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CALSTRS Connections

YOUR MONEY MATTERS

SEMIANNUAL PUBLICATION FOR ACTIVE AND INACTIVE CALSTRS MEMBERS

► **Sustaining Retirement Security for Future Generations**

See page 4

Over the past several years, CalSTRS has been educating our members, stakeholders and state legislators about our unfunded liability, which as of June 30, 2011, stands at \$64 billion. When the Legislature passed pension reform legislation last September, it also passed Senate Concurrent Resolution 105. This measure establishes a framework to assist the Legislature in developing a funding strategy to address the long-term funding needs of the Defined Benefit Program.

In response to the measure, CalSTRS submitted a report to the Legislature on February 14, 2013, that identifies the issues to consider and illustrates the implications of different funding options. The report reflects input from representatives of CalSTRS member and employer organizations as well as the Teachers' Retirement Board. You can view the full report, *Sustaining Retirement Security for Future Generations: Funding the California State Teachers Retirement System*, at CalSTRS.com/funding.

The significant volatility of global markets during the last decade, combined with the inability of CalSTRS to adjust contribution rates, continue to weaken the long-term health of the Teachers' Retirement Fund. Investment returns alone are not enough to restore the fund's health. Without legislative approval for increased contributions, CalSTRS estimates we would need nearly 10 percent annual returns for the next 30 years—an unlikely scenario—to achieve full funding.

The current funding shortfall of \$64 billion can be managed, but it will require gradual increases in contribution rates that are fair to all parties involved. Organizations representing members have expressed a willingness to increase the contribution rate. We are hopeful legislation will be enacted in the current legislative session, as intended in the measure. CalSTRS stands ready to assist the Legislature and the Governor.

New Law Creates Two CalSTRS Benefit Structures

The California Public Employees' Pension Reform Act of 2013 made significant changes to the benefit structure for members first hired to perform CalSTRS creditable activities on or after January 1, 2013. As a result, CalSTRS now has two benefit structures.

Also inside:

2012 Summary Report to Members

▶ Tragedy Serves as a Reminder of Responsibility

By Harry Keiley, Teachers' Retirement Board Vice Chair

Good environmental, social and governance, or ESG, principles bring to bear a question of responsibility in the companies with which we invest. The tragic events at Sandy Hook Elementary School brought to light CalSTRS' involvement with a company that appears out of place with our policy.

In 2008, CalSTRS adopted a series of 21 Risk Factors to assess investment risks of geopolitical and social issues. This policy requires that risks associated with products posing a significant threat to human well-being be taken into account before we invest. Moving forward, we are applying the criteria to all existing investment decisions to determine if any products contradict our risk factors. Our first step is always to research and engage those companies directly.

The ESG risk considerations CalSTRS holds itself accountable for include: respect for human rights, civil liberties, political rights and human health. The most important in this situation is human health. As a result, the Teachers' Retirement Board Investment Committee recently directed staff to begin the process of divestment from firearms companies manufacturing weapons illegal in California.

CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. This carries with it a responsibility to engage corporate management

on the ramifications of its investment decisions, an issue we take seriously. As a global organization that represents educators, we express our solemn respect for the bravery demonstrated by the staff at Sandy Hook Elementary School and our deepest sympathies for the families hurt by the tragedy.



CalSTRS Mission:

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

Teachers' Retirement Board

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Tom Torlakson

Jack Ehnes
Chief Executive Officer

Christopher J. Ailman
Chief Investment Officer

David Lindgren
Editor

Baotran Bui
Designer

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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“This policy requires that risks associated with products posing a significant threat to human well-being be taken into account before we invest.”

