June 2008, with an average annual return of 9.72 percent. The average return outperformed the policy benchmark by 1.9 percent for this period.

The CalSTRS board is conducting its annual discussion of the incentive program, starting with a study of such programs. The study

CalSTRS Mission:
Securing the financial future and sustaining the trust of California's educators

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Editor

Statements in this publication are general and the Teachers' Retirement Law is complex and specific. If a conflict arises between information contained in this publication and the law, any decisions will be based on the law.

CalSTRS Connections is published twice a year for members of the California State Teachers' Retirement System. Send your comments or suggestions to:

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New and Pending Legislation Will Improve the Way CalSTRS Does Business

showed performance-based incentives are a standard tool used by other public pension systems in the U.S. Our goal is to balance responsible compensation with good stewardship. After researching a variety of options, we expect to reach a conclusion this summer.

Modern Programs Provide Safeguards

During the market crash of 1929, there were none of the safeguards we have in place now. There was no FDIC, insurance for banks, and no unemployment insurance for workers. The Federal Reserve, the lender of last resort, allowed money supplies to fall by more than 30 percent. There was no international cooperation as seen today. Our current fiscal policy makers are motivated, flexible and innovative.

Our Actions Secure Your Future

Moving forward, having observed 95 years in business, CalSTRS continues to take action for you in ways that are:

- *Smart*—In earthquake country, buildings built to absorb the impact of shaking sway a bit but won't crumble. That's CalSTRS: a smart investor, prepared for the coming recovery.
- *Patient*—We don't hop in and out of investments knowing that a bedrock fund is built on patient and long-term investing.
- *Adaptive*—We've temporarily expanded our asset target ranges for better day-to-day management, which helps us take advantage of market volatility and avoid having to sell real estate and private equity during down markets.
- *Selective*—We employ only the best money managers, applying rigorous due diligence.

Making false statements on benefit applications is a crime

It is now a crime to make false material statements when applying for CalSTRS benefits or accepting benefit payments for which one is not entitled. Assembly Bill 1844 (Hernandez), Chapter 751, Statutes of 2008.

Green technology practices

Assembly Bill 232 (Hill) would allow members to submit an electronic signature instead of an original signature to make changes to benefits. Benefit recipients would also receive a mailed payment notice only when requested or when there is a change in payment amount. Currently, CalSTRS automatically mails a payment notice when an electronic payment is made. This bill is sponsored by CalSTRS.

The way interest is charged and defined may change

Assembly Bill 654 (Mendoza) would change the interest rate members are charged on installment payments of retirement incentives and service credit, redeposits and penalties to mirror the CalSTRS rate of return on investments. The bill would also set up a consistent way CalSTRS charges interest and penalties when employers are late making contributions or sending reports. Additionally, it would create a way for CalSTRS to recover lost state contributions from employers. This bill is sponsored by CalSTRS.

Earnings limits for retired members may change

Assembly Bill 506 (Furuntani) would prohibit retired members who are under age 60 from returning to CalSTRS-covered employment for the first six calendar months after retirement. After that, they can return to work under existing earnings limitations. The bill would also extend the sunset dates for post-earnings earnings limit exemptions. In addition it would prohibit an emergency exemption for an empty administrative position when the empty position is filled by the retiree who vacated it. This bill is sponsored by CalSTRS.

For more information visit www.CalSTRS.com/legislation.

CalSTRS Pension2[®]: Helping You Achieve Retirement Success

CalSTRS Defined Benefit—your regular pension—is your primary, or first, pension. Think of CalSTRS Pension2 as your second, supplemental pension. It can help you build personal wealth for your future.

Since 1995, CalSTRS has made supplemental savings choices available to help all school district employees—both classified and credentialed—put aside extra money now for their retirement income. We continue this tradition with CalSTRS Pension2, introduced in 2007.

Pension2 is a CalSTRS-administered voluntary supplemental savings plan, which includes 403(b), 457 and tax sheltered annuity (TSA) accounts. Fund portfolios are created by CalSTRS in conjunction with its financial planning consultants.

Why Save On Your Own?

Although your CalSTRS Defined Benefit is safe and guaranteed to last as long as you live, most retired educators need additional income to maintain a lifestyle that allows them to do the things they want when they choose. Pension2 personal wealth plan helps you close the retirement income gap.

