California
STRS
State Teachers' Retirement System

OVERVIEW

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM AND RELATED ISSUES

JANUARY 1, 2001

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OVERVIEW OF THE CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM AND RELATED ISSUES

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Normal Retirement Eligibility Requirement

Age 60 with five years of service credited to CalSTRS, which can include service from teaching in an out-of-state public school.

Benefit Formula

Two percent of final compensation for each year of credited service at age 60, increasing to 2.4 percent at age 63. For members with 30 or more years of credited service, an additional 0.2 percent of final compensation per year of credited service. The maximum benefit cannot exceed 2.4 percent.

A longevity bonus is added to the monthly unmodified retirement allowance of members who accumulate at least 30 years of service credit between January 1, 2001, and January 1, 2011. The amount of the longevity bonus depends on the years of service credit at retirement. For 30 years of service credit, the member would receive a monthly increase of $200; for 31 years, an increase of $300; for 32 years, an increase of $400.

Final Compensation

Final compensation is the highest average annual salary earnable for any three consecutive years of credited California service. For members retiring on or after January 1, 2001, with 25 years or more of credited service, final compensation is the highest average salary earnable for any 12 consecutive months of credited California service.

For an eligible classroom teacher, final compensation may be the highest annual compensation earnable during any period of 12 consecutive months while a member of the DB Program if it is a part of a written collective bargaining agreement and associated costs are divided. This provision only applies to a qualified classroom teacher, as defined, who is employed by an employer who has entered into a written agreement with an exclusive representative to make this provision applicable.

Final compensation may be the highest average annual compensation earnable during ANY three "nonconsecutive" years (one year is a period of 12 consecutive months) of membership in the program if the member's salary has been reduced because of a reduction in school funds.

Minimum Guarantee

Specified retired members under the DB Program, their option beneficiaries, and surviving spouses, receiving an allowance on January 1, 2000, are guaranteed a minimum allowance based on the member's years of credited service. The total annual amount payable to the member with 20 years of credited service generally will not be less than $15,000 increasing incrementally to $20,000 with 30 or more years of credited service.

Internal Revenue Code Section 415

Benefits paid under the DB Program are subject to limits imposed under Internal Revenue Code Section 415. In 2001, the limit is $140,000 for members who retired between ages 62 and 65. Benefits in excess of the limit are payable from the Replacement Benefits Program.

Early Retirement

Age 55 with Five Years Credited California Service

A 1/2 percent reduction in the age factor for each full month or partial month the member is younger than age 60.

30 and Out

Age 50 with 30 years of credited service. The standard 1/2 percent reduction from age 60 to 55 and a 1/4 percent reduction for each full or partial month the member is younger than age 55 are applied.

Limited Term Reduction

Age 55 and under age 60 with five years of credited California service. Under this alternative, a reduced allowance is paid equal to 1/2 the normal retirement allowance at age 60, based on the final compensation and service credit at the age of retirement. The reduced allowance continues until the amount paid after age 60 equals the amount paid prior to age 60. Thereafter, the age 60 normal retirement allowance is paid.

Deferred Retirement

Any time after satisfying the minimum service requirement, a member may cease active service, leave the accumulated retirement contributions on deposit, and later retire upon attaining the minimum age requirement and filing an application to retire. No formal election is required to defer retirement; however, a written application must be made to the System in order to retire.

Mandatory Retirement

The System does NOT have any mandatory retirement age. However, federal law requires that a minimum distribution of retirement benefits begin no later than April 1 of the calendar year following the calendar year in which a member reaches age 70-1/2, if the member has not retired and is no longer performing creditable service subject to coverage by the Plan or is no longer employed in a position requiring or permitting membership in another California public retirement system. CalSTRS complies with the federal minimum distribution requirements.

Unused Sick Leave Service Credit

Service credit is granted for unused sick leave at the time of retirement.

Election of an Option

Any member who is eligible for service retirement may make a pre-retirement election prior to the effective date of retirement to receive a modified joint and survivor allowance payable at retirement in place of the unmodified allowance. If the member dies prior to retirement, the option beneficiary will receive a lifetime allowance based on the option selected. This election is available for those members who are eligible for but do not wish to retire, but want to ensure a monthly lifetime income to a beneficiary in the event death occurs prior to retirement. However, the pre-retirement election makes the member ineligible for a family or survivor benefit allowance unless the member cancels the option election prior to his or her death.

CalSTRS has seven joint and survivor benefit options:

Option 2:
Joint and 100 percent to beneficiary: Upon the retired member's death, the modified allowance will continue to be paid to the option beneficiary for life.

Option 3:
Joint and 50 percent to beneficiary. Upon the retired member's death, one-half of the modified allowance will continue to be paid to the option beneficiary for life.

Option 4:
Joint and 66 2/3 percent to survivor: Upon the death of either the retired member or the option beneficiary, two-thirds of the modified allowance will continue to be paid to the survivor for life.

Option 5:
Joint and 50 percent to survivor: Upon the death of either the retired member or the option beneficiary, one-half of the modified allowance will continue to be paid to the survivor for life.

Option 6:
Joint and 100 percent to beneficiary with "Pop Up." Upon the retired member's death, the modified allowance will continue to be paid to the option beneficiary for life. If the option beneficiary predeceases the retired member, the retired member's allowance will be raised or "pop up" to the unmodified allowance level.

Option 7:
Joint and 50 percent to beneficiary with "Pop Up." Upon the retired member's death, one-half of the modified allowance will continue to be paid to the option beneficiary for life. If the option beneficiary predeceases the retired member, the retired

member's allowance will pop up to the unmodified allowance level.

Option 8:
Multiple option beneficiaries. Allows any member prior to the effective date of the member's retirement to designate multiple option beneficiaries. For each beneficiary designated, the member selects from options 2 through 7 that would provide a modified retirement allowance payable throughout the life of the member and his or her option beneficiary.

Post-Retirement Adjustments

Benefit Improvement Factor
There is a two percent simple increase on each September 1 following the first anniversary of the effective date of the allowance (the date on which the monthly allowance began to accrue). The annual two percent increase is applied to ALL continuing allowances.

Supplemental Increase
Revenue from the State General Fund and State School Lands restore purchasing power up to 75 percent of a benefit recipient's initial allowance. These supplemental payments are vested to the extent funds are available from the General Fund, with the General Fund providing an amount equal to 2.5 percent of the prior year payroll.

Post-Retirement Earnings Limitation

CalSTRS has no limitation on earnings outside the California public school system. There is a fiscal year limitation on earnings from creditable service within the California public school system for members who retired for service and did not have a break in covered service of 12 consecutive months after retirement. The allowance of a member retired for service will be reduced by the amount of any earnings in excess of the limitation, up to a member's annual allowance amount. The current earnings limitation of $22,000 is increased each July 1 based on the annual increase in the All Urban California Consumer Price Index, using December 1999 as the base. (This differs from the earnings limitation imposed on disability allowances and disability retirement benefits. See the applicable section for a summary of those limitations.)

Exemptions to the Limitation
Post-retirement earnings are exempted from the limitation under specific circumstances, provided documentation for the exemption is submitted by the employer.

Exemptions are granted for:

- members who retired on or before January 1, 2000, and return to a K-12 classroom to provide direct classroom instruction or support or assess new teachers in the Beginning Teacher Support and Assessment Program; or provide support to individuals completing student teaching assignments in Pre-internment Teaching Program, alternative certification programs or in a School Paraprofessional Teacher Training Program.
- members who retired on or before July 1, 2000, and return to teaching to provide direct remedial education in a grade two-through-12 classroom.

Death Benefit for Retired Members

Designated beneficiaries of CalSTRS retired members receive a $5,763 lump-sum death payment. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Social Security

The CalSTRS Defined Benefit Program is not integrated with, coordinated with, or supplemented by the federal Social Security Program.

Termination of Membership

After termination of employment, a member may request a refund of the contributions and interest credited to the member's account. A refund terminates membership in and all rights to future benefits from the Program.

Re-Entry Into Plan After Refund

Individuals who have received a refund, and who subsequently become members of the Program, may redeposit all or, effective July 1, 2001, a portion of contributions and interest previously refunded. In addition, regular interest from the date of the refund through the final date of payment must be paid in order to be credited with the related service. The member must, however, earn at least one year of credited service after re-entry before becoming eligible for any benefits from the Program.

Funding

Member Contribution

Members contribute a total of 8 percent of creditable compensation. From January 1, 2001, through 2010, 25 percent of the member's monthly contribution is credited to the member's Defined Benefit Supplement Account. (See following section, Defined Benefit Supplement Program, for more information.)

Employer Contribution

The rate is 8 percent of the total of the creditable compensation on which member contributions are based.

Plus

0.25 percent of creditable compensation to pay costs related to unused sick leave service credit.

State Contribution

The State's quarterly contribution to CalSTRS in 2000-01 is 2.5385 percent and will be 1.975 percent, beginning July 1, 2001, of creditable compensation of the prior calendar year upon which members' contributions are based.

Plus

Up to 1.505 percent of the total of the creditable compensation of the prior calendar year upon which members' contributions are based, which is contributed until the unfunded obligation and any normal cost deficit for the benefits in effect on July 1, 1990 is eliminated. Currently no contributions are being made for this purpose.

Disability Allowance-Coverage A

Effective Date

If CalSTRS membership was effective prior to October 15, 1992, members had the opportunity to elect Coverage A or B.

Eligibility

Age Limit: Under age 60.

Service Credit

Minimum of five years.

Employment Status

May apply for disability allowance while still performing creditable service.

Benefit Formula

Allowance

50 percent of final compensation

Or

5 percent of final compensation for each year of service credit if over age 45 with less than 10 years of service credit.

Plus

Children's Benefits

10 percent of final compensation for each eligible dependent child, up to a maximum of 40 percent of final compensation. The increment for each eligible child continues until the child attains age 22.

Pre-Retirement Election of an Option

Any member receiving a disability allowance who is eligible to retire may make a pre-retirement election to receive a modified joint and survivor allowance payable at retirement in place of the unmodified allowance. If the member dies prior to retirement, the option beneficiary will receive a lifetime allowance based on the option selected. The pre-retirement election makes the member's survivor ineligible for the family allowance unless the election is canceled prior to the member's death.

Offsets
Allowance, including children's increments, will be reduced by an amount equal to any benefits payable under other public systems for the same disability.

Employment
May be employed in a position to perform creditable service subject to coverage by the Program, or any other employment, subject to earnings limitations.

Earnings Limit
In a single month, the disability allowance (less amounts payable for children) plus employment earnings may not exceed 100 percent of indexed final compensation.

Or

For a six-month period, average earnings may not exceed 66-2/3 percent of indexed final compensation.

Conversion to Service Retirement
An allowance is payable for the duration of disability (unless the board limits the allowance to a 2-year period under certain circumstances) or until conversion to a service retirement allowance at age 60. The member's service retirement allowance will be based on projected final compensation and projected service to age 60; however, the service retirement allowance may not exceed the terminated disability allowance.

Death Benefit
A $5,763 lump-sum death payment is payable to the designated beneficiary upon the death of the disabled member. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Plus

If the member has not elected a pre-retirement option, a family allowance is payable to the surviving spouse who has children eligible for a children's benefit.

Or

If there are no eligible children, the spouse may elect to take a lump-sum refund of the contributions and interest remaining in the member's account or receive an Option 3 beneficiary allowance at age 60, or immediately with a reduction based on the member's and spouse's ages at the time the benefit begins.

Disability Retirement-Coverage B

Effective Date
If CalSTRS membership effective after October 15, 1992, Coverage B applies.

Eligibility Age Limit:
None.

Service Credit
Minimum of five years.

Employment Status
May apply for disability retirement while still performing creditable service.

Benefit Formula Allowance
Allowance
50 percent of final compensation regardless of age and service credit.

Plus

Children's Benefit: 10 percent of final compensation for each eligible dependent child, up to a maximum of 40 percent of final compensation. The increment for each eligible child continues until the child attains age 21, regardless of student, marital or employment status.

Option Election
A member may elect a joint and survivor option upon application for a disability retirement.

Offsets
The allowance (less amounts payable for children) will be reduced by an amount equal to any benefit

payable for the same disability under a Workers' Compensation program.

Employment

A member may be employed to perform creditable service or any other employment but can not make contributions to the fund or accrue service credit based on earnings from any employment.

Earnings Limit

There is a calendar year limitation on earnings from all employment. The allowance of a member retired for disability will be reduced by the amount of any earnings in excess of the limitation. The current limit is $19,650, and is adjusted each July 1 by the annual increase in the All Urban California Consumer Price Index, using December 1989, as the base.

Conversion To Service Retirement

No conversion; allowance is payable for the duration of the disability.

Death Benefit

A $5,763 lump-sum death payment is payable to the designated beneficiary upon the death of the disabled member. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Plus

If an option was selected at the time of Disability Retirement, a lifetime allowance is payable to the option beneficiary upon the member's death.

Or

If no option was selected, a lump-sum refund of the remaining contributions and interest in the member's account is payable to the designated beneficiary.

Survivor Benefit-Coverage A

Eligibility

Member was actively employed, or receiving a disability allowance, at the time of death and had not elected a pre-retirement election of an option and had a minimum of one (1.000) year service credit.

Lump-Sum Death Payment

A $5,763 lump-sum death payment is payable to the designated beneficiary upon the death of the disabled member. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Basic Benefit

When there are eligible children, a family allowance will be paid. If there are no eligible children, the spouse may elect to receive an Option 3 beneficiary allowance at age 60 or immediately with a reduction based on the member's and spouse's ages at the time the benefit begins or take a lump-sum refund of the remaining contributions and interest in the member's account.

Surviving Spouse Eligibility

Married to the member for at least one year on the date of death.

Allowance

The surviving spouse with eligible children would receive 40 percent of the member's final compensation for as long as there is at least one eligible child. An additional 10 percent of final compensation is payable for each eligible child, up to a maximum benefit of 50 percent for the children's increment. To be eligible, dependent children must be unmarried and under age 22.

When there are no eligible children, the spouse may elect to receive an Option 3 beneficiary allowance or take a lump-sum refund of the remaining contributions and interest in the member's account.

If there is no surviving spouse, an allowance of 10 percent of the member's final compensation is payable for each eligible child up to a maximum of 50 percent of final compensation.

If there is neither a surviving spouse nor a dependent child, the member's dependent parents may elect to receive an Option 3 beneficiary allowance at age 60 or over, or take a lump-sum refund of the remaining contributions and interest in the member's account.

Contributions and Interest
If there is no surviving spouse, eligible children, or dependent parent, the contributions and interest are paid to the designated beneficiary.

Survivor Benefit-Coverage B

Eligibility
Member was actively employed at the time of death, had not made a pre-retirement election of an option, and had a minimum of one (1.000) year service credit.

Lump-Sum Death Payment
A $23,052 lump-sum death payment is payable to the designated beneficiary if the member had one or more years of credited service. The amount of the death payment may be adjusted by the Teachers' Retirement Board following each actuarial valuation based on changes to the All Urban California Consumer Price Index.

Basic Benefit
The surviving spouse may elect to receive a monthly allowance or take a lump-sum return of the contributions and interest in the member's account.

Surviving Spouse Eligibility
Married to the member for at least one year on the date of death.

Spousal Allowance
If the surviving spouse elects not to take a lump-sum refund of the contributions and interest in the member's account, the surviving spouse would receive one half of the member's Option 3 allowance, beginning on the member's 60th birthday, or immediately with a reduction based on the member's and spouse's age at the time the benefit begins. The spousal allowance is payable whether or not there is a dependent child requirement.

Children's Allowance
If the surviving spouse elects a monthly allowance, an additional allowance is payable for each eligible dependent child equal to 10 percent of the member's final compensation, with a maximum benefit of 50 percent for five or more children. The benefit is dependent upon the spouse electing a monthly allowance. To be eligible, dependent children must be under age 21. Student, marital or employment status will not terminate the benefit.

If there is no surviving spouse, no children's benefits are payable.

Contributions and Interest
If there is no surviving spouse, the contributions and interest in the member's account are paid to the member's designated beneficiary.

Defined Benefit Supplement Program Summary

Chapter 74, Statutes of 2000 (AB 1509) created the Defined Benefit Supplement Program.

Description of Program

The DBS Program is a means for the California State Teachers' Retirement System to increase, i.e. "supplement," the amount payable at retirement to members of the DB Program, which is the primary benefit program administered by CalSTRS for educators in the California public school system.

Plan Eligibility Requirements

All members of the DB Program who make contributions to CalSTRS on creditable compensation earned on and after January 1, 2001, will have an account under the DBS Program and will be eligible to receive a benefit under the DBS Program. Contributions to the DBS Program are not optional.

Contributions

Beginning January 1, 2001, each member of the DB Program will continue to contribute 8 percent of his or her CalSTRS-covered salary toward retirement. However, 25 percent of those contributions (2 percent of salary) will be allocated to a DBS Program account established for the member, and the remaining 6 percent of the contributions on creditable compensation earned by the member will go to the DB Program.

Contributions on creditable compensation will be credited to the DBS Program for a period of ten years. The balance of credits in the member's DBS Program account after ten years will depend on several factors including the interest rate and the amount of creditable compensation earned by the member during that period.

In addition, starting no earlier than July 1, 2002, member and employer contributions will be allocated to the member's DBS account on compensation earned from service in one school year that exceeds the full-time equivalent for the position. This provision will not cease at the end of 2010.

Program Investments

Contributions to the DBS Program will be invested by CalSTRS, as are contributions to the DB Program and other funds received for member accounts.

Guaranteed Interest Rate

Funds in a member's DBS Program account will earn interest. The Teachers' Retirement Board will set a minimum interest rate each year for the DBS Program, and interest at that rate will be guaranteed. The interest rate is based on 30-year Treasury notes for the period from May to April immediately preceeding the plan year.

Voluntary Contributions to the DBS Program

Members may not make additional voluntary contributions under the DBS Program.

Gain and Loss Reserve

Funds accumulate in a Gain and Loss Reserve to credit interest to members' accounts during years when the rate of return on investments is less than the guaranteed interest rate. Annual additions to the Reserve are determined by the Board on earnings in excess of those needed to credit the guaranteed interest rate and pay administrative costs. The Gain and Loss Reserve will also be used to ensure adequate funds are available in the Annuitant Reserve, which is established to make monthly annuity payments.

Additional Earnings Credit

After the end of the plan year, when the total investment earnings for the immediately preceding plan year are known, the Board may declare an additional earnings credit. Any additional earnings will be applied to members' accounts as of June 30 of that plan year.

Retirement Eligibility

To retire, a member must terminate all creditable service under the Plan and retire for service under the DB Program. Distribution of a retirement benefit must begin by age 70 1/2, unless the member continues to perform creditable service.

Early Withdrawals

Both federal and California state tax codes provide for tax penalties for certain early withdrawals. A 10 percent federal and 6 percent state tax penalty may be assessed for early withdrawals, in addition to the normal tax liability.

Rollover

Members are not permitted to transfer funds from eligible retirement plans into the DBS account. When a member becomes eligible for a distribution under the DBS Program, rollovers are allowable to a qualified plan under applicable federal and state laws and regulations.

Program Benefits

Retirement Benefit

A benefit is payable when retiring from the DB Program. At retirement, a member may:

- choose to receive a lump-sum benefit equal to the balance of credits in member's account.

Or

- choose one of the following five annuities, if the member's balance is $3,500 or more:
  - single life annuity with a cash refund feature
  - single life annuity without a cash refund feature
  - 100 percent joint and survivor annuity
  - 50 percent joint and survivor annuity
  - period certain annuity

Or

- choose a combination of a lump-sum benefit and annuity, provided the member's balance after the lump-sum benefit is $3,500 or more.

Reemployment After Retirement

If a member is employed to perform creditable service after commencing a monthly annuity, the annuity will be terminated and a credit balance will be applied to the member's account. The member must reapply for subsequent retirement.

Disability Eligibility

A member receives a DBS disability benefit when the member is receiving a DB disability benefit. All creditable service subject to coverage by the Plan must be terminated prior to the disability date. A disability benefit will become payable only upon determination by the Board that the member has a total and permanent disability.

Disability Benefit

The benefit amount is equal to the balance of contributions, interest and additional credits in the member's DBS account. There is also an annuity available in the same five retirement benefit options, provided the member's account balance is $3,500 or more. The member may also elect to receive a combination of a lump-sum benefit and an annuity, provided the amount available for the annuity, after a lump-sum benefit is paid, is $3,500 or more.

Death Benefit

Death Prior to Retirement

The balance of credits in the member's account is payable to the named beneficiary. If no valid beneficiary is designated, the lump-sum payment will be paid to the member's estate.

Beneficiary

A beneficiary to whom a death benefit is payable may elect to receive the benefit in the form of an annuity, provided the balance of credits in the member's account is $3,500 or more. The beneficiary may elect either a single life annuity, without a cash refund feature, or a period certain annuity.