▶ CalSTRS.com Redesigned With You in Mind

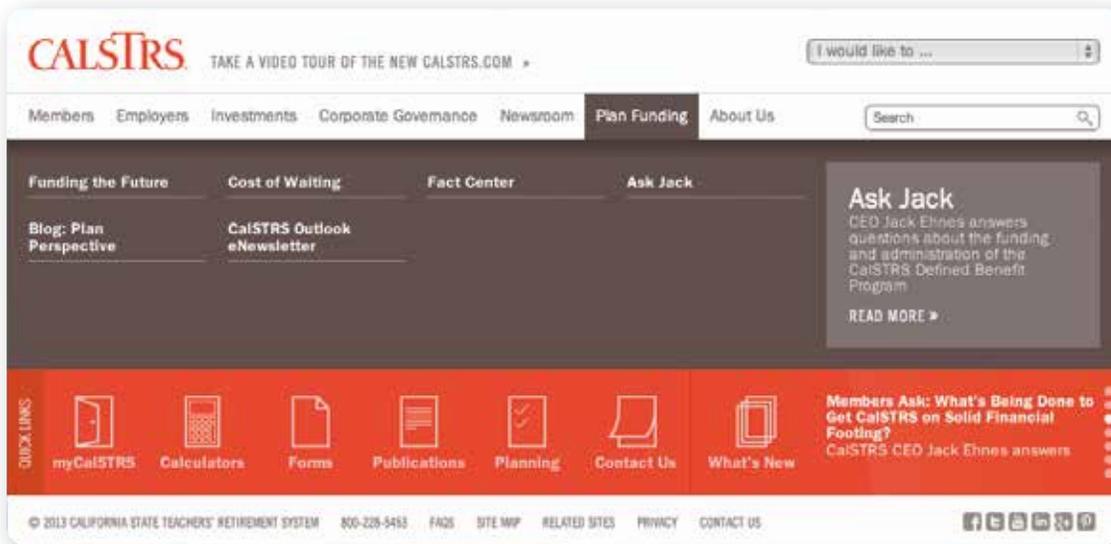
CalSTRS recently launched a redesigned and improved CalSTRS.com. The new website is a faster, simpler way to find information about CalSTRS benefits and services, publications, investments and our initiatives in the areas of corporate governance and sustainability. The design

features new navigation tools to help you quickly find what you're looking for.

Additionally, under "Plan Funding" you'll find much of the content previously found on the CalSTRSbenefits.us website. This section includes important information

about CalSTRS' ongoing efforts to address our long-term funding needs.

We hope you find the new CalSTRS.com easy to use and that it encourages you to learn more about CalSTRS and your retirement benefits.



▶ myCalSTRS, Your Online Resource

myCalSTRS is your online resource to access and manage your personal information on file with CalSTRS. myCalSTRS offers the convenience of conducting business online any time.

myCALSTRS

With myCalSTRS, you can:

- Access your *Retirement Progress Report*.
- View your account balances.
- Complete and submit forms.
- Manage your one-time death benefit recipient information.
- Make a preretirement election of an option.
- Verify eligibility and find forms to purchase service credit.

- Update your mailing address, email address and other contact information.
- Request electronic delivery of newsletters, notifications and statements.
- Ask questions and receive prompt, secure answers.

Register Today

Start using myCalSTRS today at CalSTRS.com. View the self-paced, interactive registration guide. Registration is easy and provides immediate and secure access.



► New Law Creates Two CalSTRS Benefit Structures

The California Public Employees' Pension Reform Act of 2013 made significant changes to the benefit structure for members first hired to perform CalSTRS creditable activities on or after January 1, 2013. As a result, CalSTRS now has two benefit structures:

- **CalSTRS 2% at 60:** Members first hired on or before December 31, 2012.
- **CalSTRS 2% at 62:** Members first hired on or after January 1, 2013.

The 2 percent refers to the age factor, or percentage of your final compensation you will receive as a retirement benefit for every year of service credit. The basic age factor is 2 percent at age 60 for members under CalSTRS 2% at 60 and 2 percent at age 62 for members under CalSTRS 2% at 62.

Other benefit differences for CalSTRS 2% at 62 members include: an extended final compensation period, higher retirement age, lower compensation cap and no career factor. For more information, see the *Member Handbook 2013*, available at CalSTRS.com/publications.