- The average career teacher's pension replaces only 60-65 percent of final pay.
- Public school teachers don't pay into or receive Social Security for public school employment.
- Many retired educators have to pay their own health care costs.

5 Great Reasons to Choose Pension2[®]

1. Multiple investment choices
 - » 403(b)
 - » Roth 403(b)
 - » 457
 - » Roth IRA
2. Objective advice
3. Planning services
4. Low-cost fees
5. Flexible investing options

Get Started Today

- Visit www.CalSTRS.com/members/pension2
- E-mail Pension2@CalSTRS.com
- Call 888-394-2060 Monday through Friday 8 a.m. to 5 p.m. PST
 - » Speak with a representative for more information
 - » Receive phone support to enroll online



Additional Earnings Credits Arrive

If you had funds in the Defined Benefit Supplement Program or Cash Balance Benefit Program as of June 30, 2006, or June 30, 2007, you are eligible to receive an additional earnings credit for one or both years. These credits were applied to your accounts in May 2009.

Your additional earnings credit will be reflected on your 2009 *Retirement Progress Report* in December.

Why Am I Receiving An Additional Earnings Credit?

When investment earnings are more than what is needed to fund a benefit program in a fiscal year, the Teachers' Retirement Board may declare an additional earnings credit to be applied to all eligible accounts. CalSTRS is required by law to apply the credit to all eligible accounts.

We have taken extensive steps to ensure the accuracy of your credit and account balance.

Fiscal Year 2005-06 Credits— Approved on June 7, 2007

- 2.49 percent credit on all Defined Benefit Supplement account balances as of June 30, 2006.
- 1.18 percent credit on all Cash Balance accounts as of June 30, 2006.

Fiscal Year 2006-07 Credits— Approved on June 5, 2008

- 4.41 percent credit on all Defined Benefit Supplement account balances as of June 30, 2007.
- 4.69 percent credit on all Cash Balance accounts as of June 30, 2007.

If you have questions or would like more information about the additional earnings credit, visit www.CalSTRS.com.

Keep Connected Online with *myCalSTRS*

Using our secure online member Web site, *myCalSTRS* at www.CalSTRS.com, you can get information about your CalSTRS accounts anytime, day or night.

With *myCalSTRS*, you can:

- Ask questions about your accounts and receive prompt, confidential answers
- See your beneficiary information
- Change your e-mail address

Coming this fall, more improvements will make it easier to:

- Authorize your account more smoothly and securely
- Update your mailing address and telephone number
- Make changes to your state and federal tax withholding preferences

If you haven't already registered for *myCalSTRS*, sign up today by going to www.CalSTRS.com and following the simple instructions.



myCalSTRS



Cash Balance Benefit Alternative for Part-Timers

Certain part-time employees are given a choice of retirement programs by their employers. If you work part-time, the Cash Balance Benefit Program may be an alternative for you.

Districts Can Offer These Retirement Plans

All employers must offer the CalSTRS Defined Benefit Program for part-timers, plus an alternative program. The alternatives can be:

- CalSTRS Cash Balance Benefit Program
- Social Security
- Another program chosen by the district

You Must Meet Requirements

You may consider the Cash Balance Benefit Program if:

- Your district has formally decided it will offer Cash Balance.
- You work part-time, substitute or as an adjunct or temporary employee.
- You were hired by a school district or county office of education to work less than 50 percent of the full-time equivalent for your specific position.
- You were hired by a community college district to work for not more than 67 percent of a full-time assignment.

What to Love About Cash Balance

- Immediate vesting, portability.
- Guaranteed, lifetime monthly benefit or lump sum based on contributions.
- No more than 4 percent of salary contributed by employee.
- At least 4 percent contributed by employer.
- Guaranteed annual interest rate.

The Cash Balance Benefit Program is a hybrid retirement program. It accumulates funds based on dollars contributed by the employee and employer, plus interest. But it pays out a guaranteed benefit. Currently, the program has net assets of \$75 million with nearly 34,000 participants among 32 employers.

Find Out More

For more information, call CalSTRS at 800-228-5453.

Cash Balance Benefit Program is a hybrid retirement program. It accumulates funds based on dollars contributed by the employee and employer, plus interest. But it pays out a guaranteed benefit.

Steps to Plan Your CalSTRS Retirement

The retirement process takes time and preparation. As you get ready to receive your CalSTRS retirement benefit, plan ahead by using the following timeframes. These guidelines will help ensure that you receive your retirement benefit in a timely manner.