Death of Member Receiving Annuity

Upon the death of a member, the annuity is payable in accordance with the terms of the annuity elected by the member.

Note: There may not be a payment to a beneficiary.

Termination Benefit

Upon termination of all creditable service subject to coverage under the Plan, for any reason other than death, disability or retirement, a member may apply for a lump-sum termination benefit. The benefit amount is equal to the balance of credits in the member's DBS account.

Waiting Period

The termination benefit is payable after one calendar year has elapsed following the employment termination date. The application for the termination benefit will be automatically canceled if the member performs creditable service within one year following the employment termination date.

Cash Balance Benefit Program Summary

Description of Program

The CalSTRS Cash Balance Benefit Program is a defined benefit plan that meets the requirements of the Internal Revenue Code. It is optional to school districts, community college districts or county offices of education as an alternative retirement plan. The CB Benefit Program is a primary retirement program for employees of California's public schools who are hired to perform creditable service for less than 50 percent of the full-time equivalent, or FTE, for the position.

Program Eligibility Requirements

Employers may offer the CB Benefit Program to eligible employees. Employers must elect to offer the CB Benefit Program through formal school board action, exclusively, or in addition to other alternative plans, and/or Social Security.

When an employer first elects to offer the CB Benefit Program, employees employed to perform creditable service, and whose basis of employment (employees' formal contract) is less than 50 percent of the FTE for the position, become participants on the later of: (1) the first day in which creditable service is performed, or (2) the effective date of the employer's governing board's action to provide the CB Benefit Program.

Eligible employees who work for multiple employers may participate in the CB Benefit Program regardless of DB Program membership for employers offering the CB Benefit Program, or whether their other employers offer the Program. In addition, a person performing trustee service for an employer who has elected to participate in the CB Benefit Program may elect to participate for that service.

Elections

A member of the Defined Benefit Program who otherwise is eligible to participate in the CB Benefit Program may elect to participate in the CB Benefit Program.

Employees have the right to elect coverage under either Social Security, or an alternative plan in lieu of the CB Benefit Program if the employer's governing board's action provides for these options.

An election to participate in either Social Security or an alternative plan does not prevent an employee from electing to participate in the CB Benefit Program at a later date, as long as the CB Benefit Program is provided by the employer and the employee is eligible to participate in the program.

Discontinued Eligibility

Employees must cease contributing to the CB Benefit Program and become mandatory members of the CalSTRS Defined Benefit Program when the basis of employment (formal contract) changes to 50 percent or more of full-time for the position,

Or

upon electing to be a member of the CalSTRS DB Program, which may occur at any time.

Contributions

Each employer contributes a minimum of 4 percent of salary on behalf of each participating employee. Through the collective bargaining process, employers are permitted to negotiate different levels of employee and employer contributions, as long as the following conditions are met:

- The sum of the employee and employer contributions equals or exceeds 8 percent of employee salary.
- The employee contribution rate may exceed the employer contribution rate but in no event may the employer contribution rate be less than 4 percent.
- The employee and employer contribution rates are the same for each participant employed by the employer.

- The contribution rates as determined under the collective bargaining agreement become effective on the first day of the plan year and remain in effect for at least one plan year.
- The employee and employer contribution rates shall be in one-quarter increments.

Vesting
A participant has an immediate vested right to a retirement benefit, equal to the sum of the balance of contributions, including any compounded interest earned on his or her employee and employer accounts.

Program Investments
The CB Benefit Program is a separate benefit structure within the State Teachers' Retirement Plan. CB Benefit Program contributions are invested at the direction of the Board in internally pooled portfolios of the Teachers' Retirement Fund. The CB Benefit Program has ownership of units of these pooled portfolios, which reflect market fluctuations of underlying securities on a daily basis. Units are purchased using the current market value per unit. Unitized funds are accounted for on a multiple class level, which entails the sharing of one portfolio by two or more owners. Income and portfolio level expenses are distributed to each class level on a pro rata basis determined by the amount of units owned as a percentage of the total units of the portfolio.

Guaranteed Interest Rate
The CB Benefit Program has a guaranteed interest rate that is determined annually by the Teachers' Retirement Board. The rate is based on the average of 30-year U.S. Treasury notes for the period from May to April immediately preceding the plan year.

Gain and Loss Reserve
Funds accumulate in a Gain and Loss Reserve to credit interest to members' employee and employer accounts during years when the rate of return on investments is less than the guaranteed interest rate. Annual additions to the Reserve are determined by the Board on earnings in excess of those needed to credit the guaranteed interest rate and pay administrative costs. The Gain and Loss Reserve will also be used to ensure adequate funds are available in the Annuitant Reserve, which is established to pay monthly annuity payments.

Additional Earnings Credit
After the end of the plan year, when the total investment earnings for the immediately preceding plan year are known, the Board may declare an additional earnings credit. Any additional earnings credit will be applied to participants' employee and employer accounts, equal to a percentage of the balance of the accounts as of June 30 of that plan year.

Retirement Eligibility
Normal retirement age is 60, and a participant may not retire earlier than age 55. To retire, a participant must terminate all creditable service in the CB Benefit Program and the DB Program, and apply for a retirement benefit. Distribution of a retirement benefit must begin by age 70 1/2, unless the participant continues to perform creditable service.

Early Withdrawals
Both federal and California state tax codes provide for tax penalties for certain early withdrawals. A 10 percent federal and 6 percent state tax penalty may be assessed for early withdrawals, in addition to the normal tax liability.

Rollover
Participants may be permitted to transfer funds from eligible retirement plans into the CB Benefit Program, as long as the transfers are allowable under applicable federal and state income tax laws.

Cash Balance Benefit Program Benefits

Retirement Benefit
Normal retirement benefit is a lump-sum benefit equal to the balance of credits in participant's

employee and employer accounts. All of the lump-sum payment may be eligible to roll over into an IRA, defined contribution plan, or other eligible retirement plan that accepts such a rollover.

Or

Participant may choose one of the following five annuities, if participant's balance is $3,500 or more: a single life annuity with a cash refund feature, a single life annuity without a cash refund feature, a 100 percent joint and survivor annuity, a 50 percent joint and survivor annuity, or a period certain annuity.

Reemployment After Retirement

If a participant is employed to perform creditable service subsequent to commencing a monthly annuity:

Within one year and prior to age 60. The annuity will be terminated and a credit balance will be applied to the participant's account. The participant must reapply for subsequent retirement.

After one year and age 60 or older. The annuity will continue and new contributions will be credited to a new participant's account. The participant must apply for subsequent retirement on the basis of the new account.

Disability Eligibility

A participant may apply for disability at any time. All creditable service subject to coverage by the CB Benefit and DB Programs must be terminated prior to the disability date. A disability benefit will become payable only upon determination by the Board that the participant has a total and permanent disability.

Disability Benefit

Normal distribution is a lump-sum benefit. The benefit amount is equal to the balance of contributions, interest and additional credits in the participant's employee and employer accounts. There is also an annuity available in the same five retirement benefit options as long as the participant's account balance is $3,500 or more.

Death Benefit

Death of Participant Prior to Retirement
Normal distribution is a lump-sum benefit. The sum of the balance of credits of the participant's employee and employer accounts is payable to the named beneficiary. If no valid beneficiary is designated, the lump-sum payment will be paid to the participant's estate.

Surviving Spouse
If a participant's surviving spouse is the only beneficiary to whom a death benefit is payable, the spouse may elect to receive the benefit in the form of an annuity, provided the sum of the balance of credits of the participant's employee and employer accounts equals or exceeds $3,500. The surviving spouse may elect either a single life annuity, without a cash refund feature, or a period certain annuity.

Death of Participant Receiving Annuity
Benefit payable in accordance with form of annuity elected by participant.

Termination Benefit (Refund)

Upon termination of all creditable service subject to coverage by the CB Benefit Program and the DB Program, for any reason other than death, disability, or retirement, a participant may apply for a lump-sum termination benefit. The benefit amount is equal to the sum of the employee and employer accounts, plus compounded interest as of the date the benefit is paid.

Waiting Period
The termination benefit is payable after one year has elapsed following the date of termination of employment. The application for the termination benefit will be automatically canceled if the participant performs creditable service within one year following the date of termination of employment.

Five-Year Rule
A participant may not apply for a termination benefit if less than five years has elapsed following the date that the most recent termination benefit was distributed to the participant.

Comparison

CalSTRS (DB PROGRAM) - CalPERS STATE EMPLOYEES - CalPERS CLASSIFIED SCHOOL EMPLOYEES (Tier I) - Non-Safety

	CalSTRS: DB Program	**CalPERS: Classified School Members**	**CalPERS: State Miscellaneous (Non-Safety) (Tier I)**
Eligibility for Membership	- All certificated, charter school and community college faculty employees in public schools (K-14) whose basis of employment is 50% or more (mandatory membership) - Part-time and substitute certificated and faculty employees hired to work less than one-half time may elect to be a member	- Nonteaching, noncertificated school employees working one-half time or more - Part-time nonteaching employees working less than one-half time may not be a member	- Non-safety state employees working one-half time or more - Nonelected legislative employee - Employees working less than one-half time may not be a member
Normal Retirement Age	60	60	60
Vesting Requirement for:			
- Service Retirement	5.000 years credited service Note: 30.000 years service credit required for retirement between ages 50-55	5.000 years credited service	5.000 years credited service
- Disability Retirement Allowance	5.000 years credited service or 1.000 year credited service for disability resulting from a violent act perpetrated during the course of one's employment	5.000 years credited service or 1.000 year credited service for disability resulting from a violent act perpetrated during the course of one's employment	5.000 years credited service
Survivor Benefits	1.000 year service credit	Benefits are payable based on whether or not the member was eligible for retirement at the time of death, e.g., at least age 50 with 5.000 years of service credit	
Basic Death Benefit	A lump-sum death payment of $5,763 or $23,052 is payable to the designated beneficiary(ies) of active or disabled members who die before retirement and without pre-retirement option, depending on coverage. A lump-sum death payment of $5,763 to beneficiary(ies) of members dying after retirement or with pre-retirement election.	Return of member contributions plus interest, plus up to 6 months' salary (depending on length of service).	$5,000 plus 6 months' salary (50% of the earnable salary for the 12 months just before the member's death) plus return of member's contributions and interest.

Comparison, *cont'd.*

	CalSTRS:	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier I)
Benefit Formula Prior to Normal Retirement Age (Service Retirement)	1.10@ age 50 1.16@ age 51 1.22@ age 52 1.28@ age 53 1.34@ age 54 1.40@ age 55 1.52@ age 56 1.64@ age 57 1.76@ age 58 1.88@ age 59	1.100@ age 50 1.280@ age 51 1.460@ age 52 1.640@ age 53 1.820@ age 54 2.000@ age 55 2.064@ age 56 2.126@ age 57 2.188@ age 58 2.250@ age 59	1.100@ age 50 1.280@ age 51 1.460@ age 52 1.640@ age 53 1.820@ age 54 2.000@ age 55 2.064@ age 56 2.126@ age 57 2.188@ age 58 2.250@ age 59
Benefit Formula at Normal Retirement Age (Service Retirement)	2% @ 60 (2 x Final Compensation x years of service credit)	2.314% @ 60 (2.314 x years of credited service x final compensation.)	2.314% @ 60 (2/314 x years of credited service x final compensation.)
Age Formula (Factor) After Age 60 (Service Retirement)	2.133 @ age 61 2.267 @ age 62 2.400 @ age 63 and over	2.376 @ age 61 2.438 @ age 62 2.500 @ age 63	2.376 @ age 61 2.438 @ age 62 2.500 @ age 63
Career Bonus			
-Career Factor	Additional .2% with 30 or more years of credit, not to exceed a combined total of 2.4%	No	No
-Longevity Bonus	Additional $200 per month with 30 years of service, $300 with 31, $400 with 32 years	No	No
Final Compensation	Highest average compensation earnable for 12 consecutive months for members with 25 years service credit. Otherwise, 3-year final compensation unless the district grants a one-year final compensation period.	Highest average compensation earnable for 12 consecutive months	Highest average compensation earnable for 12 consecutive months.
Disability Formula	50% of final compensation (some exceptions in Coverage A)	1.8% x years of credited service x final compensation Benefit may be improved to 33-1/3% for service credit between 10 and 18-1/2 years	1.8% x years of credited service x final compensation. Benefit may be improved to 33-1/3% for service credit between 10 and 18-1/2 years.

Comparison, *cont'd.*

	CalSTRS: DB Program	CalPERS: Classified School Members	CalPERS: State Miscellaneous (Non-Safety) (Tier I)
Automatic Cost-of Living Adjustment	Fixed 2% annual simple	Up to 2% annual compounded	Up to 2% annual compounded
Purchasing Power Adjustment	Up to 75%	Up to 75%	Up to 75%
Credit for Unused Sick Leave	Yes	Yes	Yes
Golden Handshake: 2 years Additional Service Credit	Yes, if governing board adopted resolution prior to 1/1/99	Yes	Yes
Health Benefits After Retirement	Provided only on a district by-district basis. Districts may choose to provide PEMHCA coverage	Provided only on a district-by-district basis. Districts may choose to provide PEMHCA coverage	Yes (If a member retires within 120 days of separation of employment with the requisite 5, 10 or 20 year vesting requirement)
Purchase of Service Credit			
- Out-of-State Service	Yes	No	No
- Nonqualified	Yes	No	No
- Military	Yes	Yes	Yes
- Redeposit of Withdrawn Contributions	Yes	Yes	Yes
Miscellaneous Issues			
- Board Ability to Adjust Employer Contribution Rate	No	Yes	Yes
- Current Contribution Rates			
- Employee	8%*	7% of salary	In Social Security, 5% of salary over $513. No Social Security, 6% of salary over $317.
- Employer	8.25%	0% for 2000-01	0% for 2000-01
- Member participation in Social Security	No	Yes	Yes

**Note:* 25% of the member's contribution to the DB Program will be credited for the next 10 years to a separate nominal account in the DBS Program with no change to the retirement benefit formula.

History of CalSTRS Funding and Benefits

Chapter 694, Statutes of 1913 (AB 1263) established the Public School Teachers' Retirement Salary Fund as a function of the State Board of Education, effective July 1, 1913. CalSTRS was created to provide California teachers with a secure financial future during their retirement years and also to provide an incentive for them to stay in teaching their entire working careers.

Membership in the CalSTRS DB Program includes all employees in California public schools in positions requiring membership, from kindergarten through community college. With more than 630,000 active and retired members, CalSTRS is the nation's largest public teachers' pension organization and the third largest public fund in terms of the Fund's market value. As of June 30, 2000, the Fund market value was $112.6 billion.

Funding History

1913

◆ When the retirement plan was founded in 1913, the California public school teachers were granted retirement service credit for the service they had performed prior to that date. No contributions were required from either teachers or employers for the retirement credit that was granted for service performed prior to the establishment of the System. This caused the retirement plan to have an unfunded obligation from the very beginning.

◆ Members were required to contribute $12 per year.

◆ Employers made no contribution.

◆ State contributed 5 percent of the inheritance tax revenue for each fiscal year.

1935

◆ Member contributions were increased to $24 per year.

◆ Employers commenced a contribution of $12 per year per employee.

◆ State continued to pay 5 percent of inheritance tax.

1944

◆ Member contribution changed to a percentage of salary depending on gender and age at 7/1/44 or later membership. The rate varied from 2.53 percent to 4.85 percent.

◆ Employer contribution rate continued at $12 per year per employee.

◆ State's contribution rate was replaced by a pay-as-you-go funding mechanism. Under this approach, the State annually appropriated the amount needed over and above the current years' employer contribution to pay the pension portion of all allowances currently being paid.

1950, 1951 and 1955

◆ Member contribution rates were increased in these years up to a range of 5.77 percent to 10.15 percent.

◆ Employer contributions remained unchanged.

◆ State pay-as-you-go funding remained unchanged.

1956

◆ Member contributions were increased to a range of 9.53 percent to 13.52 percent.

◆ Employer contribution rate of $12 per year per employee was augmented by a 3 percent of salary contribution to be used on a pay-as-you-go basis to pay for current benefits. (The 3 percent contribution was limited by the assessed valuation of the school district. Because salaries grew faster than the assessed valuation, the percentage of payroll declined year by year.)

◆ State's pay-as-you-go funding remained unchanged.

1959

◆ Member contributions decreased to a range from 7.46 percent to 12.72 percent.

◆ Employer contributions remained unchanged.

◆ State's pay-as-you-go funding remained unchanged.

1962

◆ Member contribution rate decreased to a range from 6.13 percent to 11.86 percent.

◆ Employer contribution remained unchanged.

◆ State's pay-as-you-go funding remained unchanged.

◆ The unfunded actuarial obligation was up to $3.6 billion.

1972 - E. Richard Barnes Act

◆ In 1970, estimates indicated that the State's pay-as-you-go annual appropriation would grow from $71 million for fiscal year 1967-68 to $245 million for 1979-80 and $635 million in 1989-90. As the allowance rolls grew at an accelerating rate, it was believed that the System could not look forward with any certainty to continued receipt of the ever-increasing State appropriation. Legislation, effective July 1, 1972, established the E. Richard Barnes Act and radically changed the funding of CalSTRS to long-range reserve funding (pre-funded basis).

◆ Members' variable contribution rate, which was averaging 7.4 percent, was changed to a flat 8 percent of salary.

◆ Employer contribution rate was averaging 2 percent in 1971-72 because of the assessed valuation limitation. The contribution rate was changed to a matching 8 percent of salary level.

◆ It was anticipated that this 16 percent total employee-employer contribution would fund future service in the redesigned program. However, to obtain passage of the program, the employer contribution was graded-in from 3.2 percent in 1972-73 up to the full 8 percent in 1978-79. This alone reduced the System's long term income by $1.8 billion.

◆ State's pay-as-you-go contribution was replaced with a level $130 million per year for 30 years to amortize the cost of benefits in force as of June 30, 1972. The cost of all prior service for current members was not funded and resulted in the System's unfunded actuarial obligation at that time.

◆ Another $5 million for 30 years was added to the $130 million to repay the CalSTRS reserves for a shortage in the 1971-72 State contribution.

1976

◆ Member contribution rate remained at 8 percent.

◆ Employer graded-in contribution rate remained unchanged.

◆ A $9.3 million state appropriation was added to the $135 million appropriation for a total $144.3 million annual appropriation. This increase was specifically tied to an ad hoc benefit increase.

1979

◆ As part of a major education financing bill in 1979, AB 8, by Assemblyman Leroy Greene, addressed the funding of the CalSTRS unfunded actuarial obligation. First, the state's limited term $144.3 million annual appropriation was changed to a perpetual appropriation which was to be cumulatively increased or decreased beginning with the 1980-81 fiscal year by an amount which reflects the change in the California Consumer Price Index in the preceding fiscal year.

◆ The second component was an ever-increasing appropriation of $10 million in 1980-81 graded-up to $280 million in 1994-95. The $280 million would then be indexed by the CCPI starting in 1994-95. Initially the new funding was to have been $100 million commencing in 1980-81 with CCPI indexing beginning in the 1981-82 fiscal year. It was necessary, however, to change to the graded-in appropriation to obtain Legislative approval of the unfunded obligation funding.

◆ In 1990-91, AB 8 contributions totaled approximately $475 million; $275 million from the first component and an additional $200 million from the second component. This represented approximately 4.6 percent of payroll at that time, however, future years' contributions were a declining percentage of payroll estimated to be just above 2 percent by fiscal year 2032-33.

1980

◆ 0.307 percent paid directly to CalSTRS from the General Fund to fund an ad hoc benefit increase for pre-6-30-73 retirees. No sunset date on funding was established.

1981

◆ 0.108 percent paid directly to CalSTRS from General Fund to fund an ad hoc benefit increase for pre-1-1-80 retirees. A funding sunset date 12-31-96 was established.

1985

◆ Permanent funding of 0.25 percent was provided for unused sick leave. The General Fund appropriated the funds to the Teachers' Retirement Fund directly, in lieu of being contributed by the districts.

1989

◆ A funding stream from the General Fund equal to 2.5 percent of prior year teacher payroll is established to provide for supplemental payments to maintain 68.2 percent of the purchasing power of allowances.

1990

◆ Another "fix" was viewed as critical to stem the ever-growing unfunded actuarial obligation. When AB 8 was enacted in 1979 it was an attempt to improve the funding of CalSTRS, specifically a reduction in the unfunded actuarial obligation. CalSTRS, however, continued to operate with a normal cost deficit that was at 0.94 percent or approximately $130 million in 1990. The normal cost deficit had, for years, continued to roll new debt into the unfunded actuarial obligation.