► Update on Service Credit Purchases

Due to an extremely large number of requests, the processing time to receive a billing statement from CalSTRS for a service credit purchase is currently eight months.

The California Public Employees' Pension Reform Act of 2013 eliminated the purchase of nonqualified service credit as of January 1, 2013. As a result, CalSTRS received 6,373 nonqualified service credit purchase requests in the three months prior to the December 31 deadline—almost 10 times more requests than the same time period the previous year. We received 1,576 requests on December 31 alone.

Please know that we are working diligently to process all service credit purchase requests in a timely manner, and we greatly appreciate your patience during this time.

You can still redeposit previously refunded service credit or purchase permissive, out-of-state or foreign school service credit. Complete and print service credit purchase forms online from your *myCalSTRS* account by selecting *Complete & Submit Forms* from the home page, or print the forms at CalSTRS.com/forms. Service credit purchases must be paid in full before your retirement date.

► Santa Clara Member Service Center to Open This Summer

Bay Area members—CalSTRS is coming soon to a neighborhood near you. This summer, a full-service Member Service Center will open in Santa Clara.

Survey results show that you want more information and services with locations and hours convenient to you. The opening of this site—along with current Member Service Centers in Glendale and at CalSTRS Headquarters in West Sacramento—better fulfills your needs and our mission.

An extension of CalSTRS Headquarters, the Santa Clara center features:

- **CalSTRS products and services:** A full staff of CalSTRS employees offers benefits counseling, educational workshops, forms drop-off and review, walk-in assistance and a full array of publications, forms and applications.
- **Convenience:** Located in the Santa Clara Towers at 3945 Freedom Circle, the building fronts Highway 101, with easy access to Route 237 and Interstate 880. The building offers abundant free parking and lobby food service.

- **Consistent hours of operation and contact methods:** Center hours are Monday through Friday, 8 a.m. to 5 p.m. To contact CalSTRS, call 800-228-5453 (press 3 for scheduling), use *myCalSTRS* online messaging or visit CalSTRS.com/contactus.

Secure and Sustainable

The Santa Clara center resides in a secure, contemporary building that is also LEED certified. All Member Service Centers reflect the same standards and efficiency with which the CalSTRS Headquarters was built and is maintained.

Hayward Field Office to Close

With the opening of the Santa Clara center, the Hayward field office located at the Alameda County Office of Education will close later this year.

Watch for more information at CalSTRS.com.



CalSTRS Takes Pension Abuse Seriously

By Jack Ehnes, CalSTRS CEO



As fiduciaries of retirement benefits for California's 862,000 public educators, CalSTRS takes its responsibility very seriously. As a public entity, transparency is critical. A significant part of our fiduciary duty is the ability to appropriately address and improve business processes. A recent review by the State Controller's Office was rightfully critical of CalSTRS' history of addressing pension spiking.

It is important for you to know, however, that the State Controller's Office reviewed only our spiking prevention efforts before June 2011. Since that time, and even before the State Controller's Office conducted its review, CalSTRS initiated aggressive changes and upgrades to curb pension spiking. These efforts include creating a dedicated Compensation Review Unit to investigate suspected pension spiking and a toll-free Pension Abuse Reporting Hotline.

The new unit is already achieving results. Since its creation last fall, the unit has identified 270 suspected cases of inappropriate benefit enhancement, investigated 175 of those cases and discovered 28 instances of suspected spiking. Also, more than 75 tips were received through the Pension Abuse Reporting Hotline and online reporting forms.

We have not stopped there. We are expanding our auditing unit, which will enable us to collect better information from school districts. Receiving accurate compensation and service data from school employers is a critical component in our ability to effectively confront spiking. Our efforts to improve employer reporting accuracy, started in 2008, have reduced data reporting discrepancies by 97 percent.