Step 1:

10-12 months before your retirement date

- Attend a CalSTRS Retirement Check-Up Workshop.
- Meet with a CalSTRS benefits counselor.
- Make your retirement decisions.

Step 2:

6 months prior to the last business day of the month in which you wish to retire

- Complete, sign and submit your retirement application and any other optional forms:
 - » No earlier than six months prior to your retirement date.
 - » No later than the last business day of the month in which you retire.

Step 3:

Within 45 days after your retirement or the date your application is received, whichever is later:

- CalSTRS sends you an Acknowledgement Letter informing you that your application has been processed.
- CalSTRS sends you an Award Letter informing you of the benefit payment amount you will receive.
- CalSTRS sends your initial benefit payment.

Resources to Help You Retire

- Review the *Member Handbook* and *Your Retirement Guide*, both available at www.CalSTRS.com/publications.
- Calculate your monthly benefit using the online calculators at www.CalSTRS.com/calculators.
- Seek counseling:
 - » **In Person:** Benefits counselors are available to assist you with retirement planning. Interviews are scheduled about four weeks in advance. Interviews may be scheduled at 30 convenient locations throughout the state by making an appointment through your local counseling office. See www.CalSTRS.com/counseling.
 - » **Telephone:** Schedule a telephone interview by calling 800-228-5453.
 - » **Workshops:** CalSTRS offers workshops to help you understand all of the CalSTRS benefits available to you. Register online or call your local CalSTRS benefits counseling office. See www.CalSTRS.com/counseling.

Free, Fast Assistance from CalSTRS with Disability Application

If you have questions or concerns about completing a CalSTRS disability application, fast and free help is available from CalSTRS counselors and disability analysts.

CalSTRS offers trained experts you can turn to for assistance throughout the application process. Outside help, including an attorney, is rarely necessary and may slow down the processing time.

Before you begin, you may consult with a CalSTRS counselor. Make an appointment at www.CalSTRS.com/counseling or call 800-228-5453. Once your application is

received by CalSTRS, a disability analyst will be assigned to assist you.

Service Retirement Applicants Can Turn to CalSTRS for Help

CalSTRS counselors are available to help members applying for a service retirement. Go to www.CalSTRS.com/counseling or call 800-228-5453 to set up a face-to-face or phone interview appointment. There are 30 counseling office locations throughout the state.



Longevity Bonus to End

Eligibility for the longevity bonus is scheduled to sunset on December 31, 2010. This change could affect you if you are close to earning 30 years of service credit.

Set Dollar Amount Added to Your Pension

The longevity bonus adds a set dollar amount to your monthly Member-Only Benefit if you have at least 30 years of earned service credit by December 31, 2010. If you are retiring with a beneficiary option, your bonus will be reduced by the same option factor that applies to your regular benefit.

You May Purchase Time to Qualify

You don't have to retire by December 31, 2010, to qualify for the longevity bonus, but you must have earned at least 30 years of service credit by this date.

If you don't think you'll have 30 years of service credit in time to qualify for the longevity bonus, you may be eligible to purchase certain types of service credit to get you there. Service credit must be purchased and completely paid for before December 31, 2010, in order for the purchased service credit to be used in calculating your retirement benefit.

There are two types of service credit you may be able to purchase for the purposes of qualifying for the longevity bonus:

- **Redeposit:** This restores service credit you lost if you left public school employment, took a refund, and then returned to teaching.

If you don't think you'll have 30 years of service credit in time to qualify for the longevity bonus, you may be eligible to purchase certain types of service credit to get you there.

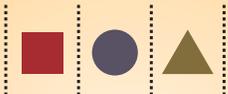
- **Permissive Service:** This includes a leave of absence due to maternity or paternity leave, employer approved sabbatical leave, and out-of-state teaching or foreign school service.

Nonqualified service—also called “air time”—is not based on any previous service and does not count toward qualifying for the longevity bonus. For additional information, see *Purchase Additional Service Credit* at www.CalSTRS.com/publications.

Unused Sick Leave May Count in Some Situations

Additionally, you may count up to 0.2 years of unused sick leave to help you qualify for the longevity bonus. However, your unused sick leave is not added to your service credit unless you reitre. As a result, if you find that you will need up to 0.2 years of unused sick leave in order to qualify for the longevity bonus, you must retire by December 31, 2010. If you are in this situation, we strongly urge you to contact CalSTRS prior to making any decisions.