◆ The CalSTRS consulting actuary in 1990 recommended the Board support legislation to change the indexing of the then AB 8 contributions from the CCPI to the ratio of total teacher payroll in the previous year's payroll. Projections conducted by the actuary at that time indicated that the AB 8 indexing to CCPI methodology would allow the unfunded actuarial obligation to grow without limit. If indexing were changed to teacher payroll, the unfunded actuarial obligation would continue to grow for about 25 years but at a slower rate, then begin to decline and be eliminated in about the 39th year.

◆ Calculations conducted in 1990 indicated a level 4.2 percent of prior teacher payroll would be sufficient to fund the unfunded actuarial obligation within a reasonable period - 45 years - and stem the normal cost deficit. Negotiations in the deliberation of the new indexing resulted in suspending all General Fund contributions for one year (1990-91); therefore, the General Fund contribution was increased to 4.3 percent to fund the additional liability without further extending the funding period.

◆ The Legislature passed and the Governor signed into law the Elder State Teachers' Retirement Full Funding Act to provide a General Fund appropriation of 4.3 percent of prior year payroll to fund first the normal cost deficit then any remaining unfunded actuarial obligation.

1998

◆ In March of 1998, the CalSTRS actuary completed its actuarial valuation of the Retirement Fund and determined that the fund assets represented 97 percent of its liabilities. In addition, if the Board's assumptions were realized, the unfunded liability would be eliminated by June 30, 2000. Once the unfunded liability was eliminated, the 4.3 percent of payroll used for this purpose would decline by .25 percent per year to fund any normal cost deficit, and would decline at that rate to 0 percent if there was no normal cost deficit. In addition, a .25 percent contribution rate by employers for unused sick leave and a rate of .307 percent of payroll paid by the General Fund for an ad hoc benefit would no longer be needed.

◆ As a result of this finding, an opportunity existed to use the General Fund money that had been appropriated to the Teachers' Retirement

Fund for purposes of retiring the unfunded liability for improved benefits. Following an analysis of CalSTRS existing benefits and the benefits available to other retirement systems, the administration agreed to use a portion of the General Fund contribution for benefits which were designed to recruit and retain teachers to accommodate increased demands for teachers. Specifically, the administration agreed that 65 percent of the 4.3 percent of payroll could be applied for that purpose. In addition, the .25 percent of payroll that had been levied on employers for unused sick leave credit and the .307 percent of payroll to fund an ad hoc benefit would continue to assist in funding the new benefits.

◆ In addition to these changes, funding would continue from the General Fund to eliminate the current remaining unfunded liability in the fund. The actuary determined that the unfunded liability would be eliminated in 30 years, if the contribution for that purpose were reduced to .524 percent of payroll.

◆ AB 2804 enacted all the changes in the funding for the retirement fund agreed to by the administration. Specifically, an amount equal to 3.102 percent (65 percent of 4.3 percent, or 2.795 percent, plus .307 percent) is transferred each year from the General Fund to the Teachers' Retirement Fund to fund increased benefits. The .25 percent contribution by employers also is continued to fund the conversion of unused sick leave to service credit for all employees. Finally, if there is an unfunded liability associated with the benefits in effect as of June 30, 1990, an additional amount, initially equal to .524 percent of payroll is transferred from the General Fund. Once that unfunded liability and the normal cost deficit attributable to benefits in effect as of July 1, 1990, are eliminated, the transfer is eliminated. If the unfunded liability should return, a transfer from the General Fund is resumed, increasing at the rate of .25 percent of payroll per year, up to a maximum of 1.505 percent (4.3 percent less the 2.79 percent being used for benefits).

2000

• AB 2700 reduced the General Fund appropriation to the DB Program from 3.102 percent of creditable compensation in the prior calendar year to 2.5385 percent in 2000-01 and 1.975 percent in 2001-02. This reduces the General Fund transfer to the DB Program by 35 percent beginning January 1, 2001. This reduced contribution rate is equal to the current normal cost of benefits that became effective January 1, 1999. In addition, the DB Program will continue to be protected against adverse experience in the pre-1990 benefits.

Membership

All certificated public school teachers, teaching superintendents, "supervising executives, or educational administrators" automatically became members of the retirement system when it was first established.

Benefit Structure

1913

◆ The initial retirement pension was $500 per year, and was paid in quarterly installments of $125.

◆ A teacher was required to have 30 years of teaching service—at least half of which, including the 10 years prior to retirement, was in California schools.

◆ Eligibility for disability benefits required 15 years of California teaching service and benefits were prorated for actual years of service.

◆ Survivor benefits were not provided under the original benefit structure.

1935

◆ Retirement benefits increased to $600 a year.

1944

The first of several major redesigns to the System resulted from legislation passed in 1944:

◆ Disability benefits were improved and all retirees with 30 years of credited service were guaranteed a minimum retirement allowance of $60 per month.

◆ Age 63 was established as the normal retirement age with specified reductions for early retirement starting at age 58.

◆ Vesting changed from 30 years to 10 years of service.

1950's

Benefits were broadened in the 1950's:

◆ Normal retirement age was dropped from 63 to 60, and the early retirement age from 58 to 55.

◆ First death benefit program established, with benefits fixed at one month's salary for every year of service (up to a maximum of six months salary/ six years of service).

◆ In 1953 the minimum retirement allowance was raised from $60 to $170 per month (for those who retired at age 60 or older with 30 years of credited service).

◆ The second major redesign occurred in 1956:

◆ Benefits were now calculated based on a fixed percentage (1.667 percent) of final compensation for each year of credited service rather than on accumulated earnings. The new calculation method tied benefits to changing economic conditions (final compensation) and not fixed-dollar values (amount of accumulated contributions).

◆ In 1958, vesting was reduced from 10 years to its present five-year minimum.

◆ In 1959, the first Survivor Benefits program to provide continuing benefits for the dependent children and spouses of deceased members was established.

1960's

◆ No benefit increases were implemented. However, significant administrative efficiencies were accomplished. The first CalSTRS tax-sheltered annuity program was created in 1963.

1970's

◆ Benefit rolls grew at a rapid pace, but benefit values fell and CalSTRS was faced with a $3.6 billion accrued liability. Dramatic change was needed, and the E. Richard Barnes Act was established.

◆ The Barnes Act established the basic benefit structure as summarized below.

- Benefit formula: 2 percent of final compensation at age 60.
- $2,000 lump sum death benefit.
- Family Allowance program.
- Disability benefit: 50 percent of final compensation.
- 2 percent simple cost-of-living-adjustment.

◆ In 1979, an ad hoc benefit increase was provided for members who retired prior to June 30, 1973.

1980's

◆ The minimum unmodified allowance was provided to guarantee no less than $16/month for each year of service credit for pre-1-1-81 retirees.

◆ In 1981, a minimum unmodified allowance was provided to guarantee no less than $18/month for each year of service credit for pre-1-1-82 retirees.

1986

◆ Convert to unisex option factors.

1989

◆ A funding stream for 68.2 percent purchasing power benefits was established.

1992

◆ CalSTRS' Disability and Survivor Benefits programs were restructured to comply with the federal Older Workers Benefit Protection Act (also known as "Betts"):

Survivor Benefits

Lump Sum Death Benefit (Coverage A): A $5,000 lump-sum death payment, to be increased following each biennial actuarial valuation based on changes in the All Urban California Consumer Price Index.

Survivor Benefit (Coverage B): A $20,000 lump-sum death payment upon the death of an active member, to be increased following each biennial actuarial valuation based on changes in the All Urban California Consumer Price Index.

◆ In addition to a $5,000 lump sum death payment, the surviving spouse may receive either a monthly allowance or a return of the member's contributions plus interest.

Disability Allowance (Coverage A): Member who qualifies for a disability allowance receives the allowance as long as the disability exists up to age 60. At age 60, the allowance is terminated and the member is eligible to apply for service retirement. A disability allowance may continue beyond age 60 only if there are eligible children and the member remains disabled.

Disability Retirement (Coverage B): Is applicable to all DB Program members hired on and after October 16, 1992. A member who qualifies for a disability retirement allowance is considered retired and receives the allowance as long as the disability remains, without respect to age. Upon return to full-time employment or if the member is found to be no longer disabled, the allowance is stopped and the member is reinstated to active status.

1997 and 1998

◆ The level of purchasing power protection was increased to 75 percent.

◆ The age factor in the retirement benefit formula for members who retired on or after January 1, 1999, was increased to a maximum of 2.4 percent at age 63. In addition, members with 30 or more years of credited service received an increase of .2 percent in the formula, up to the maximum age factor of 2.4 percent.

◆ Members retiring on or after January 1, 1999, could convert their unused sick leave to service credit when retiring, regardless of when they became members.

◆ Members who taught in a public school in another state or territory were allowed to purchase up to 10 years of service associated with that prior service, beginning in 1999. In addition, vested members can buy up to five years of additional credit, without regard to any prior service.

1999

◆ The minimum allowance for members who retired prior to January 1, 2000, was increased to $15,000 per year with 20 years of credited service, increasing annually to $20,000 with 30 years of credited service.

◆ CalSTRS is required to develop a program to provide health care benefits to members and the beneficiaries, children, and parents, as specified.

2000

◆ Defined Benefit Supplement Program: Beginning January 1, 2001, through January 1, 2011, 25 percent of a member's contribution will be allocated to the member's CalSTRS Defined Benefit Supplement account. At retirement, the contributions, plus interest, will be available to the member as a lump sum or annuity.

◆ For members retiring on or after January 1, 2001, with 30 or more years of service credit by January 1, 2011, a longevity bonus will be applied to their monthly allowance. The amount of the bonus is $200 with 30 years of service; $300 with 31 years of service; and $400 with 32 or more years of service.

◆ Members with 25 or more years of service credit will have their benefit calculated on the single highest period of 12 consecutive months of compensation. For members with fewer than 25 years of service credit, the highest 36 months of compensation will continue to be used.

◆ CalSTRS will pay Medicare Part A premiums, and any applicable surcharges, for members who retired prior to January 1, 2001, if they do not otherwise qualify for it. The Teachers' Retirement

Board may extend this benefit to eligible active members who retire after January 1, 2001.

◆ Members who retire after January 1, 2002, can receive a partial lump-sum distribution of benefit, subject to an actuarial reduction in the monthly allowance. The amount of the resulting reduction in monthly amount cannot exceed 15 percent.

◆ The post-retirement earnings limitation was increased to $22,000 per fiscal year. Exemptions to the limitation now include:

- a member who returns to teaching without performing CalSTRS-covered service for at least one year after the retirement date (exemption ends January 1, 2008)
- a member who retired prior to July 1, 2000, and returned to teaching to provide remedial education in a 2-12 classroom.
- a member who returns to teaching to provide direct classroom instruction in a K-12 class or provides support or assesses new teachers in Beginning Teacher Support and Assessment Program or provides support to individuals completing student teaching assignments in Pre-internment Teaching Program or School Paraprofessional Teacher Training Program is exempt from the limitation from July 1, 2000, through July 1, 2005.

General Fund Contributions to CalSTRS

The state has contributed money to CalSTRS since the Plan's inception in 1913. Until 1972, contributions by the state were on a pay-as-you-go basis. In 1972, as part of a major reform in the Plan, the contribution was changed to pre-fund Plan liabilities. The basis of the state's contribution was changed again 1990. Since 1990, General Fund contributions have been based on the prior year's payroll covered by CalSTRS.

Education Code Section 22955 provides that the General Fund contribute 2.5385 percent in 2000-01 and 1.975 percent in 2001-02 of the creditable compensation of the immediately preceding calendar year upon which members' contributions are based. This continuous appropriation is calculated annually on October 1, and deposited quarterly into the Teachers' Retirement Fund to finance the 1998 legislated benefit increases payable under the Defined Benefit Program. Up to an additional 1.505 percent of calendar year payroll is transferred to the TRF to amortize the unfunded actuarial obligation and to eliminate any normal cost deficit attributable to benefits in effect as of July 1, 1990. The normal cost deficit is the difference between the normal cost rate and member and employer contributions, which equal 16.25 percent of creditable compensation. Based on the most recent actuarial valuation, as of June 30, 1999, the normal cost rate is 15.664 percent of covered payroll. Consequently, there is no normal cost deficit at this time.

In October, the CalSTRS Accounting Office obtains the creditable earnings from the monthly reports of retirement contributions submitted by employers to the Reporting section at CalSTRS. Accounting totals the prior calendar year and the current calendar year payrolls and provides this information to the CalSTRS Budget Office. The Budget Officer then shares both totals with the Department of Finance analyst.

The DOF Analyst then estimates the amount to be appropriated to the TRF for inclusion in the Governor's budget and adjusts the previous calendar year's total.

A May revision is completed due to the fact that the additional data are available. The DOF analyst makes a final adjustment based on the additional payroll data.

In June, the Budget Officer prepares a "Transfer Of Funds" letter to the State Controller's Office. The DOF directs the SCO to transfer the funds to the TRF regardless of whether or not the budget has been signed. The SCO will deposit funds into the TRF quarterly.

The Accounting Office works with the SCO to follow-up to ensure that the transfers are made. A final adjustment is made immediately prior to the October 1 transfer, since complete data are then available.

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 measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index 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 benefit payments." These are School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Supplemental benefit 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)

The policy of the state and the Teachers' Retirement Board is 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 implement this policy, 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 benefit payments in quarterly installments.

This revenue is distributed on a pro-rata basis to all benefit recipients whose initial allowances have fallen below the 75 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 75 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:

- amount of money available from School Lands that year,
- number of benefit recipients whose allowance purchasing power is below 75 percent, and
- 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 75 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 75 percent.

In 2000-2001, School Lands revenue is providing only 2.1 percent of the amount needed to restore the purchasing power of allowances payable to all benefit recipients to a minimum of 75 percent. Therefore, each eligible benefit recipient receives a supplemental benefit payment paid from School Lands revenue equal to 2.1 percent of the amount necessary to raise the purchasing power of the allowance to 75 percent.

Since School Lands revenue for 2000-2001 is not sufficient to raise the purchasing power of each CalSTRS allowance to a minimum of 75 percent of the purchasing power of the initial allowance, the SBMA is used to increase the purchasing power of each allowance to a minimum of 75 percent of the purchasing power of the initial allowance.

Supplemental Benefit Maintenance Account

An amount equal to 2.5 percent of the prior year covered CalSTRS' member payroll is transferred each year from the State of California General Fund to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund. The SBMA provides annual supplemental benefit payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 75 percent of the purchasing power of the initial allowance, 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 75 percent of the purchasing power of the original allowance, and the funding from the General Fund, equal to 2.5 percent of payroll, is guaranteed. The 75 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 75 percent level, supplemental allowances may have to be paid at a lower level. However, it is anticipated that the funding for a 75 percent supplemental payment will be available well into this century.

The amount of the supplemental benefit payment for each benefit recipient depends on:

- the extent to which the benefit recipient's allowance has fallen below 75 percent of the purchasing power of the initial allowance, and
- the amount of the supplemental benefit payment provided from School Lands revenue

Estimation of Supplemental Benefit Payments

A benefit recipient can estimate his or her supplemental benefit payments. It is first necessary to calculate the purchasing power of the current CalSTRS allowance. This may be accomplished by using the following information:

- Initial Allowance (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)
- Benefit Effective Date (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)
- Current Allowance (identified by "Total Gross Allowance" before any deductions for taxes, insurance or receivables), and
- Changes in the California Consumer Price Index (CCPI) is determined by dividing the CCPI for June of 2000 by the CCPI for June of the calendar year of retirement. (See Attachment A to obtain the CCPI factors from 1955-2000.)

Purchasing Power Percentage of the Current Allowance

Example

The example uses the following data to calculate the current purchasing power percentage:

Initial Allowance:	$1,000
Benefit Effective Date:	July 1, 1975
Current Allowance:	$1,500
CCPI Factor:	3.346

In this example, the benefit effective year is 1975, and the corresponding CCPI factor is 3.346. Change in CCPI is determined by dividing the CCPI for June of 2000 by the CCPI for June of the calendar year of retirement.

The purchasing power of the current allowance is determined as follows:

A. Obtain the CCPI Factor for the benefit effective year: 3.346

B. Multiply the initial allowance by the CCPI 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 3.346 = $3,346.00

C. Divide the Current Allowance by the Fully Adjusted Allowance to calculate the Current Purchasing Power Percentage.

$1,500.00 / $3,346 = 44.83%

Note: If the Current Purchasing Power Allowance percentage is greater than 75 percent, no supplemental benefit payments will be received.

Total Quarterly Supplemental Payment
The total supplemental payment is determined as follows:

A. Multiply the fully Adjusted Allowance by .75 to calculate the 75 percent Purchasing Power Amount equal to 75 percent of the initial allowance. (Includes both School Lands and SBMA)

$3,346.00 x .75 = $2,509.50

B. Subtract the Current Allowance from the 75 percent Purchasing Power Amount to determine the Supplemental Monthly Benefit Amount, the monthly payment amount that would be needed to restore the purchasing power allowance to the 75 percent level.

$2,509.50 - $1,500.00 = $1,009.50

C. Multiply monthly payment amount by three (3) months to determine the Total Quarterly Supplemental Payment.

$1,009.50 x 3 = $3,028.50

Funding Components of the Supplemental Benefit Payments
The funding components of the Supplemental Payments are the portion from School Lands Revenue and the portion from the SBMA.

A. Supplemental Payment - School Lands Revenue (75 percent Purchasing Power)

The portion of the supplemental payment that is derived from School Lands Revenue is calculated as follows:

In 2000-2001, School Lands revenue is providing only 2.1 percent of the amount needed to restore purchasing power of the allowances payable to all eligible benefit recipients to 75 percent of the purchasing power of the initial allowance. Multiply the Total Quarterly Supplemental Payment by 2.1 percent to calculate the School Lands revenue quarterly component.

$3,028.50 x 2.1% (.021) = $63.60

Note: This benefit recipient would receive an amount equal to $63.60 per quarter from School Lands revenue in 2000-2001. The actual amount payable to each eligible benefit recipient will differ.

B. Supplemental Payment - SBMA (75 percent Purchasing Power)

The portion of the supplemental benefit payment derived from the SBMA is calculated as follows:

Subtract the School Lands quarterly component from the Total Quarterly Supplemental Payment to obtain the quarterly payment amount that would be needed to restore the allowance purchasing power level to 75 percent.

$3,028.50 – $63.60 = $2,964.90

Estimation Worksheet

Current Allowance Purchasing Power Percentage

1.	x		=	
Initial Allowance Monthly Amount		CCPI Factor: June of 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 75% to proceed)

Total Supplemental Benefit Payment

1.	____________ Fully Adjusted Allowance (a)	x	.75 Purchasing Power Percentage	=	____________ Total Purchasing Power Amount
2.	____________ Total Purchasing Power Amount	-	____________ Currently Allowance Monthly Amount	=	____________ Supplemental Benefit Monthly Amount
3.	____________ Supplemental Benefit Monthly Amount	x	3 Number of Months in a Quarter of a Year	=	____________ Total Quarterly Supplemental Payment (b)

Funding Components of Supplemental Benefit Payments

School Lands Component (75% Purchasing Power)

Note: The amount available from School Lands to raise purchasing power to 75% in the current year is 1.4%. The percentage available to raise purchasing power to 75% will vary from year to year.

____________ Total Quarterly Supplemental Payment (b)	x	.021 Percentage Available for 75% Purchasing Power	=	____________ School Lands Quarterly Component (c)

SBMA Component (75% Purchasing Power)

____________ Total Quarterly Supplemental Payment (b)	-	____________ School Lands Quarterly Component (c)	=	____________ SBMA Quarterly Component (d)

California State Teachers' Retirement System
Supplemental Payments
Factors for Calculating 2000/01 Purchasing Power
All Urban California Consumer Price Index
Attachment A

Year	June CCPI	Purchasing Power Factor
1955	25.7	6.770
1956	26.2	6.641
1957	27.1	6.421
1958	28.1	6.192
1959	28.5	6.105
1960	29.1	5.979
1961	29.5	5.898
1962	30.0	5.800
1963	30.2	5.762
1964	30.8	5.649
1965	31.6	5.506
1966	32.1	5.421
1967	32.9	5.289
1968	34.3	5.073
1969	36.0	4.833
1970	37.9	4.591
1971	39.4	4.416
1972	40.5	4.296
1973	42.7	4.075
1974	47.1	3.694
1975	52.0	3.346
1976	55.2	3.152
1977	59.5	2.924
1978	64.6	2.693
1979	71.0	2.451
1980	83.3	2.089
1981	90.1	1.931
1982	98.5	1.766
1983	99.1	1.756
1984	103.6	1.680
1985	108.4	1.605
1986	112.2	1.551
1987	116.3	1.496
1988	121.7	1.430
1989	128.2	1.357
1990	134.3	1.296
1991	140.1	1.242
1992	145.2	1.198
1993	148.9	1.169
1994	150.7	1.155
1995	154.2	1.128
1996	156.6	1.111
1997	160.0	1.088
1998	163.6	1.064
1999	167.8	1.037
2000	173.9	1.000

The Purchasing Power Factor is obtained by dividing the CCPI for June of 2000 by the CCPI for June of the calendar year of retirement.