It is not financially feasible to ensure that all 1,600 California school districts will be individually audited, nor is it a standard auditing practice. Instead, our more cost-effective approach focuses on strategically auditing school districts that generate the most risk. Audits of these 60 high-risk districts will be completed by 2014. Lower risk districts also will be audited, but at a more appropriate frequency. A 66 percent increase in audit staff will further strengthen our efforts.

Additionally, the recent passage of the California Public Employees' Pension Reform Act of 2013 imposes strict limits and caps on creditable compensation that figures into a new member's pension. This provides critical tools to curtail pension spiking over the long term, especially combined with the new law's three-year average final compensation.

We are confident that with the valuable anti-spiking tools offered in the new law and our increased safeguards against pension spiking, CalSTRS will remain diligent in our efforts to crack down on those seeking to spike their pensions.

▶ Roth Conversions: What You Need to Know



The recent passage of the American Taxpayer Relief Act of 2012 came with a provision allowing you to convert your 401(k), 403(b) and 457 pretax balances into Roth accounts. Prior to this new legislation, funds were only allowed to be converted into a Roth account if you had undergone a qualifying event, such as severance from employment, attainment of age 59½, death or disability. The Taxpayer Relief Act eliminated those requirements.

The benefit of a Roth conversion depends on your tax situation. Tax-deferred accounts require you to pay taxes on the funds upon withdrawal, usually in retirement. Roth accounts are taxed before funds are invested and grow in those investments tax-free.

When considering a Roth conversion, CalSTRS recommends consulting a tax professional because the funds will be subject to income tax in the year they are converted. You may benefit from converting funds to a Roth when:

- Your current tax bracket is lower than what it is expected to be in retirement, or
- You want to leave a tax-free inheritance to your beneficiaries.

Be sure you understand the difference between a Roth plan conversion and a Roth IRA rollover. Unlike a Roth IRA, a converted Roth is subject to the lifetime required minimum distribution rules. Also, a conversion is irrevocable, whereas a Roth IRA rollover can be nullified by October 15, 2013.

Although the Taxpayer Relief Act allows for in-plan Roth conversions, plan providers are not required to offer this option. Check with your plan provider for availability. A Roth conversion is available to CalSTRS Pension2 403(b) plan participants. For more information, contact the CalSTRS Pension2 customer service center staffed by TIAA-CREF at 888-556-2950.



We're Looking for Educators

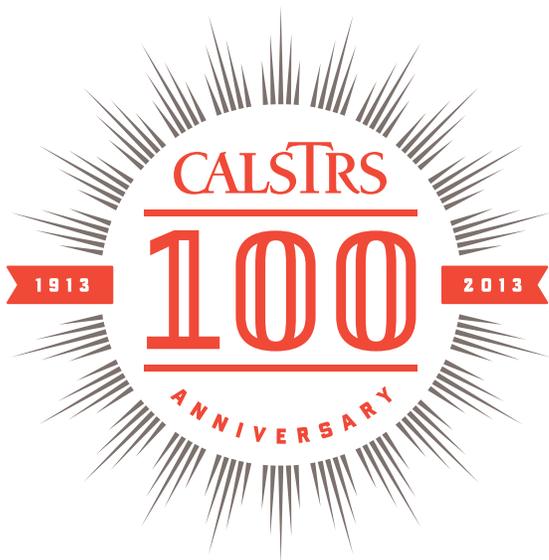
We want to take photos of real educators to use on the covers and inside spreads of our member publications. We have photos of educators in the Sacramento and Los Angeles areas and now want to add others from Central and Northern California.

If you are interested, send your contact information to Veronica Espinoza at vespinoza@CalSTRS.com.

CalSTRS Resources

WEB	CalSTRS.com Click <i>Contact Us</i> to email 403bCompare.com Pension2.com
CALL	800-228-5453 7 a.m. to 6 p.m. Monday through Friday 888-394-2060 CalSTRS Pension2® Personal Wealth Plan 855-844-2468 Pension Abuse Reporting Hotline
WRITE	CalSTRS P.O. Box 15275 Sacramento, CA 95851-0275
VISIT	Member Services 100 Waterfront Place West Sacramento, CA 95605 Find your nearest CalSTRS office at CalSTRS.com/localoffices
FAX	916-414-5040
STAY CONNECTED	

CalSTRS Celebrates 100-Year Anniversary



This year CalSTRS celebrates a century of securing the financial future and sustaining the trust of California's public educators. For 100 years, we have kept our promise of providing a lifetime monthly retirement benefit to our members.