For more information about the longevity bonus or purchasing service credit, go to www.CalSTRS.com, call 800-228-5453 or consult the *CalSTRS Member Handbook*.



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Dana Dillon Re-Elected Chair of CalSTRS Board

Jerilyn Harris Returns as Vice-Chair

The California State Teachers' Retirement Board unanimously re-elected Dana Dillon as chair and Jerilyn Harris as vice-chair for the 2009-10 term.

The 12-member board nominates and elects its chair and vice-chair annually. Members serve four-year terms. The board officers provide leadership to the trustees as they develop policies and provide direction for the nation's second-largest public pension fund.

Dana Dillon, a teacher and librarian with the Weed Union Elementary School District, has held the Teachers' Retirement Board Chair position since 2007-08. She has served on the board since 2004, and was vice-chair from 2005 to 2007. Dillon has been active in the California Teachers Association for more than 25 years. She is currently a member of the CTA Board of Directors.

Jerilyn Harris is an award-winning science teacher with more than 25 years experience teaching in Ukiah and Beverly Hills. On the board, she chairs the Appeals and Legislative committees. Harris retired from teaching in 2002 and has served on the Teachers' Retirement Board since 2005 and as vice-chair since 2007. She is a former chair of the California Commission on Teacher Credentialing.



Women Investment Professionals: Assets to Corporate Bottom Lines

By Jack Ehnes, CalSTRS CEO

Women today have opportunities never before imagined—and corporate bottom lines have benefited.

A 2007 report by Catalyst found that on average Fortune 500 companies with three or more women on their boards turned in better financial reports than those with fewer female board members.

I recently had the privilege of addressing the Women in Investments Conference in Sacramento. Diversity and inclusion topped the agenda at the gathering attended by 500 women money managers. The keynote speaker was former Secretary of State and UN ambassador Madeleine Albright, who is now the principal of an investment advisory firm.

Staying the course of diversity and inclusion remains our focus, even in these tough economic times.

A History of Diversity

Smart investors continue to vary the mix in both their portfolios and their people assets. At CalSTRS, we have long held to strategies that promote diversity. We believe in long-term and patient investments based on this policy. We also believe in making money. Toward these ends, we seek out like-minded approaches to build and secure your retirement fund.

Including women in money management and management decisions are core CalSTRS business principles. They denote the strength of our system and your fund. We believe employing talented individuals who possess the broadest possible experiences and perspectives enhances our ability to compete. Simply stated, it is smart business.

Corporate Governance Initiative

CalSTRS has been a major force in improving corporate governance since 1985. We have called for public corporations to provide greater transparency and accountability to shareholders—and to recognize their shareholders as an integral part of their success, not merely as a source of capital.

We are a founding member of the Council of Institutional Investors, a nonprofit association of major long-term shareowners. Changing

the position of corporate governance program manager to director status reflects the CalSTRS board's growing interest in increasing the scope and impact of its corporate governance efforts, both domestically and internationally. This position is currently held by a woman.

A signature initiative in 2009 is to advocate for increased board member diversity, including sponsoring a conference specifically focused on diversity on corporate boards. We are committed to being a strong and effective advocate for the best corporate citizenship practices.

Women at CalSTRS

CalSTRS is in the enviable position of being led by female board and staff members. Five women sit on the current Teachers' Retirement Board, including the board chair and vice-chair. While each one brings an individual perspective and background to her role as a fiduciary, as a group, they make your board stronger.

Educators understand well the ever-changing demographics of California. Women make up the majority of the CalSTRS membership—71 percent of active members, 72 percent of inactive members and 63 percent of retired members.

CalSTRS staff, including investment rank and file, portfolio managers, management and board members, reflect the diversity of teachers in the classroom and the students they teach.

Looking Ahead

The last few years have been a harsh lesson not only in underscoring the connectedness of the financial markets worldwide, but also in understanding the need for domestic leadership to re-strengthen the U. S. economy.

In a survey of CalSTRS members, 49 percent said they will have to delay retirement. Twenty-two percent of these members reported they will be working at least three more years longer than they had planned.

At CalSTRS, we are working hard to strengthen your system and your fund. Part of our effort is

making sure we have the best business partners, including women. We need strong, diverse, thoughtful, innovative, challenging business partners who will question the prevailing paradigm and bring added value.