Status of the School Land Bank Fund

(Prepared by State Lands Commission staff in 2000)

Background

Upon achieving statehood, the federal government granted approximately 5.5 million acres of land to California to be used for the support of schools. This land consisted of the sixteenth and thirty-sixth section of each township. Approximately 90 percent of the school lands have been sold. Proceeds were used primarily to pay for school construction. In 1984, the California Legislature directed that school lands be retained and managed by the State Lands Commission to generate revenue to provide cost-of-living increases for retired teachers.

The school lands are difficult to manage because they are broken up into noncontiguous, square-mile parcels. The Legislature found that "consolidation of school land parcels into contiguous holdings is essential to sound and effective management" (Section 8702 of the Public Resources Code). Consequently, the Legislature authorized the State Lands Commission to sell school lands and use the funds from the sales to purchase real property that will generate additional revenues to benefit California's retired teachers. Proceeds from sales are required to be held in trust by the Commission for the teachers and are deposited in the School Land Bank Fund.

School Land Bank Fund Balance

The SLBF has accumulated over $34.8 million. The Commission has made limited purchases of land to date for three reasons:

◆ The Commission school lands staff is required to respond to the California Desert Protection Act, passed by Congress in 1994 (Public Law 103-433) to set aside and protect areas of natural, cultural and scenic historical importance in the California desert. The CDPA will eventually involve the sale or exchange of 266,000 acres of school lands located in the newly designated desert wilderness area.

◆ The SLBF has only recently reached the funding level necessary to acquire property which is appropriately sized for management. Purchase of smaller properties would not fulfill the legislative mandate to consolidate school lands for management efficiency.

◆ Staff continues to believe that having a larger capital base will provide for more flexibility in pursuing a sound investment strategy. Following the passage of the CDPA the strategy to increase the size of the SLBF was discussed and supported by the staff of the State Teachers' Retirement System and representatives of the California Retired Teachers Association.

Anticipated Growth in SLBF Balance

School lands within the desert wilderness area designated by the CDPA have been valued at approximately $44 million. As implementation of the CDPA continues to occur, proceeds from the sale of school lands to the federal government will drastically increase the size of the SLBF.

The first two CDPA transactions approved by the Commission brought over $1.1 million into the SLBF. The third, an innovative land exchange with the federal government, allowed the Commission to obtain a 100 acre parcel in Los Angeles County, which it later sold to the city of Pomona, carrying a note secured by a deed of trust. Payments made by the city on the principal are deposited into the SLBF, while interest payments are transferred to State Teachers' Retirement System for cost-of-living increases to retired teachers.

To date, the Commission has completed three CDPA land exchange transactions involving 64,000 acres of school lands valued at $14.3 million. Future transactions will involve both exchanges of school lands for federal property and purchases of school lands by the federal government, leading to further increases in the SLBF balance.

Commission Procedures for SLBF Purchases

As the SLBF balance reaches an amount which will allow the Commission to carry out its legislative mandate to consolidate and improve the overall management of school lands, the Commission intends to proceed expeditiously with land acquisitions using the procedures and criteria previously adopted by the SLC. Land exchanges with the federal government will also assist the Commission in consolidating school lands in desert areas not affected by the CDPA.

Sale of Elk Hills Naval Petroleum Reserve #1

What is Elk Hills?

School lands that were granted by the Federal Government when California entered the Union in 1850.

◆ One of three naval petroleum reserves set up by the Government before World War 1.

◆ Sits on 47,000 acres located 28 miles west of Bakersfield, California.

◆ Produces 60,000 barrels of oil and 390 million cubic feet of natural gas each day.

◆ Holds 600 million barrels of oil and 1.9 trillion cubic feet of natural gas in reserve.

◆ Chapter 68, Statutes of 1996 (SJR 27, Costa) memorialized the President and the Congress of the U.S. to sell the Elk Hills Naval Petroleum Reserve Number 1 while recognizing the State's valid claim to two school land sections within the Reserve, and to compensate the State's retired teachers for their interest.

What is CalSTRS' interest in Elk Hills?

◆ The state of California and federal government had 78 percent interest in this Reserve (school lands), and the remaining 22 percent of the Reserve was owned by Chevron Corporation in San Francisco.

◆ CalSTRS sold their 9 percent interest of the net proceeds to benefit California's retired teachers.

What are the terms of the sale?

◆ Occidental Petroleum purchased the Reserve October 6, 1997 for $3.65 billion (an all-cash deal); Occidental will sell their interest in MidCon for $3 billion, of which $2 billion will fund the Reserve acquisition. Expenses of the sale are estimated at $50 million; the deadline for the close of the sale was February 10, 1998, as mandated.

◆ A settlement agreement was reached between California, the U.S. Department of Energy and Occidental Petroleum to ensure the State's interests are properly protected in the event Congress fails to appropriate all installments due to the State, which would result in the state renouncing its 9 percent settlement with DOE and suing Occidental Petroleum for the state's claim.

◆ This agreement was subject to:

- A Justice Department antitrust review
- Completion of the environmental impact assessment process
- A 31-day Congressional review period

The State should receive, in each of the Federal Government's fiscal years, or FFY, the 1st through September 30th, approximately $320 million payable to the Teachers' Retirement Fund in seven annual installments under the terms of the settlement (due by the later of the 180th day of the fiscal year or 60 days after the funds are appropriated by Congress and become available) between the state and DOE as follows:

FFY	*AMOUNT*
1999	$36 million (paid)
2000	$36 million (paid)
2001	$36 million (appropriated)
2002	$36 million
2003	$36 million
2004	$72 million
2005	$72 million

The $324 million has been set aside in an escrow account for California as Congress directed. CalSTRS role is to:

- ensure that these appropriations for the settlement payments are included in the President's budget that he submits to Congress in January of each year prior to the year that the payments are due (the Secretary of Energy, is contractually obligated to request this from the President);

and

- pursue efforts to gain attention from members of the House Appropriations Committee to strongly push to ensure that the appropriation for the annual installments of the state's compensation claim moves through the House and Senate.

How does the sale benefit retired teachers?

As directed by the California Legislature, school lands revenue supports "purchasing power" protection for retired teachers. The increase in school land revenue attributable to the sale of the reserve permitted an increase in purchasing power protection. This increase was authorized in Chapter 939, Statutes of 1997 (SB 1026, Schiff), which provides purchasing power protection of up to 75 percent of a retired member's purchasing power from the 2.5 percent annual General Fund contribution for as long as it could support that level of funding.

What is the current status of the sales proceeds?

The federal government has collected the $3.65 billion sales proceeds from Occidental and stands to save an estimated $84 million (direct operational savings that have simply evaporated from the budget baseline) in FY 1999. The Defense Authorization Act requires that 9 percent of the sales proceeds be held in an escrow account for use in paying the State's claim. However, from Congress' standpoint, the compensation payment is being treated as a new spending program that must compete for funds along with other existing programs. The agreed upon funding was approved for the 2001 fiscal year in the FY 2001 interim appropriations legislation which provided funding for the third $36 million Elk Hills installment, due October 21, 2001. With this third installment, CalSTRS will have collected $108 million of the $320 million due to CalSTRS.

A Review of Actuarial Principles and the Valuation Process

The California State Teachers' Retirement System has its actuary prepare an actuarial valuation as of June 30 of each odd-numbered year. Historically, this valuation has only been concerned with the Defined Benefit Program administered by CalSTRS. Since June 30, 1997, however, the Cash Balance Benefit Program has also been subject to an actuarial valuation.

The Defined Benefit Supplement Program will be subject to an actuarial review as of June 30, 2001.

Since there tends to be some confusion and mystery surrounding actuarial results and valuation reports, the intent of this discussion is to try to make the process and the results more meaningful and useful. While most of the discussion will focus on the much larger DB Program, these issues and concepts are generally equally applicable to the CB Benefit Program.

Actuarial Liabilities

Actuarial liabilities are created by a promise to pay a specified benefit if certain events occur or certain conditions are met. Actuarial liabilities are not the same thing as accounting liabilities. For an accounting liability, the only question is generally "when." For an actuarial liability, on the other hand, the question is not only "when," but also "if," and "how much." Actuarial liabilities are therefore said to be "contingent." This means they are dependent upon one of several possible events occurring.

To evaluate the potential actuarial liabilities, the actuary must make three estimates:

- if a benefit will start,
- when that benefit will begin, and
- what the benefit amount will be

Money is paid out of the retirement system if one of four events occur: death, termination, disability or retirement.

The amount of any benefit that is to be paid generally depends upon both current and future service and on the extent of future pay increases.

While the system is waiting to pay the benefit, it invests its funds and it earns investment income to supplement contributions that are made by teachers, their employers and the state. To evaluate the plan's potential liabilities, the actuary studies the system's experience and recommends certain assumptions to the Board. The assumptions are split between demographic (or noneconomic) assumptions and economic assumptions.

There are four demographic assumptions for active members: death, termination, disability, and retirement. For retired members and survivors, the only assumption is the likelihood of death. For disabled members, the demographic assumption covers both death and recovery from disability.

There are also four economic assumptions. These are the assumed inflation rate, the salary scale, the investment return assumption and the payroll growth rate.

The Concept of Actuarial Cost

Over the long term, the employers' cost of the plan is going to be equal to the difference between the sum of benefits, refunds and expenses paid out over the sum of employee contributions and investment earnings. Because contributions of the state, employers and members remain constant from year to year and are set by law, poorer investment returns will either decrease the current actuarial surplus or create an unfunded liability. Conversely, greater investment returns will increase the current actuarial surplus.

In order to properly pre-fund a defined benefit plan, it is necessary to determine the appropriate amount of employer and state contributions to be made to the plan. This is the function of an actuarial cost method. The goal of an actuarial cost method is to produce a pattern of contributions that meet the goal and requirements of a defined benefit plan.

There are two components to the actuarial cost of an existing benefit structure or from adding a benefit enhancement. These are the "normal cost" and the amortization charge for funding the unfunded actuarial obligation. The unfunded actuarial obligation is usually referred to as the:

- UL or unfunded liability
- UAAL or unfunded actuarial accrued liability,
- UAL or unfunded accrued liability

The number of years that it will take the current contribution schedule to fully amortize the unfunded liability is referred to as the plan's "funding period."

The normal cost may be thought of as the ongoing cost of the plan, if there were no unfunded liability. It is the annual cost for the benefits that will be earned by the average new entrant over his/her career, if the actuarial assumptions are exactly met and if there is no change in the benefit level.

The amortization charge for the UAAL is the annual rate that this unfunded liability is being paid off, or "funded."

The technical definition of the UAAL depends on the specific actuarial cost method utilized in the valuation. Different cost methods assign different parts of the total actuarial liability for all future benefits to past years (the actuarial accrued liability), to the current year (the normal cost), and the future years (future normal cost). In a way, this is similar to the existence of different inventory evaluation methods in accounting (for example, LIFO or FIFO).

Different actuarial cost methods spread the incidence of actuarial cost in different ways. One approach is to spread cost on the basis of the benefit formula itself (the projected credit unit method). Another approach spreads the incidence of cost on a level dollar basis. Others spread the cost on a level percentage of payroll basis. There is even one method (the aggregate valuation method) that does not create any unfunded liability at all.

CalSTRS uses the entry age actuarial cost method for valuing the DB and DBS Programs. This is the most common method used for public plans. Its popularity is due to the fact that it spreads the cost as a level percentage of pay, and therefore it does the best job of creating equitable treatment among successive generations of taxpayers.

The CB Benefit Program used the traditional unit credit cost method. It is a method best suited to the type of plan design evident by the CB Benefit Program.

Unfunded Liability

The unfunded liability is calculated as the actuarial present value of all future benefits less the actuarial present value of all future normal costs less the current actuarial value of assets. The resulting unfunded liability may either be positive (underfunded) or negative (overfunded).

The unfunded liability is not an accounting liability. It is also not the actuarial liability if the plan is terminated or frozen.

The unfunded liability is the actuarial liability associated with prior years under the entry age cost method, assuming that the plan will continue into the future. It reflects expected future pay increases for current members and expected future service for those members.

There are many reasons why a retirement plan like the CalSTRS DB Program may have ended a prior year with an unfunded liability. As was the situation in CalSTRS' case, a part of the unfunded liability is due to those years in which the full actuarial cost was not contributed, i.e., the years before Elder Full Funding. Unfunded liability can also be created by plan improvements such as increases in the multiplier and retiree benefit increases.

Actuarial gains and losses will also affect the unfunded liability. Gains and losses represent the difference between the actual experience of the plan and the plan's assumed experience. The most dramatic example of actuarial gains during the years 1995-1999 has been the very favorable investment performance achieved by the plan.

Changes in actuarial assumptions and/or methods also affect the unfunded liability. Such was the case for CalSTRS as a result of the last experience study.

It is important to remember that the creation of an unfunded liability is a natural by-product of the entry age methodology. Whenever benefit improvements are granted, the entry age method will cause an increase in the UAAL.

There is nothing wrong or bad about having an unfunded liability. What is important is whether or not the plan is making systematic progress in amortizing that unfunded liability over a reasonable period of time. There is also nothing wrong with a benefit enhancement that increases the unfunded liability, as long as that benefit enhancement is properly funded to begin with.

If, however, the Board sees a consistent pattern of actuarial experience losses from one year to the next, they should have their actuary perform an experience study to determine whether or not the current assumptions need adjustment.

In addition, if they see a consistent pattern of deterioration in the funded level of the plan, they need to begin an education process to alert the Legislature and plan members to the potential dangers of underfunding the plan. The creation of Elder Full Funding is an example of this course of action.

Actuarial Assumptions

Because of the long time horizon of a DB Plan, actuarial assumptions are necessary. The actuary's role is to study and recommend actuarial assumptions. The Board then accepts, rejects, or modifies those recommendations. This action represents a fiduciary decision on the part of the Board.

If the Board and the actuary are too optimistic in establishing the assumptions, the long-term ability of the plan to meet its emerging liabilities may be impaired. Consider two examples:

In the first example, let's say that the Board assumes that the plan will earn 9.5 percent, but in reality the plan only averages 8 percent in investment return. The true value of the liabilities will be greater than what is being assumed in the actuarial valuation process since the actual return is less than expected. This means that more money will be required to pay the benefits than planned on. Therefore, over the long-term the system may have problems paying its benefits in the future.

As a second example, let's say that the Board sets retirement rates to assume that members will retire on average at age 63. In reality, let's say that they actually retire at age 60. While the benefit may be less for retirement at age 60 than at age 63, it is payable for more years into the future. In addition, and maybe even more significantly, the plan has lost three years of contributions that it was counting on receiving.

Because the setting of the assumptions is so critical, the following discussion outlines the nature and impact of each major assumption.

Mortality Assumptions

The active member mortality assumption is not a major actuarial assumption as it relates to the size of the actuarial liabilities. This may be illustrated by comparing the size of the active member mortality rates versus the withdrawal and retirement rates. It is also illustrated by the size of the active-member death benefit liability compared to the retirement benefit liability. The 1999 valuation of CalSTRS showed the following present value of future benefits for active member death benefits versus retirement benefits ($ millions).

Type of Benefit	Active Member	Retired Member
Active member death benefits	$903	$1,670
Present value of future retirement benefits for current active members	$80,793	$31,349

In contrast to the active member mortality assumption, retired member mortality is a major assumption in determining the overall actuarial condition of the plan. The longer the life expectancy in retirement, the longer benefits will be paid. From the plan's viewpoint, favorable experience would occur if there are more deaths among retirees than expected. This is because not as many benefits are being paid out as anticipated being paid out. Therefore the unfunded liability will not grow as fast as assumed.

Rates of Disability

As with the active member mortality assumption, the assumption as to rates of disability is not a major actuarial assumption. Again this may be seen by comparing the size of the disability rates versus the size of the withdrawal and retirement rates. Using the 1999 valuation results, the relative importance of the benefit is seen if the present value of future benefits for future disabilities is compared to the present value of future retirement benefits:

Type of Benefit	Active Member Benefit
Disabled	$ 1,932
Retired	$80,793

In general, fewer disabilities than expected would be viewed as favorable experience. If actual experience exhibits fewer disabilities than expected, then not as many disability benefits will be paid out as anticipated by the unfunded liability.

Withdrawal Rates

The assumption as to withdrawal rates is a major actuarial assumption. It determines the likelihood of members staying in service to draw a retirement benefit. Favorable experience relative to withdrawal rates would be more terminations than expected by the assumptions. If there are more terminations, there will not be as many retirement benefits actually paid as expected and the benefits that are paid will not be as large as expected.

For CalSTRS, the withdrawal rates are a function of both age and service. This type of structure of assumptions is known as "select and ultimate rates." This structure reflects the fact that both age and service affect the likelihood of staying in active employment.

Retirement Rates

The assumption as to retirement rates is also a major actuarial assumption in the valuation process. This assumption determines when the retirement benefits are expected to become payable. Favorable experience would occur if there are fewer retirements than expected. In this scenario, CalSTRS has its funds longer than expected, it gets its contributions longer than expected, and it pays out benefits for fewer years than expected.

Disabled Life Mortality

The mortality assumption for disabled lives is not a major actuarial assumption. This is due to the size of disabled life liabilities compared to retired life liabilities.

Favorable experience would occur if there are more deaths or recoveries than expected by the assumption. This would mean that not as many disability benefits are being paid out relative to the assumed pay out.

Inflation Assumption

The inflation assumption is a key economic assumption. It is not, however, affected by CalSTRS experience.

The importance of this assumption is that it links the assets and the liabilities. This is because it is a component of both the salary scale and the investment return assumption. The current CalSTRS assumption for inflation is 3.5 percent.

Salary Scale Assumption

The salary scale assumption is a major assumption from an actuarial standpoint. It helps determine the amount of the expected benefits to be paid by CalSTRS.

Favorable experience occurs when salaries go up slower than expected, producing smaller actual benefits than anticipated by the actuarial calculations. Salary gains have been common in many state retirement systems over the last few years.

There are three components to the salary scale. The first component is inflation. The second component is the productivity component. This component measures how much general salary increases exceed inflation. This is over and above any age- or service-related salary increases.

The final component of the salary scale is the promotional component. For CalSTRS, it is a function of both age and service. It reflects increases in the salary schedule that occur due to an additional year of service or experience. It also reflects the adjustment that occurs in salary for additional degrees or for promotions.

Currently, the salary scale for CalSTRS includes the inflation component of 3.50 percent, a productivity component of .75 percent, and a promotional component that is a function of age and service and ranges from .8 percent to 6.1 percent.

Investment Return Assumption

The investment return assumption is the most visible actuarial assumption and, needless to say, it is a major assumption. It determines the discounted value of future benefits, and it determines how fast assets are expected to accumulate through the investment process.

It should come as no surprise to state that favorable experience relative to this assumption occurs when the invested assets earn a higher rate of return than expected. This would be illustrated by the investment performance that has been achieved during the plan years since 1995.

There are two components to the investment return assumption. Like the salary scale assumption, the first component is inflation. This component is not affected by the plan's asset allocation. The second component is the real rate of return net of investment expenses. This assumption is affected by asset allocation, market forces, and manager performance.

The current investment return assumption for CalSTRS is 8 percent. This is the most common rate used by large public plans. Because the inflation component is 3.50 percent, this means that the current real rate of return assumption is 4.50 percent, net of investment expenses.

If the inflation component is changed and there is no change in the expected real rate of return, the amount of the change will be equal to the change in the inflation assumption. If, on the other hand, the inflation component is changed, <u>but there is no change</u> in the total (nominal) investment return assumption, this implies that there has been an increase in the assumed real rate of return. The increase in the assumed real rate of return will equal the decrease in the inflation assumption.

Because of the common inflation component in these two assumptions, changes in the salary scale and the investment return assumptions should be viewed together to evaluate their reasonableness. The linkage of these two elements may be analyzed in an asset/liability modeling study.

The Actuarial Valuation

The primary purpose of the actuarial valuation for the CalSTRS DB Program is to determine the adequacy of the current contribution structure. This adequacy is measured in terms of the funding period. There are, however, several other purposes of the valuation. These include:

- Tracing the change in the funding period from the last valuation to the current valuation.

- Calculating the actuarial gains and losses for the two-year period between valuations.
- Providing a biennial snapshot of the status of the plan.

For the Cash Balance Benefit Program, the valuation process evaluates how the plan net assets match-up with the sum of the nominal account balances, the Gain and Loss Reserve, and any Annuitant Reserve. It also determines how to allocate that year's investment earnings among minimum interest credits, additional earnings credits, additional annuity credits, and the Gain and Loss Reserve.

As with everything the CalSTRS actuary does, all results in these valuations are based on the assumptions and methods adopted by the Board.

A great deal of information is derived from the valuation report. As noted above, the primary focus of the DB valuation is to determine the funding period for amortizing the unfunded liability, based on the current contribution schedule.