We are proud to serve you. We thank you for your personal commitment to your students, your careers and your professional knowledge. Your dedication to your job reaches beyond the classroom. You enrich the lives of your students and help build their futures.

Working with educators, school employers and the Legislature, we have created one of the best-run retirement funds in the world. Delivering on our promise of a secure retirement you can count on year in and year out for 100 years is an accomplishment worth celebrating.



2012 | FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Summary Report to Members

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

This summary provides important details regarding your retirement fund.

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

Teachers' Retirement Fund Statement of Changes in Fiduciary Net Assets

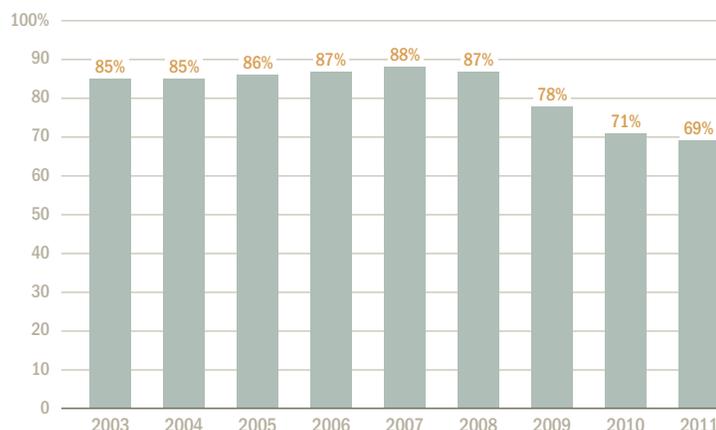
For the fiscal years ended June 30, 2012, and 2011	2012	2011
Net Assets Held in Trust, Beginning of Year	\$155,345,815	\$129,768,107
Additions		
Contributions (member, employer, State of California, federal government)	5,820,464	5,859,524
Investment Income	1,281,499	30,237,166
Investment Expense	(210,179)	(206,891)
Other Income	4,115	6,546
Total Additions	6,895,899	35,896,345
Deductions		
Benefits and Refunds	10,785,246	10,208,153
Administrative Expenses	138,411	110,484
Total Deductions	10,923,657	10,318,637
Net Increase	(4,027,758)	25,577,708
Net Assets Held in Trust, End of Year	151,318,057	155,345,815

(Dollars in Thousands)

Funding Ratio

Actuarial Value of Assets as a Percent of Accrued Liabilities

This chart illustrates the difference between the actuarial value of assets and the amount needed to pay benefits to current CalSTRS members. The ratio of assets to liabilities is determined using an asset-smoothing method that considers short-term fluctuations in asset values. Therefore, the total actuarial value of assets will differ from the market value of investments for any given year.





Your reward—a secure retirement. Our reward—getting you there.

Membership in 2012

Fiscal Year	2012	Percent Increase from 2011
Total Membership	862,192	0.7%
Active	421,499	-1.9%
Inactive	178,655	2.8%
Retired	230,278	3.6%
Disabled	9,036	2.5%
Survivors	22,724	3.3%