Among our initiatives of inclusion:

- Sponsorship of a database to identify emerging manager and financial service providers, many of whom are women. The purpose of the data collection is to tap new and emerging investment talent with the belief that diversity is a competitive advantage in business and for our investment portfolio.
- Participation in the Emerging Domestic Market Working Group, a state legislative group working on ways to attract more private investments to California's underserved capital markets. The group's goal is to craft strategies and models to increase private investment opportunities in emerging domestic markets.
- Recognition by Harvard Law School for our comprehensive approach to diversity in the management of investments.
- Internships at CalSTRS offering students of diverse backgrounds exposure to public pensions, investments and fund management.

CalSTRS Pension2® Personal Wealth Plan: Your First Step to a Brighter Financial Future

GET STARTED HERE

Planning for the future isn't complicated. Start saving today. Your first step is to get the information you need about the new CalSTRS Pension2 personal wealth plan. Read more at www.CalSTRS.com/members/pension2.

Yes, it is just that easy

E-mail: Pension2@CalSTRS.com

Fax: 916-414-1012

Phone: 888-394-2060

Mail to: CalSTRS,
P.O. Box 15275, MS 44
Sacramento, CA
95851-0275

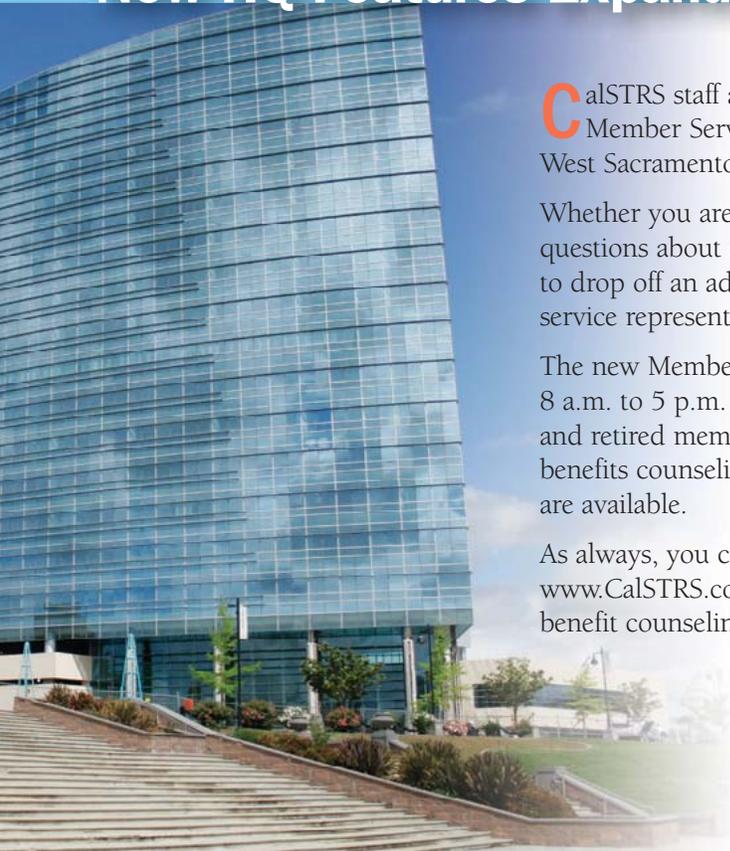


CalSTRS Resources

WEB SITES	www.CalSTRS.com Click <i>Contact Us</i> to e-mail www.403bCompare.com
CALL	800-228-5453 7 a.m. to 6 p.m.
WRITE	CalSTRS P.O. Box 15275 Sacramento, CA 95851-0275
VISIT	Member Services 100 Waterfront Place West Sacramento, CA 95605
FAX	916-414-5040 (<i>new</i>)

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New HQ Features Expanded Member Services



CalSTRS staff are ready to serve you from the Member Services Center on the first floor of our new West Sacramento headquarters at 100 Waterfront Place.

Whether you are looking for help completing a form, have questions about a letter you received from us or simply want to drop off an address change, our trained team of customer service representatives can help—no appointment needed.

The new Member Services Center is open from 8 a.m. to 5 p.m. Monday through Friday to assist active and retired members. A host of services, such as our one-hour benefits counseling session and all of our member workshops, are available.

As always, you can call us at 800-228-5453, e-mail us at www.CalSTRS.com/contactus or visit one of our 30 benefit counseling offices located across the state.