The valuation will also provide information on any assets and/or liability gains or losses, the size of the unfunded liability itself, the plan's current funded status, an estimate of investment returns based on the actuarial value of assets, numerous member statistics, and the external cash flow during the two-year period.

How to View and Interpret Valuation Results

A number of issues contribute to the perception that actuarial concepts are difficult to understand. These include the long-term nature of the actuarial liabilities themselves. It also reflects the large number of actuarial variables that are present in the valuation. Yet another complicating feature is the existence of complex benefit provisions.

The valuation report contains a multitude of numbers and amounts. In trying to understand the significance of the valuation, readers of the report should not just focus on the numbers in isolation.

In order to understand the meaning of the valuation results, it is helpful to put the actuarial results in perspective by looking at trends and comparisons:

- Is the funded ratio changing from year to year? If so, is it increasing or decreasing from one valuation to the next?
- Is the unfunded liability growing or declining as a percent of payroll? The unfunded liability may be increasing in total dollar amount simply because the active membership is growing. By looking at it relative to payroll, it is possible to evaluate whether or not the unfunded liability is growing faster or slower than the system as a whole.
- It is important to observe any pattern of actuarial gains or losses from one valuation to the next. If there are changes in the unfunded liability, can those changes be explained by benefit enhancements or by changes, in assumptions?
- Is the funding period increasing or decreasing from one valuation to the next?

These are the types of reviews and analysis that the actuary performs when evaluating the valuation results.

Concluding Remarks

While the technical meaning of the numbers and terms can be very imposing in an actuarial valuation, it is possible to gain understanding by focusing more on trends and patterns rather than the individual numbers themselves.

Investment Management Plan

Adopted by the Teachers' Retirement Board November 1999.

Executive Summary

The California State Teachers' Retirement Board believes that to manage growth of assets in a prudent manner, it is necessary to establish a planning statement in the form of an Investment Management Plan under which the Investment Branch will operate. The Board has sole and exclusive fiduciary responsibility to administer the investment assets in a manner that will assure the prompt delivery of benefits and related services to the plan participants and their beneficiaries. As a public pension fund, the California State Teachers' Retirement System is not subject to ERISA that governs corporate pension plans. CalSTRS investment decision making criteria is based on the "prudent expert" standard for which the ERISA prudence standards serve as a basis. Additionally, the California Constitution requires diversification of risk across asset classes and minimization of employer costs.

This document represents the most recent update of CalSTRS' Investment Management Plan. The Investment Management Plan was developed within the context of the significant events that have occurred during CalSTRS' eighty-five year history. The CalSTRS Investment Management Plan is updated to reflect the changes that have occurred in the investment strategy and policy as a result of implementing approved programs. In addition, the Investment Management Plan is updated to ensure that the factors that impacted initial decisions are still relevant in the current environment.

This document addresses general objectives governing the policies of the investment function and specific performance objectives. The general objectives are meant to provide a framework for the operation of the investment function. CalSTRS' performance objectives can be divided into objectives for the overall investment function and objectives for investment managers.

The asset allocation decision governs the allocation of CalSTRS' assets between public and private, fixed income and equity. Strategic allocation of CalSTRS' assets is the most important factor in the determination of the realized total rate of return. The investment staff and the general consultants worked together to create a variety of optimal asset allocation alternatives.

Strategic asset allocation targets are established in a variety of asset categories to achieve the identified performance objectives. In conjunction with the strategic asset allocation targets, tactical ranges provide flexibility to adapt to changing market conditions.

Subsequent to the establishment of strategic asset allocation targets, an investment structure was designed to guide and direct investment decisions. Investment related issues addressed included the:

◆ relative amount of active and passive management.

◆ relative amount of internal and external management.

◆ appropriate direct and indirect costs of each asset category.

◆ appropriate reporting standards and time horizons.

General Investment Objectives

One goal for The California State Teachers' Retirement System is to "maintain a financially sound Retirement System." Within this context, the following general investment objectives are designed to establish a framework for the operation of the investment.

◆ CalSTRS' investment program must provide the means to pay benefits to its participants and their beneficiaries in the amounts and at the times called for through the investment of contributions and other fund assets.

◆ Assets will be invested to produce expected returns on investments based on levels of liquidity and investment risk that are prudent and reasonable under diverse circumstances. Such circumstances will change, as new investment vehicles become available.

◆ The reduction of CalSTRS' funding costs, within prudent levels of risk, is a consideration in the organization and structure of the investment portfolio.

◆ Investment performance will be compared to other private and public pension funds with special emphasis on comparisons with other large public funds.

◆ Management fees, trading costs, and other expenses will be aggressively monitored and controlled. Reduction of the cost of managing CalSTRS' assets will increase portfolio return over time.

◆ The Investment Branch will conduct an annual planning session including an updated financial projection highlighting any modifications to the performance objectives.

◆ CalSTRS' investment program must operate in compliance with all applicable State and Federal laws as well as regulations concerning the investment of pension assets.

◆ The asset structure must provide for diversification of risk between asset classes to manage the risk/return relationship through strategic asset allocation.

Investment Performance Objectives

The general investment objectives designed a framework for the operation of the investment function. The performance objectives can be divided into two components:

- performance objectives for the overall investment portfolio
- performance objectives for the individual investment managers

CalSTRS incorporates both levels of analysis in its monitoring of the investment portfolio performance.

There are four performance objectives identified for the overall investment portfolio:

Relative to Strategic Asset Allocation Targets
The first objective identifies a comparative benchmark that reflects CalSTRS' unique asset allocation policy. This performance objective is a composite of the target weighting for each asset category multiplied by the performance benchmark's return for that category. This performance number is compared to the actual asset allocation and actual total rate of return. This comparison identifies the contribution or detriment to performance caused by manager performance, market timing, and tactical asset allocation decisions.

Relative to Inflation
The inflation related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index (CPI) plus 3.5 percent. The CPI is used in the calculation of the estimated salary increases for the members (teachers). The inflation measure provides a link to CalSTRS' liabilities.

Relative to the Actuarial Rate of Interest
The actuarial rate of interest is reviewed and monitored as a measure of the long-term rate of growth of CalSTRS' assets. The current actuarial rate of interest is 8.0 percent. When adopting the actuarial rate of interest, the Board anticipates the investment portfolio may achieve higher returns in some years and lower returns in other years.

Relative to CalSTRS' Liabilities
The liability-related performance objective recognizes that liabilities must be paid in full and in a timely manner. The liabilities are future claims of the CalSTRS' participants. The actuarial rate of interest is used to discount the future value of the CalSTRS' liabilities to calculate the funded ratio.

Performance Benchmark

To facilitate the periodic reporting to the Investment Committee and to provide a relative measure to gauge success, custom performance benchmarks are approved by the Board. The approved custom performance benchmarks are shown below:

Total Public Equity	-Weighted Russell 3000 Index and MSCI AC ex US Index
Domestic Equity	-S&P 500 Index (large cap stocks)
	-Russell 2500 Special Index (small cap stocks)
International Equity	-MSCI AC ex US Index
Total Public Debt	-Salomon Large Pension Fund Index
Domestic Debt	-Salomon Large Pension Fund Index
Private Equity	-Weighted NCREIF Property Index and Custom Alternative Investment Index
Real Estate	-NCREIF Property Index
Alternative Investment	-Custom Alternative Investment Index

Each investment manager, for domestic and international, equity and fixed income, has an individualized benchmark designed to measure its performance relative to the objective identified in its investment guidelines.

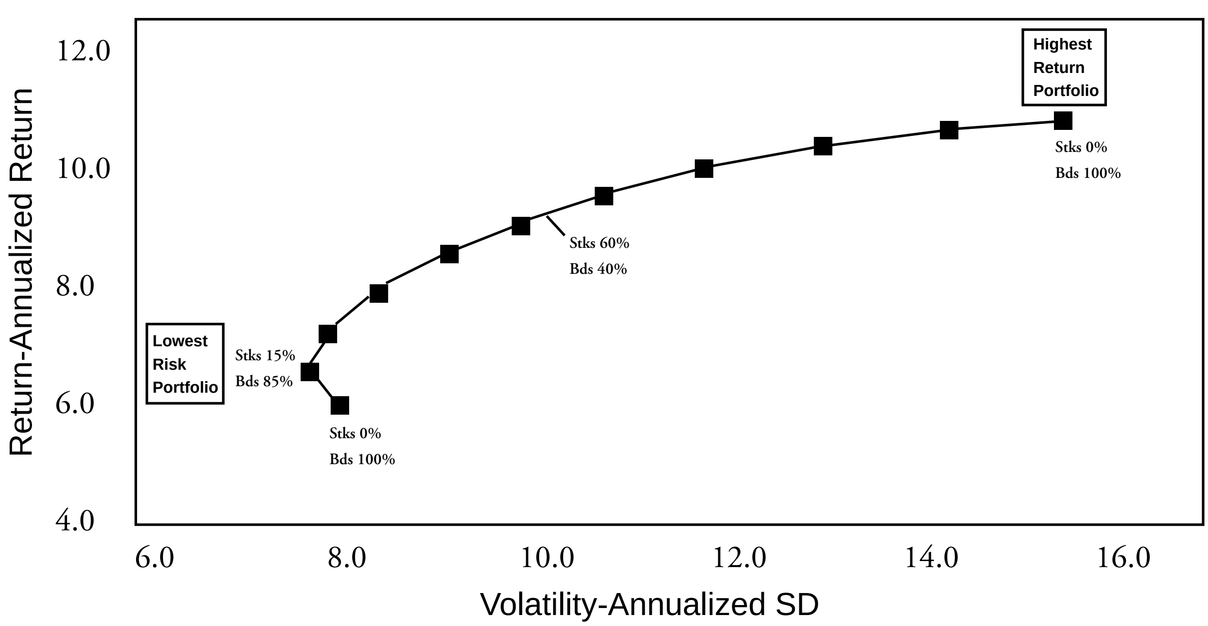
Asset Allocation

A Review of Asset Allocation

A diversified investment portfolio consists of multiple asset classes whose investment returns respond differently to varying economic scenarios. Diversified portfolios are attractive because the combination of various asset classes can reduce expected risk while maintaining expected return. Combining assets having different return patterns can produce a portfolio that has much lower volatility (risk) than any individual asset while producing returns that are competitive. Maximizing return while reducing risk increases the probability of meeting a specified return objective.

Efficient frontier analysis is a widely accepted method of analyzing the tradeoff between risk and return across portfolios having different mixes of assets. Through this quantitative technique (which relies on several critical assumptions), an optimiza-

An Efficient Frontier for a Stock and Bond Portfolio



tion process identifies portfolios of assets providing the highest expected return, given a specified level of risk. The procedure continues to determine ideal portfolios at varying levels of risk until an entire range of ideal portfolios (termed an "efficient frontier") is identified below.

Asset Class	Expected Annual Return	Expected Annual Volatility
Domestic Stocks:	10.75%	15.0%
Domestic Bonds:	6.25%	8.0%
Stock-Bond Correlation:	0.30	

In selecting certain combinations of assets (such as domestic equity and fixed income) any rational investor will always consider the tradeoff between changes in return and changes in risk. At a minimum, investors should expect to receive a higher rate of return for an incremental increase in investment risk.

Each mix of assets is, in itself, a unique asset having its own return vs. risk tradeoff. As highlighted above, these asset portfolios can exhibit return patterns that differ greatly from any underlying asset. Depending on the extent of how individual assets move in relationship to each other (measured by correlation), certain mixes of assets could enhance the return-risk tradeoffs over investing in any single asset.

The curve-point in the curve in the efficient frontier chart shows when adding a certain proportion of stocks ceases to add value (simultaneously adding return and reducing risk). This point comes when stocks become 13 percent of the portfolio. Beyond this point, the only way to increase return is to increase risk incrementally. For those points along the line past the curve point, the only decision one has to make is how much incremental risk one is willing to accept. The only way to increase return will be to accept incremental increases in investment risk (uncertainty). The line between the curve-point and the "100 percent stocks" point is termed the "efficient frontier." Any point along the efficient frontier represents that unique portfolio that offers the highest return for the given amount of risk.

The Asset Allocation Process

The key goal of the asset allocation process is develop an asset allocation policy that maximizes the likelihood that an investment portfolio's assets will, over the planning horizon, fund Plan benefits.

Steps Involved in Setting Asset Allocation Policy

Overview and Planning Steps

1. Review rationale for policy.

- importance of diversification

2. Review financial condition of Plan.

- assets versus projected liabilities (balance sheet)
- projected contributions versus projected benefits

Investment-Related Steps

3. Review rationale for investment asset classes in light of plan financial requirements.
4. Develop expectations for asset class investment performance (returns, risks, correlations).
5. Identify investor-specific constraints that might limit investment strategies (e.g., liquidity).
6. Create model portfolios, incorporating objectives, assumptions, and constraints.
7. Isolate investor-specific model portfolio to represent an investor's asset allocation policy.
8. Perform additional sensitivity analyses to quantify impact of specific issues.

- adjustments to required rate of return
- shift in financial condition of Plan due to funding

Once the rationale for undertaking an asset allocation study is understood, a review of the financial condition of the plan becomes imperative. A key component of reviewing a plan's financial condition is studying the actuarial requirements of the plan. These requirements represent the plan's long-term liabilities and, when combined with the plan's investment portfolio, constitute a pension plan's balance sheet. Understanding what factors (such as changes in interest rates, benefit structures, and plan demographics) influence these liabilities is important. Changes in these and other underlying factors may, in fact, alter a plan's liability structure. Such shifts could, in turn, impact the plan's financial condition. CalSTRS' were studied and considered as part of this asset allocation review.

Selecting Asset Classes for Portfolio Investment

As discussed earlier, there are three components required to model investment returns:

- asset class expected returns,
- asset class risks, and
- correlations among asset classes.

Investment consultants develop these components, which are then used to develop efficient frontiers quantitatively. CalSTRS' current long-term expected returns and risks for various assets classes range from 4.0 percent to 15.0 percent per year.

Total Return and Risk Estimates

Assumed inflation level: 3.0% per year

Asset Class	Expected Annual Return	Expected Risk (Annlzd. SD)
Cash	4.50	1.5
Domestic Bonds	6.25	8.0
Global Bonds	6.13	8.0
Domestic Stocks	10.75	15.0
International Stocks	10.50	18.0
Private Markets	12.50	16.0
Emerging Markets	14.00	30.0

These return and volatility estimates reflect several basic relationships:

- Investors or lenders of capital require an incremental real return premium as a reward for making capital available.
- Equity-oriented investment should, over long periods, produce return premiums that are higher than their fixed-income counterparts.
- The private markets asset class is a combination of both real estate and alternative investments.
- The return assumptions for the publicly-traded asset classes do not account for added value opportunities within each asset class.

Review of Asset Allocation Policy

Over the last thirteen years, CalSTRS' asset allocation policy has shifted modestly.

Asset Allocation Policy Trends (in %)

Asset Class	Current	1995	1993	1986
Domestic Equities	38	34	33	40
Foreign Equities	25	18	18	15
Public Equity	63	52	51	50
Realty	5	5	10	10
Venture	5	3	7	5
Total Equity	73	60	68	70
Global	0	5	1	—
Fixed-Income	26	34	30	30
Cash	1	1	1	0
Stable Assets	27	35	31	30
Total	**100**	**100**	**100**	**100**

CalSTRS' investment policy has remained consistent from an equity/stable asset allocation viewpoint. In 1986, CalSTRS had a strategic allocation of 70 percent equities and 30 percent stable assets. In 1997, CalSTRS' Board adopted a similar policy (73 percent equity and 27 percent stable assets).

Strategic Asset Allocation

The System's asset allocation strategy utilizes a design for today's needs, while anticipating the future capacity and growth of the investment portfolio. A strategic asset allocation target for public equity, private equity, liquidity, and public debt was last established in 1997 after reviewing a comprehensive asset allocation analysis completed by Pension Consulting Alliance. In conjunction with the strategic target, a range for each asset category has been established to provide flexibility designed to reduce rebalancing costs and allow flexibility to adapt to changing market conditions.

To control the risk and return relationship each asset category must be rebalanced to the strategic target occasionally. Rebalancing latitude is important and can significantly affect the performance of the portfolio. Blind adherence to narrow ranges increases transaction costs without a documented increase in performance. A rebalancing range that is too wide may cause undesired changes in the asset allocation. The range is plus or minus three percent around the strategic target for the major asset categories (domestic equity, international equity, and fixed income). The range is plus or minus two percent around the strategic target for the other asset categories (private equity and cash). The two or three percent range refers to the market value of the total investment portfolio.

CalSTRS Policy Target and Ranges

	Strategic Target	Range
Domestic Equity	38%	35% to 41%
International Equity	25%	22% to 28%
Total Public Equity	63%	57% to 69%
Private Equity*	10%	8% to 12%
Total Equity	**73%**	**68% to 77%**
Debt	26%	23% to 29%
Cash	1%	0% to 3%
Total Public Debt	**27%**	**23% to 32%**
Total Asset Allocation	100%	

••Please note that the allocated not funded portion of the private equity will be invested in the S&P 500 Indexed portfolio. This amount will be shown as private equity – S&P 500 Index.

Investment Structure

Investment structure guides and directs present and future investment decisions in a prudent manner. Investment- related issues addressed included:

- The relative amount of active and passive management
- The relative amount of internal and external management
- The appropriate direct and indirect costs of each asset category
- The appropriate reporting standards and time horizons

Asset Allocation Structure

- Based on academic studies, it has been determined that 91 percent of the total return is attributable to the asset allocation decision. Consequently, each asset category shall remain within the tactical range approved in the strategic asset allocation adopted by the Board.
- Control of the cash flow is critical to the success of long term investment strategies. Estimated cash flows shall be provided to the Investment Committee annually.
- Each month the Chief Investment Officer will complete a report identifying the salient aspects of the investments including a section on compliance with approved asset allocation targets.

Equity Structure

- The domestic equity portfolio will be managed using both passive (80 percent target) and active (20 percent target) strategies. The passive component may have both internal and external managers. The active component will be managed externally. The Investment Committee limits the number of active domestic equity managers.
- The non-U.S. equity markets are assumed to be more inefficient, allowing active management to add value. The target will be an equal amount of active management (50 percent) and passive management (50 percent) strategies. Emerging markets will be utilized to enhance return and diversification. The passive component may have both internal and external managers. The active component will be managed externally.

The Investment Committee limits the number of active non-U.S. equity managers.

Fixed Income Structure

- The long-term fixed income portfolio shall be comprised of investment grade securities using an enhanced indexing strategy. The internally managed portfolio will emphasize tracking the risk characteristics of the performance benchmark.

- Short term fixed income, including the cash portion of equity portfolios, shall be managed internally with emphasis on safety and liquidity. The portfolio shall be comprised of investment grade securities, A1/P1 rated short term debt, and other appropriate securities as approved in the policies and procedures.

Alternative Investment Structure

- The alternative investment portfolio will be comprised of limited partnerships and co-investments focusing on commitments to domestic and international partnerships as identified in the Alternative Investment policy. The alternative investment advisor and staff will analyze each partnership and conduct appropriate due diligence with the objective of achieving upper quartile performance, as identified by Venture Economics.

- Private equity investments have substantial fees and costs, consequently, emphasis will be placed on negotiating, monitoring, and controlling the direct and indirect costs of each limited partnership investment.

Real Estate Structure

- The real estate portfolio will be comprised of direct real estate investments and commingled funds (opportunistic funds) with adopted targets of 50 percent to low-risk, 25 percent to moderate-risk and 25 percent to high-risk investments.

- To more closely align the interests of the plan sponsor and real estate manager, emphasis will be placed on negotiating, monitoring, and controlling the cash flow (both income and expense) associated with each property.

Legislated Benefit Improvements

The following represents over a decade of legislation, both State and federal, that CalSTRS has actively pursued to improve benefits for members and their beneficiaries. Some of these proposals have taken two years for the Teachers' Retirement Board to carry through the legislative process. It has taken longer for federal proposals. The TRB has either sponsored, co-sponsored or supported other sponsors on these initiatives that significantly impact the level of benefits or benefit structure enabling CalSTRS to either enhance or provide a promised benefit. It should also be noted, some attempts to make significant changes to benefit levels or the funding structure have not been approved by the Governor.

2000

State

◆ Expands earnings limit exemption for administrative positions; AB 141.

◆ Ad hoc increase to current benefit recipients; AB 429.*

◆ Permits some state employees to elect CalSTRS coverage and authorizes certain state employees to convert educational leave to service credit; AB 649.

◆ Permits partial redeposits of withdrawn contributions by members and nonmember spouses; purchase of previously excluded service; naming of new spouse by a retired member with an unmodified allowance; trustee participation in Cash Balance Benefit Program; AB 820.

◆ Bases final compensation on highest 12 consecutive months with 25 years of credited service; AB 821.