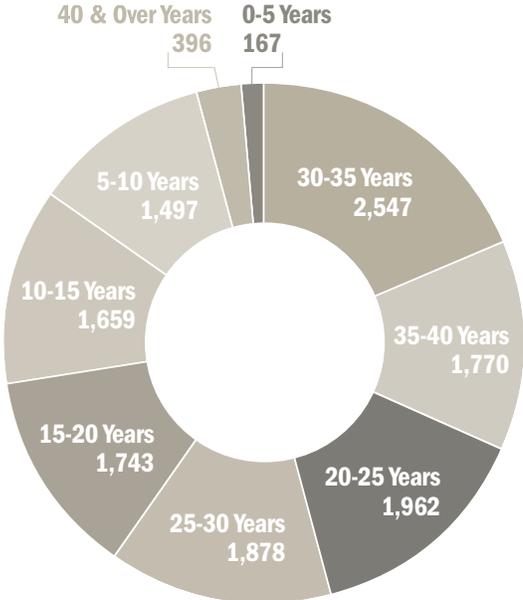
Members Retiring in 2012

Fiscal Year	2012	2011
Number Retiring	13,619	13,896
Median Age	62.0	61.9
Median Years of Service	24.4	25.5
Average Member-Only Benefit	\$3,936	\$4,088

Average Active Member Age and Years of Service

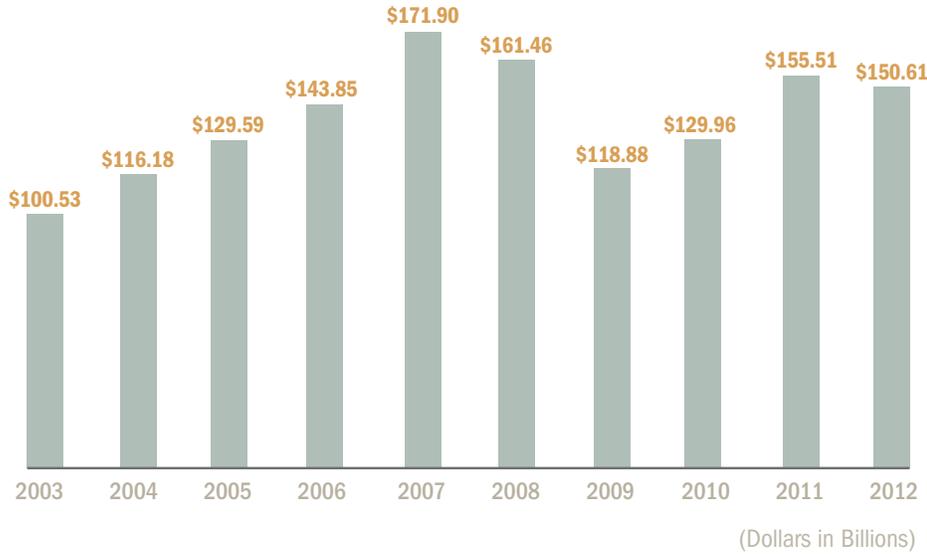
Fiscal Year	2012	2011
Average Age	45.5	45.3
Average Years of Service	11.9	11.7
Average Annual Salary	\$64,743	\$64,069

Years of Service at Retirement in 2012



Securing Your Financial Future

Teachers' Retirement Fund Market Value of Investments

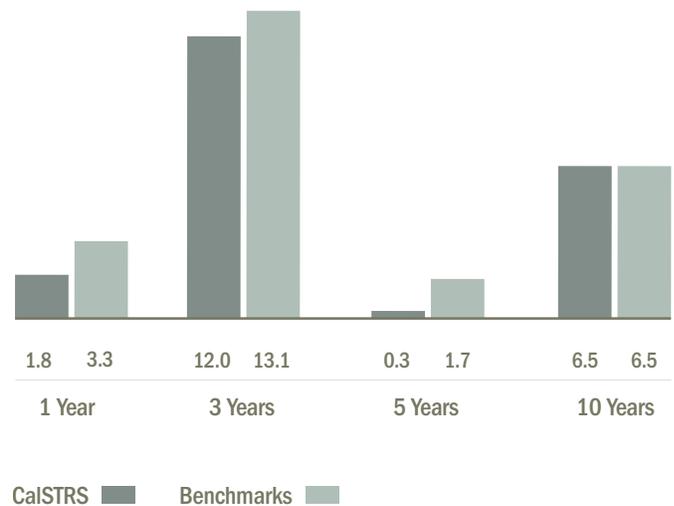


Assets of Programs Administered by CalSTRS

	Market Value	Rate of Return
Defined Benefit Program (in billions)	\$142.54	1.8%
Defined Benefit Supplement Program (in billions)	\$7.91	1.8%
Cash Balance Benefit Program (in millions)	\$157.81	-0.1%
CalSTRS Pension2® (in millions)	\$394.15	3.9%