◆ Establishes the Defined Benefit Supplement Program and redirects members contributions to program; AB 1509.

◆ Eliminates the post-retirement earnings limitation until 2008 for members who are retired for at least one year and increases limitations for others; AB 1733.

◆ Waives the earnings limitation for members retiring before 7/1/00 for direct remedial education for grades 2-12; AB 1736.

◆ Establishes longevity bonus; AB 1933.

◆ Expands eligibility under Public Employees Medical and Hospital Care Act (PEMHCA) for part-time employees and requires CalSTRS to report on prescription drug and retiree health program; AB 2383.

◆ Permits portion of retirement allowance to be paid in lump sum; AB 2456.

◆ Expands compensation creditable to CalSTRS; AB 2700.

◆ Requires CalSTRS to pay Medicare premiums for eligible members; SB 1435.*

◆ Extension of minimum allowance; SB 1505.

◆ Exempts members who retired on or before 1/1/2000 from earnings limitation if return to K-12 classroom; SB 1666.

◆ Permits some state employees to elect CalSTRS/CalPERS membership; SB 1694.

Federal

◆ Elk Hills Naval Petroleum Reserve- $36 million appropriated as the third installment from CalSTRS' share of the proceeds from the sale of the reserve.

◆ Congressional relief from the Medicare late enrollment penalty for the CalSTRS Medicare Part A premium payment program.

1999

State

◆ Extended earnings limit waiver for all class-size reduction teachers; AB 335.*

◆ Enacted program to comply with Internal Revenue Code Section 415; AB 819.*

*Legislation denoted with an asterisk are either sponsored or co-sponsored by CalSTRS.

◆ Encouraged U.S. Congress and President to exclude state and local employees from mandatory Social Security; AJR 9.*

◆ Required to develop CalSTRS health care benefits; SB 159.*

◆ Restored surviving spouse benefits eliminated due to remarriage; SB 437.

◆ Increased minimum allowance for career members; SB 713.*

Federal

◆ Elk Hills Naval Petroleum Reserve - $36 million appropriated as the second installment from CalSTRS' share of the proceeds from the sale of the reserve.

◆ Mandatory Social Security for new hires. CalSTRS is actively involved in grassroots and national efforts to oppose the proposed solutions due to its overall impact to CalSTRS members.

1998

State

◆ Extended eligibility and eliminated the restriction on credit for unused sick leave; established a career bonus for members with 30 or more years of service; guaranteed funding stream for purchasing power protection payments; AB 1102.*

◆ Incrementally increased the benefit factor from 2 percent at age 60 to 2.4 percent at age 63; AB 1150.*

◆ Extended earnings exemption for class size reduction and the sunset date to January 1, 2005, for certain Medicare coverage; AB 2765.*

◆ Reamortized the unfunded liability over 30 years; provided 65 percent of Elder Full Funding to pay for benefits; AB 2804.*

◆ Authorized the TRB to study providing health care benefits to members and families; SB 1528.*

◆ Established 100 percent financing Member Home Loan Program, as specified; SB 1945.*

◆ Modified to SB-1027/1997 regarding the purchase of permissive and out-of-state service credit, as specified; Permitted the purchase of "nonqualified" service; SB 2126.*

◆ Added Option 8 to allow for multiple option beneficiaries and modified existing options, as specified; SB 2047.*

◆ Provided for the return to an unmodified allowance for certain members, as specified; SB 2224.

Federal

◆ Elk Hills Naval Petroleum Reserve - $36 million appropriated as the first installment from CalSTRS' share of the proceeds from the sale of the reserve.

◆ Mandatory Social Security for new hires. CalSTRS is actively involved in grassroots and national efforts to oppose the proposed solutions due to its overall impact to CalSTRS members.

◆ Implemented premium free Medicare Part A (Hospital Insurance) for individuals who may qualify under specified conditions as identified by the Social Security Administration; significant for nearly 400 individuals currently paying premiums in excess of $300 each month.

1997

State

◆ Enacted earnings limit exemption for teachers participating in the class size reduction program; AB 18.*

◆ Expanded disability benefits to victims of an unlawful act, as specified; SB 629.

◆ Extended the post-retirement earnings limit exemption (Golden Handshake); AB 686.

*Legislation denoted with an asterisk are either sponsored or co-sponsored by CalSTRS.

◆ Increased purchasing power protection from 68.2 percent to 75 percent, as specified; SB 1026.

◆ Authorized members to redeposit contributions withdrawn by a nonmember spouse; and purchase additional service credit for out-of-state public school employment; SB 1027.*

Federal

◆ Elk Hills Naval Petroleum Reserve sold, and net proceeds to benefit 75 percent purchasing power protection; National Defense Authorization Act.

◆ President signed the Taxpayer Relief Act of 1997, which made permanent the present moratorium on the application of the nondiscrimination tax rules; made changes in procedures related to the application of the Simplified General Rule; allows for portability of permissive service credit under governmental pension plans; and other relief from the IRC Section 415 defined contribution limits.

1996

State

◆ Facilitated employers' option to offer the Cash Balance Plan to part-time employees; AB 2673.*

◆ Eliminated the requirement for dependent children to maintain full-time student status to remain eligible for disability or family allowance under Coverage A; AB 3032.*

◆ Federal compliance with the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA); SB 1877.

◆ 1992 settlement claim relating to interest payments on the Elder Full Funding appropriation of $540,000; SB 2095.

Federal

◆ President signed the National Defense Authorization Act, which granted California's claim for compensation for two school land sections known as the Elk Hills Naval Petroleum Reserve.

◆ Signed, amendment to Title 4 of the U.S. Code, which prevented California and other States from imposing a source tax on the payment of pension plans, as specified.

◆ President signed the Small Business Job Protection Act of 1996, which provided pension simplification for governmental plans, such as CalSTRS, and IRC Section 415 provisions.

1995

State

◆ Extended the post-retirement earnings limit exemption to certain members under specified conditions; AB 948.*

◆ Established minimum standards for full-time employment for all classes of employees for crediting service; AB 1122.*

◆ Established the Cash Balance Plan to be administered by STRS for part-time public school employees; AB 1298.*

◆ Modified pre-retirement options elections for survivor benefits; AB 1441.*

1994

State

◆ Repealed the administrative fee for processing a refund to a member; AB 2550.*

◆ Required STRS employers to inform part-time teachers of their right to elect membership in STRS; AB 2554.*

◆ Extended membership in STRS to part-time and substitute adult education teachers; AB 2647.

◆ Required STRS to offer a Tax Sheltered Annuity (TSA) program; AB 3064.*

◆ Required STRS to offer a mid-career retirement planning information program; AB 3407.*

◆ Allowed STRS to develop one or more deferred compensation plans; AB 3705.*

*Legislation denoted with an asterisk are either sponsored or co-sponsored by CalSTRS.

◆ Governor vetoed this initiative, which would have allowed STRS to offer health benefits to active and retired members; SB 192 .

◆ Reestablished the Golden Handshake additional 2 years service credit program through December 31, 1998; SB 858.*

Federal

◆ President signed USERRA, which allowed make-up pension accruals of returning military veterans, as specified.

1993

State

◆ Modified direct deposit process regarding benefit arrangements for members, as requested by members; AB 798.*

◆ "Float Suit" settlement ($8.9 million) that recovered investment earnings in the State's Pooled Money Investment Account; SB 77.

◆ Allows salary preservation by using three non-consecutive years for determining final compensation; SB 698.*

◆ Allows a retired member to change options, as specified; SB 754.

◆ Extends the CalPERS Long-Term Health Care Program to STRS members; SB 857.*

1992

State

◆ Allows members to purchase service credit for time spent on approved family care leave; AB 2538*

◆ Federal compliance that authorizes CalSTRS to make rollovers directly to another eligible retirement plan; AB 2721.*

◆ *Betts* established a new survivor benefits and disability program for all new members, allowed persons already members of STRS to elect to participate in the new program, and other changes to bring CalSTRS into federal compliance with the Older Workers' Benefit Protection Act (OWBPA); SB 1884*, SB 1885* and SB 1886*. Following are significant features:

- Members eligible for lifetime disability @ 50% of final comp
- Increased lump sum death payment from $2,000 to $5,000, or $20,000 as appropriate, and included automatic index
- Automatic children's benefit to age 21, if eligible
- Reduced offsets
- Eliminated remarriage penalty

Federal

◆ Mandatory Social Security for public employees who are not members of a retirement system that provides a minimum level of retirement benefits; IRS regulations.

◆ President signed the Unemployment Compensation Amendments Act of 1992 to allow for rollovers.

1991

State

◆ Grants family care leave for up to four months, as specified; AB 77.

◆ Allowed for the purchase of time spent in the Persian Gulf; SB 1171.*

1990

State

◆ Extended sunset date of the Golden Handshake Program to December 31, 1993, as specified, allowed disabled and inactive members to participate in the Dave Elder CalSTRS Home Loan Program, and allowed service credit for the time spent in the Persian Gulf; AB 2609.

*Legislation denoted with an asterisk are either sponsored or co-sponsored by CalSTRS.

◆ Increased the post retirement earnings limit to $15,000, adjusted annually according to the CCPI; AB 4048.

◆ Modified calculations used in post disability service retirement allowances for those members who retired after reinstatement from disability; AB 4284.*

◆ Authorized CalSTRS to establish a loan program to assist with natural disaster situations; AB 53X.

◆ Memorialized Congress to establish a process by which STRS retirees could purchase the quarters needed to meet Medicare Part A eligibility; AJR 71.

◆ Added Options 6 and 7 settlements to allow a retiree return to the unmodified, as specified; SB 682.

◆ Elder STRS Full Funding Act - revised the annual General Fund contribution to a level that provides full funding of normal cost and provided amortization of the CalSTRS unfunded obligation; SB 1370.

◆ President signed the Older Workers Benefit Protection Act (OWBPA), which required CalSTRS to enact new disability benefit programs that do not discriminate on the basis of age.

◆ Equity Study appropriated funds to study the equity of benefits available under CalSTRS. The study was completed in 1991 and staff provided a report to the Legislature on the following inequities; SB 2469*:

- Family allowance discontinues when spouse remarries -***completed***
- Refund of contributions to the surviving spouse of a deceased active member when the spouse remarries
- Payment of allowances to dependent children age 18 to 22 - ***completed***
- Service credit for part-time service - ***completed***
- Sick leave service credit on pre-retirement death of a member - ***completed***
- Eligibility to elect the pre-retirement option is not the same as eligibility to retire
- Service retirement allowance formula for reinstated disabled member
- Allow beneficiary of deceased member to continue redepositing previously refunded contributions
- Payment of quarterly supplement following the death of a retired member
- Cost basis for purchase of service credit
- Eligibility for family allowance is different for reinstatement versus rehire
- Service credit under the reduced workload program
- Various other issues as identified in the Equity Study

1989

State

◆ Federal compliance on IRC Section 415 "grandfather" benefit limitations; AB 50.*

◆ Extends interest payments to option beneficiaries for late monthly allowance payments; SB 686.*

◆ Modified post-retirement earnings limit from 50% to 100% of the change in the CCPI; SB 1039.

◆ Established a funding mechanism, Supplemental Benefit Maintenance Account (SBMA) to restore purchasing power of STRS benefits; SB 1407.

◆ Requires annual distribution of the proceeds of the SBMA at 68.2% of the original purchasing power to members and their beneficiaries to restore benefit levels; SB 1513.

*Legislation denoted with an asterisk are either sponsored or co-sponsored by CalSTRS.

1988

State

◆ Defined the initial effective date for purposes of applying post-retirement benefit increases when converting from disability to service retirement allowance; AB 2042.*

◆ Authorized certain retirees of STRS to elect to purchase up to four years of military service credit; AB 3195.

◆ Established separate accounts for service credit, contributions and interest awarded a non-member spouse; SB 1190.

◆ Exemption from Probate Code to expedite death claim payments under certain conditions; SB 2080.*

◆ Modified membership qualifications for substitutes and part-time employees; SB 2082.

Federal

◆ President signed the Technical and Miscellaneous Revenue Act of 1988 (TAMRA), which modified limitations for Section 415(b) of the 1986 IRC for government plans.

1987

State

◆ Extended sunset date for the Golden Handshake Program to June 30, 1990; AB 960.

◆ Authorizes concurrent retirement for CalSTRS members who move to employment covered by the Legislator's Retirement System, as specified; SB 990.*

Social Security Benefits and CalSTRS Members

(Updated excerpt from Teacher' Retirement Board material for September 11, 1997)

Revised January 2001

Mandatory Social Security For New Employees

Introduction

In recent years, efforts to improve the financing of Social Security has included proposals to extend Social Security coverage to all new state and local government employees. The enactment of such a proposal would have a major fiscal impact on new California teachers and employers and on the State Teachers' Retirement System. Currently, members and employers are paying 16 percent of creditable compensation toward the System's total cost rate of 19.876 percent of payroll. The required tax for Social Security coverage of new hires would be 6.20 percent of payroll from both new hires and their employers. Adding the new Social Security tax of 12.40 percent on top of the CalSTRS 19.876 percent total cost rate would create a total required contribution rate of 32.276 percent of payroll for new hires.

The CalSTRS defined benefit program is designed as a fully independent program with a 2 percent at age 60 retirement benefit plus ancillary disability and survivor benefits. The addition of Social Security on top of this program will create an overlap of disability and survivor benefits and create a joint benefit which could be considered excessive by many. Therefore mandatory Social Security coverage for new teachers could necessitate the closure of the current CalSTRS program to new members and the enactment of a new, lower cost CalSTRS program which would complement the Social Security program. (It should be noted that while in some states, including California, there are judicial or constitutional guarantees against reductions in retirement benefits for public employees, these guarantees would not necessarily apply to "new hires.")

In 1980, in a report commissioned by Congress, the Universal Social Security Coverage Study Group established that mandatory Social Security coverage would result in the transfer of significantly higher retirement costs to state and local governments. The report included a study by 13 independent actuaries, which analyzed retirement plans of independent state systems, and proposed new benefits and costs for those systems coordinated with social security. The overall actuarial costs of the proposed plans, including social security taxes and assuming approximately equal benefits, would have increased on the average of 5 percent to 8 percent of payroll.

However, mandating Social Security on public employees is a recurring threat because Congress sees mandatory coverage as a way to reduce federal budget deficits. While Social Security and Medicare are considered trust funds, payroll taxes for those programs are considered revenues when measuring the federal budget deficit.

This paper provides a historical background, a review of a previously completed alternative benefit study, some consequences of mandating Social Security on new hires, a summary of two benefit "offset" provisions and a review of Medicare issues

Background

1935

Social Security was established originally as the Old Age and Survivors Insurance program, or OASI, and was intended to be a modest retirement system for employees of private industry. Employees of state and local government were excluded from coverage when Congress passed the Social Security Act. This was because of the constitutional question of levying the employer portion of the Social Security tax on state and local government.

1951
Public employees who were not in positions covered by a state or local retirement system were given the option of joining Social Security. Eight states overcame the restriction of no coverage in a retirement system dissolving the existing retirement system, obtaining Social Security coverage for the jurisdictions' public employees and then reinstating the retirement system with either the same or revised provisions. Coverage under the new state system was usually mandatory for new hires in the eight states.

1954
The Social Security program was again amended to make coverage voluntary to public employees even if they were covered by a state plan. The choice was up to the states, subject to a majority vote of the members of the plan. If Social Security coverage was elected, it was an all or nothing choice; that is to say all employees either would be included or excluded.

1955
In California, an every-member vote was conducted by the California Teachers Association. (It should be noted that in 1955 the makeup of employee organizations was much different than it is today, e.g., administrators were members of CTA.) The election resulted in rejection of Social Security on full-time teaching by 4 to 1.

1956
Entry into Social Security was made even easier. Coverage could be extended to employees who wanted the coverage, while those who did not desire coverage could be excluded, if all newly hired employees were automatically covered. This provision was eventually extended to 20 states, including California (State legislation was passed for school classified and state employees to be covered under this provision in 1959 and 1961, respectively).

Also in 1956, the Disability Insurance program was added, providing income to disabled workers. The program has since been referred to as the Old-Age, Survivors, and Disability Insurance program, or OASDI.

1967
Title XVIII - Medical Enrollment Act of 1967 established medical coverage for persons age 65 and older.

1977
Legislation was passed establishing the "Government Pension Offset" which reduces Social Security benefits under certain circumstances if there is a pension based on employment not covered by Social Security. The pension offset of spousal benefit, if the spouse is receiving a public retirement benefit, did not take effect until 1982 and only if the spouse was not eligible for retirement as of that date.

1983
Legislation was passed establishing the "Windfall Elimination Provision." This provides for an alternate calculation of an individual's Social Security benefit, resulting in a lower Social Security benefit, for retirees who primarily worked in employment not covered by Social Security, and who had other jobs where they paid Social Security taxes long enough to become eligible a benefit from Social Security.

1985
Mandatory Medicare for new hires of state and local governments became law as part of the Consolidated Omnibus Budget Reconciliation Act of 1985, or COBRA. All new hires in California public schools after April 1, 1986, must pay a tax equal to 1.4 percent of salary and, in return, they are covered by Medicare.

1986
The Tax Reform Act of 1986 made extensive amendments to Internal Revenue Code Section

401 concerning the integration of qualified retirement plans with Social Security benefits. The integration requirements were further complicated by modifications to the general plan "nondiscrimination" regulations. Integration with Social Security subjects plans to complex Internal Revenue Service regulations. Because of administrative complexities involved in the integration of Social Security, it is generally recommended that integration be avoided and that "supplemental" plans totally independent of Social Security be developed if necessary.

1988

As a result of Congressional consideration of mandatory Social Security for new hires, Chapter 743 (AB 147—Elder) which required CalSTRS to develop and submit to the Legislature an actuarially sound and funded alternative retirement plan that, when coupled with Social Security, would provide a member of CalSTRS with adequate retirement benefits.

1989

State legislation was passed which made it optional for public school employers to hold elections for Medicare coverage for active employees hired before April 1, 1986. Individual employees could choose Medicare coverage if the employer offered the election. The effective date of the Medicare coverage could not be earlier than January 1, 1997.

1990

As part of the Omnibus Budget Reconciliation Act of 1990 (OBRA), Congress enacted a law requiring all public employees not covered by a state or local retirement plan meeting specified standards to be covered by Social Security. This led to the development of the CalSTRS Cash Balance Benefit Program for part-time teachers.

1997

A Social Security-Advisory Council composed of 13 members recruited from business, labor and think tanks recently issued reports on the current state and future of Social Security. The Council members had widely differing views on how to solve the ongoing funding problems. But one area of agreement was that all newly hired state and local government workers should be required to pay into the program. It has been estimated that mandating Social Security coverage on new hires would raise about $16.3 billion over a five-year period.

Alternative Retirement Plan Study

There have been several studies involving Social Security and CalSTRS over the years. The most thorough study related to the potential impact of mandating Social Security on the membership of CalSTRS was completed in 1989. Chapter 743, Statutes of 1988 (AB 147—Elder) specifically required the Teachers' Retirement Board to recommend an "alternative retirement plan" that would: 1) provide an "adequate retirement benefit" when coupled with Social Security, and 2) be actuarially sound and funded within the rates presently being contributed by the employer and employee to CalSTRS.

Factors Were Considered

Many factors were considered in the design of the alternative plan(s), including:

- The Social Security program structures and benefit levels;
- Employee and employer organizations' concerns which were submitted to the task force at task force meetings, Client Advisory Committee meetings, and Teachers' Retirement Board meetings;
- "A target replacement ratio" which is the percentage of a given pre-retirement gross salary that will produce the same post-retirement disposable income-the same standard of living-that was available immediately prior to retirement;
- Federal government requirements in the area of pension plans, such as the applicable IRS provisions, the Employee Retirement Income Security Act, or ERISA, and rulings by the

Equal Employment Opportunity Commission, or EEOC, and

- The benefit program structures of twelve other states retirement system plans that provide benefits to public school teachers eligible for Social Security benefits; and
- Guidance from legislative staff which indicated a preference for a CalSTRS plan that would be fully funded within the 8 percent of member salaries currently contributed by the employer. (This led to the development of alternatives that cost from 8 to 10 percent to supplement Social Security.)

The target replacement ratio to produce an equivalent benefit level was calculated at about 60 percent of the member's final salary prior to retirement. The total cost of the four alternatives developed ranged from about 23 to 26 percent of payroll when the cost of the 8 to 10 percent alternatives was added to the cost of Social Security. Therefore there would have been a cost increase for an equivalent benefit level of from 3 to 6 percent of payroll for new hires under the alternative plan options developed by the task force to meet the "target replacement ratio".

In 1998, the CalSTRS Consulting Actuary estimated the cost of a retirement plan which supplemented Social Security benefits to provide a total benefit equal to that currently provided by CalSTRS alone. In that analysis, the Consulting Actuary estimated that the additional combined cost to employers and employees would equal 7.05 percent of payroll, a 43 percent increase in costs from the levels currently being paid by CalSTRS-covered employees and employers.