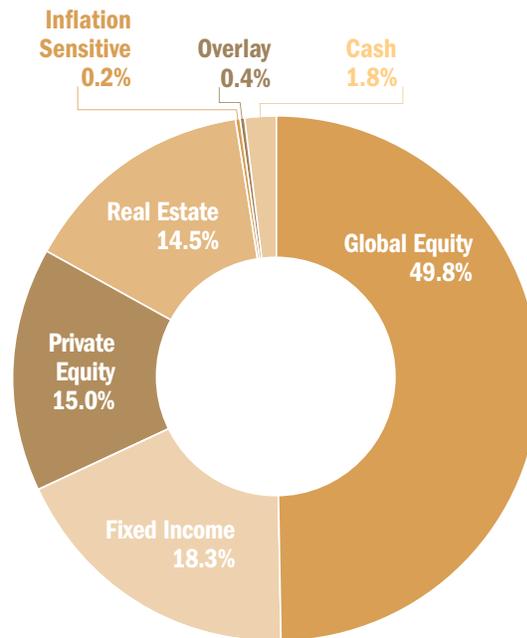
Portfolio and Benchmarks

Benchmarks are goals and standards used to measure investment performance.



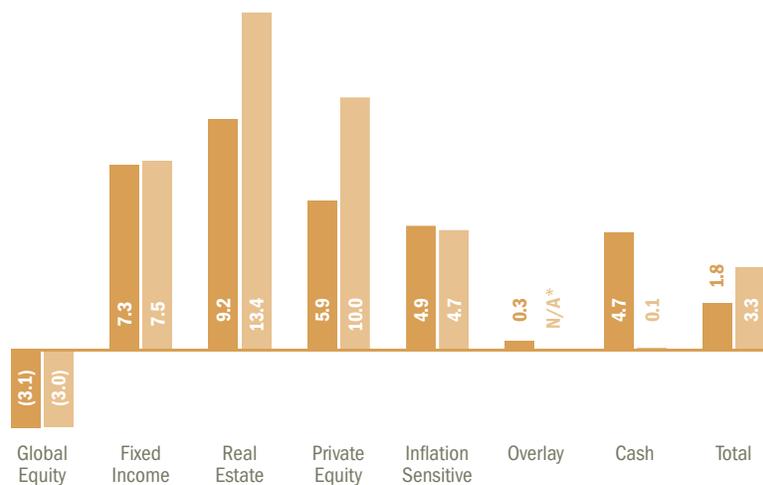
Securing Your Financial Future *continued*

Teachers' Retirement Fund Asset Allocation



One-Year Returns

Calculated using a time-weighted rate of return



■ CalSTRS ■ Benchmarks (the goals and standards used to measure investment performance)

*Barclays Capital 3-Month Treasury Bill plus 1 percent. Benchmark approved by the board in April 2012. 1, 3, 5, 10-year returns not available.

CalSTRS Resources



WEB

CalSTRS.com
Click *Contact Us* to email
403bCompare.com
Pension2.com



CALL

800-228-5453
7 a.m. to 6 p.m.
Monday through Friday
888-394-2060
CalSTRS Pension2®
Personal Wealth Plan
855-844-2468
Pension Abuse Reporting Hotline



WRITE

CalSTRS
P.O. Box 15275
Sacramento, CA 95851-0275



VISIT

Member Services
100 Waterfront Place
West Sacramento, CA 95605
Find your nearest
CalSTRS office at
CalSTRS.com/localoffices



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