Numerous plan design questions would need to be resolved along with the funding issues. Such plan design issues include whether or not the supplemental CalSTRS plan should provide ancillary disability and death benefits to augment those provided by Social Security. Also, since Social Security has a normal retirement age of 65, increasing to 67, should CalSTRS raise the normal retirement age and should new adjustment factors be developed for early retirement? A great deal of research, plan design and costing would have to be performed before any reasonable recommendations concerning an approach to coordination with mandatory Social Security could be made.

Arguments in Opposition and Support of Requiring Social Security For State And Local Governments And Their New Hires

Arguments in opposition:

- The additional 12.40 percent cost for new members (6.20 percent for the employer plus 6.20 percent for the new member) would create a financial burden for California public schools and newly hired employees. The average annual additional cost for a new hire would be at least $1,600 each for the employer and the employee. Statewide the employer portion of the cost for new hires would be at least $24 million a year. The additional required member-employer contribution of 12.40 percent approaches the normal cost of the current CalSTRS program (15.664 percent as of June 30, 1998), leaving little room for the design of a supplemental retirement tier, unless new funding can be found. CalSTRS actuary estimated in 1999 that providing a retirement program that is coordinated with Social Security would require a 70 percent reduction in benefits to limit the cost to those currently part of CalSTRS. This could result in the need to develop a two-tier system with new hires being covered by Social Security and a lower cost retirement plan.
- Because the Social Security program offers disability and survivor coverage components, it is unlikely that the excellent CalSTRS disability and survivor coverage could be provided to new hires if a new retirement plan were to be designed.

- State and local government plans are much more soundly funded than Social Security and provide better benefits. State and local retirement plans are able to invest in securities providing a higher return than the bonds held by Social Security. If Social Security is substituted for a large part of employees' retirement plan benefits, contributions will have to increase to fund the same level of benefits.
- The 1990 federal mandate required state and local employees be covered under a plan comparable to OASDI, if they are not covered by OASDI. This provided the connotation that coverage outside Social Security was appropriate.
- Coverage of new state and local workers would increase revenues to the Social Security fund for several years. However, Social Security does not have a short-term problem. Social Security has a long term funding problem because excess short term revenues are not being saved and invested to pay the accruing liabilities attributable to those revenues. If the cost of providing benefits exceeds the funding necessary to provide these benefits adding more people to the system will make matters worse, not better.
- The TRB would lose some element of control to the federal government. The federal government controls the benefits and costs of the Social Security program. For example, benefits can and have been changed which have adversely impacted those eligible to receive as well as those receiving social security benefits. The future of the Social Security program is in doubt.

Arguments in support:

- The portability of Social Security benefits could be desirable for teachers who leave public school employment prior to vesting with CalSTRS or who have past or future employment in a state in which Social Security coverage is mandatory.
- There are various program features that may appeal to some members, e.g., Social Security automatically provides a spousal benefit to married couples.
- The Social Security cost-of-living adjustment has a greater value than the CalSTRS improvement factor.

Social Security Program Benefit Reduction Provisions

There are two provisions that may reduce benefits for many state and local government employees who are also eligible for Social Security based on private sector employment. CalSTRS has received many complaints from retired members about these federal program "offset" provisions.

Windfall Elimination Provision

The first provision is the "Windfall Elimination Provision" which was enacted by Congress in 1983. This provision primarily affects people who spend much of their working lives in employment that is not covered by Social Security, and who also have other jobs where they pay Social Security taxes long enough to become eligible for covered benefits. The formula used to calculate the Social Security benefit amount is modified, providing a lower Social Security benefit.

The modified formula is applied if the individual reached age 62 or became disabled after 1985 and first became eligible after 1985 for a monthly pension based on work not covered by Social Security. This provision has a complex formula and affects people in different ways depending on when a person becomes eligible for a pension and whether the person has "substantial" earnings for specified years. One example of how the "Windfall Elimination Provision" will be applied in 2001 follows:

Example

Robert - Born in 1932 with Average Indexed Monthly Earnings of $712

Without WEP:

90% of first $561	$505
32% of next $2,820 ($151)	48
15% of any remainder over $3,351	0
Social Security benefit amount	**$553**

Under WEP:

40% of first $561	$224
32% of next $2,820 ($151)	48
15% of any remainder over $3,351	0
Social Security benefit amount	**$272**

Government Pension Offset

The second provision that has reduced the Social Security benefits of some CalSTRS retirees is the Government Pension Offset. Before the GPO was enacted, many state and local government employees qualified for both their pension and for a spouse's benefit from Social Security. Two-thirds of the government pension is counted to offset the Social Security benefit. An example of the Government Pension Offset is as follows:

Example

John - Age 65, $1,000 - Social Security

Mary - Age 65, $500 - Social Security

Spouse Benefits (50% of $1,000)

GPO Offset - Mary is a teacher:

$1,200 - Per month CalSTRS Pension

x 2/3

$800 - To be offset

$500 - Spouse's Social Security

- 800 - CalSTRS Pension to be offset

$ 0 - Payable in Social Security Spouse Benefits.

GPO Offset - Mary is a teacher and becomes a widow:

$1,000 - Widow's Social Security

- $800 - 2/3 of CalSTRS Pension

$200 - Payable in Social Security Widow's Benefits

The National Education Association has made efforts during the last several years to change the Social Security benefit reductions as applied to retired state and local government employees. Because of the high cost of complete repeal of the "offsets", the NEA is pursuing an approach of exempting some modest amount of Social Security benefits from the offset, to protect low and middle income state and local government retirees.

Mandatory Medicare

Retired teachers in California are in very dissimilar health insurance circumstances depending on factors, such as their former employer's policies for covering retirees, whether they have Medicare eligibility, age at retirement, etc. For example, only a few districts offer vested health insurance benefits for retired members. Some districts will make retiree contributions/benefits available to retirees until the retiree reaches age 65 or until they receive Medicare. Many districts provide neither contributions nor benefits to retirees except to offer them coverage in a separate "pool" from active members and require that retirees pay the full premium. Therefore, the most viable option for some retired teachers is securing some form of private health insurance and/or paying full Medicare A and B premiums themselves. (The Budget Reconciliation Bill enacted in August 1997 included a provision that individuals who have not qualified for Medicare coverage and must personally pay for Medicare A premiums, will not have to purchase Medicare after seven years of paid premiums. Individuals who have already made payments for seven years are not required to pay Medicare A premiums.)

Over the past few years, CalSTRS has supported legislation to study alternatives for providing health care. After a number of prior vetoes, legislation authorizing such study was enacted in 1998. CalSTRS has participated in an effort to make it easier for school districts to participate in the health insurance programs offered by the Public Employees' Retirement System, which was eventually opposed and stopped by CalPERS affiliated employee organizations. CalSTRS supported and helped draft successful legislation sponsored by CTA and supported by CalSTRS-affiliated employee organizations to make it optional for school districts to hold individual elections for members to join Medicare (772 school districts have made Medicare coverage available to CalSTRS members).

Medicare Part A Benefits

SB 1435 (Chapter 1032, Statutes of 2000) requires CalSTRS to pay Medicare Part A premiums and any applicable surcharges for current retired members age 65 or older if they do not otherwise qualify for Medicare coverage without payment of a premium. The law also grants authority to the Teachers' Retirement Board to extend this benefit, under specific circumstances, to eligible active members who retire in the future.

Glossary of Commonly Used Terms

Active Member
(Previous Term-Member)
A **member** of the **Defined Benefit Program** who has performed creditable service within the last school year

Actuarial accrued liability
Present value of benefits payable in the future to current **members** or **participants**

Actuarial equivalent
Two **benefits** of equal present value, using mortality tables and interest rates adopted by the **Board**

Actuarial experience analysis
An actuarial investigation of the plan's experience that examines the factors that influence the cost of a retirement plan. It includes economic factors such as inflation, return on investment and wage increases as well as noneconomic factors, such as mortality and rates of retirement and is the basis for adopting valuation assumptions

Actuarial gains and losses
The effect on the cost of a plan when experience differs from the assumptions used in determining the cost. (Because assumptions are long range and current experience fluctuates over the short range, actuarial gains and losses are normal occurrences and are not significant unless either gains or losses caused by the same factor consistently occur over an extended period of time.)

Actuarially assumed rate of return
The long-term annual rate of return of investment assumed in the valuation. The actuarially assumed rate of return for the June 30, 1999, valuation was 8%

Actuarially reduced
An allowance that has been reduced, but is still the **actuarial equivalent** of the original allowance

Actuarial valuation
The determination, as of a given date, of the **present value** of expected future liabilities of a pension plan, the assets of the plan, the **actuarial unfunded obligation**, the **normal cost rate**, the future salaries of members, and the resulting **amortization rate** for the **actuarial unfunded obligation** over a specified period

Additional earnings credit
An increase in earnings to the employee account in excess of the **minimum interest rate** in the **Defined Benefit Supplement and Cash Balance Benefit Programs**, calculated as a percentage, as determined by the **Board**, of the prior fiscal year ending balance of each account.

Ad hoc increase
A permanent increase to some or all benefits in force. It does not change the benefit plan, only the allowances currently being paid. The increase is usually granted because the regular cost-of-living adjustments have been less than inflation levels. Ad hoc increases sometimes are, and sometime are not, included in the base for future **cost-of-living adjustments**

Age factor
The percentage of **final compensation** per year of **credited service** payable as a **benefit** determined by the **member**'s age at retirement

Amortization rate
The rate (usually expressed as a level percentage of payroll) needed to eliminate the **unfunded actuarial obligation** over a specified time. This rate is affected by changes in experience and by plan changes that apply to service performed prior to the valuation date

Annuitant reserve
A reserve established within the **Teachers' Retirement Fund** to which assets from a member's **Defined Benefit Supplement Program** account or a **Cash Balance Benefit Program participant's** account are transferred when the **participant** has elected to receive a benefit payment in the form of an **annuity**

Words and phrases in bold are defined elsewhere in the glossary.

Annuity
In the **Defined Benefit Program**, the amount paid to a **member** derived from voluntary contributions (no longer permitted) by a member in excess of those required for **creditable service**. In the **Defined Benefit Supplement Program or Cash Balance Benefit Program**, the amount of money paid monthly to a **member, participant** or **beneficiary**

Barnes Act
Part 13 of the Education Code, governing administration of the **Defined Benefit Program**. The formal name is the E. Richard Barnes Act

Basis of employment
The standard of time over which the employer expects **service** to be performed by an employee during the school year

Beneficiary
The person(s) or entity(ies) eligible to receive **Defined Benefit Program or Defined Benefit Supplement benefits** upon the death or disability of a member, or designated by a **participant** to receive **benefits** provided by the **Cash Balance Benefit Program** in the event of the **participant's** death

Benefit
A monthly or lump sum payment made to a retired member, disabled member, retired participant, disabled participant or beneficiary

Board
The **Teachers' Retirement Board**

California service
Service performed in California for which **service credit** may be given

California State Teachers' Retirement System
The department that administers the California State Teachers' Retirement Plan

Career Bonus- two parts

- Career factor

  Previous: Career bonus

  A 0.2 percentage point increase in the **age factor**, up to a maximum age factor of 2.4%, for **Defined Benefit Program members** with 30 or more years of **credited service**

- Longevity bonus: is added to the unmodified monthly retirement allowance for those members whose accumulated service credit equals or exceeds 30 years by the end of the window period between January 1, 2001, and January 1, 2011, regardless of when they retire

Cash Balance Benefit Program
(Previous Term-State Teachers' Retirement System Cash Balance Plan)
A program within the **State Teachers' Retirement Plan** available to persons employed to performed **creditable service** for less than 50% of full-time for employers who have elected to offer the program

Certificated
The holding by a person of a credential required by law to be held as a condition of valid employment in the position in which the person is employed

Class of employees
A group of employees who perform similar duties, are employed in the same type of program or share other similarities related to the work being performed

Compensation earnable
The annual **creditable compensation** that a person would earn during a school year if that person was employed on a full-time basis and worked full-time in that position

Concurrent retirement
The simultaneous retirement from the **Defined Benefit Program** and other specified California public retirement systems, in which **final compensation** for purposes of calculating a retirement

Words and phrases in bold are defined elsewhere in the glossary.

allowance is based on the highest **final compensation** calculated for any of the eligible retirement systems

Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)
Federal law which provides a vital health plan bridge for qualified workers, their spouses and their dependent children when their health insurance might otherwise be cut off.

Contribution rate
The percentage of **creditable compensation** required to be paid by a **member, participant** or employer, as provided in the **Teachers' Retirement Law**, to finance the **benefits** provided by the **State Teachers' Retirement Plan**

Cost-of-living adjustment (COLA)
An adjustment made to an allowance to compensate for all or a part of the increase in the cost-of-living, usually as measured by a consumer price index. (See improvement factor)

Coverage A
A program of disability and family allowances available to persons who were **member**s on October 15, 1992, and did not elect **Coverage B**

Coverage B
A program of disability and **survivor benefits** available to persons who became members after October 15, 1992, or were **members** on October 15, 1992 and elected Coverage B

Creditable compensation
(Previous Term-Creditable earnings)
In the **Defined Benefit Program**, the salary or other remuneration payable in cash by an employer to a **member** for **creditable service**

Creditable service
Specified **service** performed for an employer in a position requiring a credential, certificate or permit pursuant to the Education Code, or under standards adopted by the Board of Governors of the California Community Colleges or under the provisions of an approved charter for a charter school eligible to receive state apportionment

Credited interest
Interest credited to a **member's Defined Benefit Program** account at a rate set annually by the **Board** and refunded to the **member** or a **beneficiar**y upon the member's termination of service. The **credited interest rate** is based on the average rate paid on two-year Treasury notes for the twelve months ending April 30, and for 2000-01 is set at 5.75%

Credited service
Service for which required contributions have been paid and that is used to determine eligibility for an allowance payable under the **Defined Benefit Program**

Defined Benefit Program
(Previous Term-State Teachers' Retirement System Defined Benefit Plan)
The program of coverage available to **members** who perform **creditable service**, who have not elected to participate in the **Cash Balance Benefit Program** or who work less than half-time for an employer who has not elected to offer the Cash Balance Benefit Program

Defined benefit plan
A retirement plan which specifies the benefit to be received after retirement, or the formula for determining such benefits. The benefits are not directly dependent on the member (and/or employer) contributions and the interest actually earned on those contributions. The contribution rate required for such a plan is determined through periodic valuations (Also see hybrid plan)

Defined Benefit Supplement Program
A program that increases, or supplements, the amount payable at retirement to members of the DB Program, by the amount in the member's DBS account

Words and phrases in bold are defined elsewhere in the glossary.

Defined contribution plan
A retirement plan where member and/or employer contribution rates are specified and the benefit is the accumulated contributions and interest credited to the member's account at the time of retirement, disability or termination of employment. Interest is credited at actual earned rates. An administrative charge may be deducted. Life annuities in the amount that can be purchased by the member's accumulated contributions are often made available as one choice of distribution. The CalSTRS Voluntary Investment Program 403(b) plan is a defined contribution plan. (Also see **hybrid plan**)

Disabled member
(Previous Term-Disabilitant)
A member of the **Defined Benefit Program** receiving a **disability allowance**

Disabled participant
A member of the **Cash Balance Benefit Program** receiving a **disability benefit**

Disability allowance
An amount payable on a monthly basis to a **disabled member** subject to **Coverage A**

Disability benefit
A benefit payable to a **disabled participant** of the **Cash Balance Benefit Program** or to a disabled member under the **Defined Benefit Supplement Program**

Disability retirement allowance
An amount payable on a monthly basis to a **member** subject to Coverage B who has retired for disability, or to a member retired for disability prior to 7/1/72

Employee Retirement Income Security Act of 1974 (ERISA)
Federal statutory framework that governs the administration of employee benefit plans and the rights of the beneficiaries under the plan. ERISA applies to any employee benefits plan if the plan is established or maintained by an employer engaged in commerce or by an employee organization representing employees engaged in commerce or in any industry or activity affecting commerce

Entry age normal cost method
A method of calculating normal cost, that spreads cost as a level percentage of payroll over the entire working life of a member. This is the method used in the Defined Benefit Program

Family Allowance
A monthly allowance payable upon the death of an **active member** or a **disabled member** who was subject to **Coverage A** (Similar to Survivor Allowance, which is applicable to member deaths prior to July 1, 1972)

Final compensation
The highest average annual **compensation earnable** by a **member** during any period of three consecutive years while an **active member,** unless:

• the member is a classroom teacher who retired during the term of a negotiated agreement to calculate **final compensation** on the basis of the highest 12 consecutive months, or

• **concurrently retires** with another California public retirement system, in which case service in the other system(s) is also considered when calculating **final compensation** (See also Indexed Final Compensation and Projected Final Compensation), or

• the member accumulated 25 or more years of service credit, in which case it is the highest 12 consecutive months

Full-time
The days or hours of **creditable service** the employer requires be performed by a **class of employees** in a school year to earn the **compensation earnable** for that class, subject to minimum standard of days or hours specified in the Education Code

Words and phrases in bold are defined elsewhere in the glossary.

Full-time equivalent
The time a person who is employed on a part-time basis would be required to serve in a school year if he or she were employed full-time in that position

Funding period
The time frame over which **amortization** occurs. It properly represents a specific date in the future at which time amortization is expected to be complete. This is known as a "closed" funding period. If **contribution rate**s are fixed, the funding period will vary with each **actuarial valuation**. If contribution rates are adjusted after each actuarial valuation, the funding period is usually fixed and the contribution rate is adjusted to the level needed to amortize by the end of the funding period

Funding rate
The cost, expressed as a level percentage of payroll, of paying the **normal cost** and eliminating the **actuarial unfunded obligation** over a specified period of time. It is the sum of the **normal cost rate** plus the **amortization rate**

Gain and Loss Reserve
A reserve account established for the **Defined Benefit Supplement Program and the Cash Balance Benefit Program** available to be drawn upon to the extent necessary to credit interest to employee accounts and employer accounts if investment earnings are not adequate to meet the **minimum interest rate**

Government Pension Offset
A reduction in Social Security benefits paid to a spouse if the spouse receives a pension based on employment not covered by Social Security

Hybrid plan
A retirement plan that has features of both a **defined contribution plan** and a **defined benefit plan**. The **Defined Benefit Supplement and Cash Balance Benefit Programs** are hybrid plans because they provide a minimum guaranteed benefit by specifying contribution rates and a guaranteed **minimum interest rate**, and therefore they meet the IRS definition of **defined benefit plans**, but the ultimate benefit to the employee is, to a degree, determined by the rate of return earned by employee and employer contributions, and therefore acts like a **defined contribution plan**

Improvement factor
A simple increase of 2% in benefits provided on September 1 of each year following the first anniversary of the effective date of retirement, or the date monthly benefits accrue to a **beneficiar**y. More commonly referred to as a **cost-of-living adjustment (COLA)**

Inactive member
A member who is not a retired member or a disabled member and has not earned creditable compensation during the school year ending June 30

Indexed final compensation
Final compensation upon which a disability allowance or disability retirement allowance was based, adjusted annually by the rate of change in the average **compensation earnable**, as determined by the **Board**. Used in determining whether a **disability allowance** should be terminated or has been overpaid because the **member** has received earnings from other sources in excess of specified limits

Joint and survivor annuity
A plan feature where a **retired participant** in the **Cash Balance Benefit Program** or retired member receiving a benefit under the **Defined Benefit Supplement Program** may choose to redistribute his or her retirement benefit over both the life of the **participant** or member and that of a **beneficiary** chosen by the **participant** or member (Similar to an option available to a member of the **Defined Benefit Program**)

Words and phrases in bold are defined elsewhere in the glossary.

Longevity Bonus
A monthly benefit of $200, $300 or $400 that is added to the unmodified monthly retirement allowance of those members whose accumulated service credit is at least 30 years by the end of the window period between January 1, 2001, and January 1, 2011, regardless of when they retire

Medicare Benefits Program
A program that will, beginning July 1, 2001, pay the Medicare Part A (hospitalization) premiums and applicable late enrollment surcharges for **Defined Benefit Program** members who retired and do not qualify for Part A coverage on a premium-free basis. Currently, the program is limited to members who retired prior to January 1, 2001, although the **Teachers' Retirement Board** has the authority to extend coverage to members, under specific circumstances, retiring in the future.

Member
A person who has performed **creditable service** under the **Defined Benefit Program** and has earned compensation for that service, and has not received a refund for that service

Minimum interest rate
The annual rate determined by the **Board** and credited to employee accounts and employer accounts in the **Cash Balance Benefit Program and the Defined Benefit Supplement Program**. The rate is based on the average rate paid on 30-year Treasury bonds for the twelve month period ending April 30, rounded up to the nearest percentage point. For 2000-01, the rate is 6.25 percent

Mortality rate
The average expected death rate for a group of individuals at a given age

Multiple retirement
A retirement by a **member** subsequent to the **reinstatement** of the **member** who previously received a **service retirement allowance** or a **disability retirement allowance**

Normal cost rate
The cost, expressed as a level percentage of payroll, of current or future (as opposed to prior) service. (When a plan change or a change in experience changes the expected liabilities only for service prior to the valuation date, this cost change will be shown in the amortization rate. When a change affects only liabilities for service to be performed after the valuation date, the change will affect the normal cost rate. If the change is applicable to all service, both before and after the valuation date, it will affect both the normal cost rate and the amortization rate)

Normal retirement age
The age at which a member is eligible for a s**ervice retirement allowance** without reduction because of age and without special qualifications. The normal retirement age for **members** of the **Defined Benefit Program and Defined Benefit Supplement Program** and **participants** in the **Cash Balance Benefit Program** is age 60

Option
An election by a **member** to provide an allowance that is **actuarially reduced** from the **unmodified allowance** and is payable to an option **beneficiary** upon the **member's** death.

The DB Program currently has 7 options:

<u>Option 2</u>: Joint and 100 percent to **beneficiary**: Upon the retired member's death the modified allowance will continue to be paid to the **option beneficiary** for life.

<u>Option 3</u>: Joint and 50 percent to **beneficiary**. Upon the **retired member**'s death, one-half of the modified allowance will continue to be paid to the **option beneficiar**y for life.

<u>Option 4</u>: Joint and 66 2/3 percent to survivor: Upon the death of either the **retired member** or the **option beneficiary**, two-thirds of the modified allowance will continue to be paid to the survivor for life.

Words and phrases in bold are defined elsewhere in the glossary.

<u>Option 5</u>: Joint and 50 percent to survivor: Upon the death of either the **retired member** or the **option beneficiary**, one-half of the modified allowance will continue to be paid to the survivor for life.

<u>Option 6</u>: Joint and 100 percent to option beneficiary with "Pop Up": Upon the **retired member's** death, the modified allowance will continue to be paid to the **option beneficiary** for life. If the option beneficiary predeceases the **retired member**, the retired member's allowance will be raised or "pop up" to the **unmodified allowance** level.

<u>Option 7</u>: Joint and 50 percent to option **beneficiary** with "Pop Up": Upon the **retired member's** death, one-half of the modified allowance will continue to be paid to the **option beneficiary** for life. If the option beneficiary predeceases the **retired member**, the retired member's allowance will pop up to the **unmodified allowance** level

<u>Option 8</u>: Provides joint and survivor benefits to two or more option beneficiaries. Member may elect the same or a different option for each option beneficiary and may also reserve a portion of the allowance as unmodified. Upon the death of the member the option beneficiaries receive an allowance as stated under the designated options. If any of the option beneficiaries predecease the member, the allowance will change as stated under those designated options.

Option beneficiary
A person designated to receive an allowance that is **actuarially reduced** from the unmodified allowance and is payable upon the **member's** death. (**Participants** of the **Cash Balance Benefit Program** may elect to have annuity payments paid to beneficiaries on a similar basis, although such **beneficiaries** are not defined as **option beneficiaries** in that program)

Overtime
The total service performed by a **member** in excess of the hours of work considered normal for employees employed on a full-time basis

Participant
A person who has performed **creditable service** subject to coverage by the **Cash Balance Benefit Program,** who has contributions credited under the program or is receiving an **annuity** under the program

Permissive service credit
Specified previous service or time, such as maternity/paternity leave, sabbaticals or teaching in public schools in another state or territory, or up to 5 years of service credit not associated with any prior service, for which a member may purchase service credit

Pre-retirement option election
An election by a member who is eligible to retire to designate an **option** and a **beneficiary**, and in which the selected option allowance would be payable upon the death of the **member,** if the death preceded the member's retirement

Present value
Current value of a series of future payments computed with adjustments for (1) expected payment increases (**improvement factor**), (2) the likelihood of payment (**mortality**) and (3) the time value of money (interest)

Projected final compensation
The **final compensation** used under Coverage A when the **disability allowance** or **family allowance** was computed, increased by 2% compounded annually to the earlier of **normal retirement age** or the date the **disability allowance** is terminated. Used in determining a **service retirement allowance** for a **member** who is receiving a **disability allowance** and has reached normal retirement age or later if there is a dependent child, and to compute family allowance for eligible spouse after the death of a member

Projected service
The **credited service** plus the service credit that would have been earned if a **disabled member** had

Words and phrases in bold are defined elsewhere in the glossary.

continued to earn credited service to the earlier of **normal retirement age** or the date the disability allowance is terminated. Used under Coverage A in determining a **service retirement allowance** for a **member** who is receiving a disability allowance and has reached normal retirement age or later when there is no dependent child, and to compute family allowance for eligible spouse after the death of a member

Purchasing power protection payments
Supplemental payments made to members whose current allowance is worth less than 75% of the original allowance, when adjusted for increases in the California Consumer Price Index (CPI). Also called s**upplemental benefit maintenance payments**

Reciprocity
(Previous Term-Concurrent retirement)
A relationship between the **State Teachers' Retirement Plan** and other specified California public retirement systems in which a person who is a **member** of both the **Defined Benefit Program** and the other system(s) is eligible for specific benefits, including the right to redeposit previously refunded contributions without being re-employed in a position subject to coverage in that retirement system, and to have **final compensation** computed based on highest compensation of either system

Regular interest
Interest equivalent to the average rate paid during the prior year for maturities of over one year in length by fixed-income securities. Applied to the amount due from **members** redepositing previously withdrawn contributions and making installment payments for **permissive service credit**, and to employers when reporting contributions after the specified deadlines

Reinstatement
The termination of a **service retirement allowance** or **disability retirement allowanc**e and establishing status either as **an inactive member or an active member**

Retired member
(Previous Term-Retirant)
A **member** receiving a **service retirement allowance** or a **disability retirement allowance**

Retired participant
A **participant** of the **Cash Balance Benefit Program** who elected to receive a **benefit** in the form of an **annuity** upon retirement

Salary
In the **Cash Balance Benefit Program**, compensation payable in cash by an employer to a **participant** for creditable service (Similar to c**reditable compensation** to **Defined Benefit Program members**)

Service
Service performed for compensation in a position subject to coverage under the **Defined Benefit Program** or permitting participation in the **Cash Balance Benefit Program**

Service retirement allowance
A monthly **benefit** payable to a **member** of the **Defined Benefit Program** upon retirement for reasons other than disability

Single life annuity
An election by a participant of a DB Program member under the **Cash Balance Benefit Program** or a member of the **Defined Benefit Supplement Program** in which an **annuity benefit** ceases being paid upon the death of the **participant** or **member**

State Teachers' Retirement Plan
The plan of retirement benefits and other ancillary benefits provided through the **Defined Benefit Program** and the **Cash Balance Benefit Program**

State Teachers' Retirement System
The department that administers the State Teachers' Retirement Plan

Supplemental benefit maintenance payments
Supplemental payments made to **members** and **beneficiaries** of the **Defined Benefit Program** whose current allowance is worth less than 75% of the original allowance, when adjusted for increases in the California Consumer Price Index (CCPI). Also called **purchasing power protection payments**

Survivor allowance
A monthly allowance payable upon the death of an **active member** or a **disabled member** prior to July 1, 1972 (Similar to **family allowance**, which is applicable to member deaths on or after July 1, 1972)

Survivor benefit allowance
A monthly allowance payable upon the death of an **active member** who was subject to **Coverage B**

Teachers' Health Benefit Fund
The trust fund in the state treasury in which contributions and investment earnings associated with the CalSTRS health benefit programs, such as the **Medicare Benefits Program**, are held and from which all **benefits** are paid

Teachers' Retirement Board
A 12-member Board that manages the **State Teachers' Retirement System**

Teachers' Retirement Fund
The trust fund in the State Treasury in which all contributions and investment earnings associated with the **Defined Benefit Program, the Defined Benefit Supplement Program** and the **Cash Balance Benefit Program** are held and from which all benefits are paid

Teachers' Retirement Law
Part 13 of the Education Code, governing administration of the **Defined Benefit Program and the Defined Benefit Supplement Program;** part 13.5 of the Education Code, governing administration of the Health Care Benefits Program; and Part 14 of the Education Code, governing administration of the **Cash Balance Benefit Program**

Termination benefit
The benefit paid from the employee account and the employer account to a **Cash Balance Benefit Program participant,** or to a member under the Defined Benefit Supplement Program, on a lump-sum basis upon termination of service for any reason other than death, disability or retirement of the participant or member

Traditional unit credit cost method
A method under which **actuarial accrued liability** is equal to the present value of benefits for service accrued to the valuation date. The **normal cost** is equal to the actuarial present value of benefits allocated to a valuation year. This is the cost method used for the **Cash Balance Benefit Program**

Unfunded actuarial obligation
The additional assets a retirement plan would need to have on the valuation date in order to meet the expected liabilities of the plan for service that has been performed in the past. This figure does not include any liabilities that will be incurred for future service or any assets that will be received in the future. The liabilities are based upon anticipated future salary increases that will be used to determine future benefits. The value is dependent on the actuarial assumptions, the population, the actuarial cost method and the asset valuation method. Sometimes called the unfunded actuarial accrued liability

Unmodified allowance
The maximum monthly **benefit** paid to a **retired member**, which terminates upon the death of that **member** under the Defined Benefit Program

Valuation assumptions
The factors used in calculating the expected future liabilities and assets of a retirement plan. They are long-range averages and are not necessarily indicative of current conditions. The most commonly quoted assumptions are return on investments, wage inflation and rate of inflation. Other assump-

tions, such as **mortality rate** and turnover, concern the number of people contributing to the retirement plan or drawing a **benefit** from the plan

Windfall Elimination Provision
Provides an alternative calculation of an individual's Social Security benefit, resulting in a lower Social Security benefit for retirees who worked in employment not covered by Social Security and who had other jobs where they paid Social Security taxes long enough to become eligible for a Social Security benefit.

POPULATION INFORMATION FOR FISCAL YEAR 1999-2000 (As of JUNE 30, 2000)

POPULATION INFORMATION

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TABLE 1

Active Member Characteristics

Fiscal Year Ending June 30	Count	Average Earnable Salary[1]	Average Age	Average Service	Average Service Projected To Age 60
1991	306,791	$39,899	44.3	11.9	27.6
1992	312,579	40,100	44.5	11.9	27.4
1993	313,617	39,945	44.7	12.0	27.3
1994	319,176	40,180	44.7	12.0	27.2
1995	327,513	40,716	44.8	11.9	27.1
1996	336,725	41,577	44.9	11.8	27.0
1997	364,000	42,557	44.5	11.3	26.8
1998	385,530	43,766	44.3	11.0	26.7
1999	402,220	45,421	44.2	10.8	26.6
2000	420,530	46,677	44.2	10.7	26.5

[1] Average salary that would be paid if members worked on a full-time basis

TABLE 2

Active Member Salary Characteristics

Fiscal Year Ending June 30	Count	— EARNED SALARY — Total Salary	Average Salary	— EARNABLE SALARY [1] — Average Salary	% Increase Over Prior Yr	Average Increase to 2000
1991	306,791	$11,476,284,966	$37,408	$39,899	4.6%	1.8%
1992	312,579	11,728,522,769	37,522	40,100	0.5	1.9
1993	313,617	11,712,337,653	37,346	39,945	-0.4	2.2
1994	319,176	11,978,064,140	37,528	40,180	0.6	2.5
1995	327,513	12,411,264,262	37,895	40,716	1.3	2.8
1996	336,725	12,994,673,531	38,591	41,577	2.1	2.9
1997	364,000	14,371,068,403	39,481	42,557	2.4	3.1
1998	385,530	15,725,658,541	40,790	43,766	2.8	3.3
1999	402,220	17,007,886,951	42,285	45,421	3.8	2.8
2000	420,530	18,224,271,726	43,336	46,677	2.8	-

	Male	Female	Total
Count	125,939	294,591	420,530
Percent of Total	29.9%	70.1%	100.0%
Average Age	45.3	43.7	44.2
Average Service	11.7	10.2	10.7
Calculated Average Entry Age	33.6	33.5	33.5
Median Entry Age[2]	28.9	27.8	28.2
Average Earnable Salary	$48,306	$45,981	$46,677
Average Accumulated Contributions	$56,213	$45,237	$48,524

[1] Salary that would be paid if members worked on a full-time basis
[2] Entry age determined using initial membership date

TABLE 3

Distribution of Active Members by Age and Service
(Age and Service to nearest full year as of June 30, 2000)
ACTIVE MALE MEMBERS

	Service					
Age	Less Than .500	1 Thru 5	6 Thru 10	11 Thru 15	16 Thru 20	21 Thru 25
Less than 25	377	727	0	0	0	0
25 to 30	1,495	9,453	184	0	0	0
30 to 35	1,071	10,255	3,649	100	0	0
35 to 40	919	6,122	4,200	2,489	69	0
40 to 45	830	4,958	3,070	3,542	1,908	120
45 to 50	902	4,681	2,805	3,331	2,722	3,273
50 to 55	850	4,403	2,562	2,897	2,426	4,077
55 to 60	562	2,456	1,463	1,582	1,215	1,571
60 to 65	261	1,310	582	669	488	471
65 to 70	119	534	219	185	170	137
70 and over	82	319	102	70	50	39
Age Unknown	3	7	1	0	0	0
Total	7,471	45,225	18,837	14,865	9,048	9,688

	Service					
Age	26 Thru 30	31 Thru 35	36 Thru 40	41 Thru 45	Over 45	Total
Less than 25	0	0	0	0	0	1,104
25 to 30	0	0	0	0	0	11,132
30 to 35	0	0	0	0	0	15,075
35 to 40	0	0	0	0	0	13,799
40 to 45	0	0	0	0	0	14,428
45 to 50	284	0	0	0	0	17,998
50 to 55	6,116	598	0	0	0	23,929
55 to 60	4,092	4,707	381	0	0	18,029
60 to 65	967	1,580	1,101	29	0	7,458
65 to 70	168	206	244	111	1	2,094
70 and over	47	63	48	44	18	882
Age Unknown	0	0	0	0	0	11
Total	11,674	7,154	1,774	184	19	125,939

TABLE 3

Distribution of Active Members by Age and Service
(Age and Service to nearest full year as of June 30, 2000)
ACTIVE FEMALE MEMBERS

Age	Service: Less Than .500	1 Thru 5	6 Thru 10	11 Thru 15	16 Thru 20	21 Thru 25
Less than 25	1,493	3,687	0	0	0	0
25 to 30	3,224	31,165	879	0	0	0
30 to 35	1,927	22,896	11,439	517	0	0
35 to 40	1,672	12,574	9,335	7,314	264	0
40 to 45	1,785	12,214	7,416	7,882	4,738	337
45 to 50	1,774	12,864	8,683	8,649	6,376	6,242
50 to 55	1,328	10,128	8,248	9,796	6,391	6,949
55 to 60	710	4,830	3,904	5,447	4,560	4,188
60 to 65	273	1,659	1,279	1,862	1,712	1,813
65 to 70	116	566	329	472	440	488
70 and over	64	373	138	148	121	118
Age Unknown	49	371	8	0	0	0
Total	14,415	113,327	51,658	42,087	24,602	20,135

Age	Service: 26 Thru 30	31 Thru 35	36 Thru 40	41 Thru 45	Over 45	Total
Less than 25	0	0	0	0	0	5,180
25 to 30	0	0	0	0	0	35,268
30 to 35	0	0	0	0	0	36,779
35 to 40	0	0	0	0	0	31,159
40 to 45	0	0	0	0	0	34,372
45 to 50	524	0	0	0	0	45,112
50 to 55	8,842	1,319	0	0	0	53,001
55 to 60	4,811	6,222	616	0	0	35,288
60 to 65	1,650	1,670	1,181	54	0	13,153
65 to 70	425	366	189	102	11	3,504
70 and over	108	126	72	51	28	1,347
Age Unknown	0	0	0	0	0	428
Total	16,360	9,703	2,058	207	39	294,591

TABLE 3

Distribution of Active Members by Age and Service
(Age and Service to nearest full year as of June 30, 2000)
TOTAL ACTIVE MEMBERS

	Service					
Age	Less Than .500	1 Thru 5	6 Thru 10	11 Thru 15	16 Thru 20	21 Thru 25
Less than 25	1,870	4,414	0	0	0	0
25 to 30	4,719	40,618	1,063	0	0	0
30 to 35	2,998	33,151	15,088	617	0	0
35 to 40	2,591	18,696	13,535	9,803	333	0
40 to 45	2,615	17,172	10,486	11,424	6,646	457
45 to 50	2,676	17,545	11,488	11,980	9,098	9,515
50 to 55	2,178	14,531	10,810	12,693	8,817	11,026
55 to 60	1,272	7,286	5,367	7,029	5,775	5,759
60 to 65	534	2,969	1,861	2,531	2,200	2,284
65 to 70	235	1,100	548	657	610	625
70 and over	146	692	240	218	171	157
Age Unknown	52	378	9	0	0	0
Total	21,886	158,552	70,495	56,952	33,650	29,823

	Service					
Age	26 Thru 30	31 Thru 35	36 Thru 40	41 Thru 45	Over 45	Total
Less than 25	0	0	0	0	0	6,284
25 to 30	0	0	0	0	0	46,400
30 to 35	0	0	0	0	0	51,854
35 to 40	0	0	0	0	0	44,958
40 to 45	0	0	0	0	0	48,800
45 to 50	808	0	0	0	0	63,110
50 to 55	14,958	1,917	0	0	0	76,930
55 to 60	8,903	10,929	997	0	0	53,317
60 to 65	2,617	3,250	2,282	83	0	20,611
65 to 70	593	572	433	213	12	5,598
70 and over	155	189	120	95	46	2,229
Age Unknown	0	0	0	0	0	439
Total	28,034	16,857	3,832	391	58	420,530

TABLE 4

Active Members Classified by Age

MALE

Age	Count	Average Service Credit	Average Earnable Salary	Age	Count	Average Service Credit	Average Earnable Salary[1]
20	5	.510	$29,401	47	3,599	11.573	$50,373
21	5	.641	24,401	48	3,873	12.205	50,807
22	27	.822	25,491	49	4,118	13.271	52,184
23	277	.689	27,050	50	4,377	14.323	53,400
24	790	.895	27,789	51	4,657	15.376	54,508
25	1,357	1.221	29,182	52	4,783	16.405	55,763
26	2,003	1.576	30,415	53	5,181	17.681	56,572
27	2,235	1.883	31,225	54	4,931	18.616	57,699
28	2,491	2.252	32,331	55	4,061	19.509	58,164
29	3,046	2.583	33,684	56	3,829	20.507	58,823
30	3,362	2.960	34,996	57	3,830	21.078	59,029
31	3,174	3.367	35,948	58	3,439	21.824	58,645
32	2,964	3.749	37,064	59	2,870	23.211	59,745
33	2,837	4.186	38,758	60	2,363	22.471	59,576
34	2,738	4.632	39,825	61	1,920	22.003	58,960
35	2,712	4.968	40,628	62	1,351	20.120	57,146
36	2,754	5.497	41,906	63	1,011	19.382	55,627
37	2,817	5.825	42,498	64	813	19.658	55,447
38	2,751	6.476	43,592	65	652	19.259	55,993
39	2,765	6.987	44,778	66	491	17.092	50,905
40	2,799	7.257	44,710	67	387	16.535	50,199
41	2,798	7.813	45,983	68	308	18.574	51,634
42	2,774	8.212	46,133	69	256	15.862	47,953
43	2,980	8.728	47,147	70	215	17.294	50,835
44	3,077	9.304	48,148	71	151	13.456	46,257
45	3,086	9.807	48,160	71+	516	12.510	42,024
46	3,322	10.615	49,378	Age Unknown	11	2.426	25,772
				Total	125,939	11.707[2]	$48,306[2]

[1] Average salary that would be paid if members worked on a full-time basis
[2] Overall averages

TABLE 4

Active Members Classified by Age

FEMALE

Age	Count	Average Service Credit	Average Earnable Salary	Age	Count	Average Service Credit	Average Earnable Salary[1]
20	2	.399	$9,287	47	9,050	10.779	$48,556
21	23	.756	22,312	48	9,612	11.365	49,140
22	186	.608	24,161	49	9,874	11.903	49,638
23	1,465	.674	26,951	50	10,119	12.938	51,014
24	3,504	1.001	29,176	51	10,410	13.662	51,976
25	5,356	1.396	31,099	52	10,596	14.632	52,801
26	6,726	1.812	32,185	53	11,496	15.913	53,864
27	7,219	2.226	33,410	54	10,380	16.691	54,414
28	7,744	2.671	34,479	55	8,306	17.362	54,733
29	8,224	3.036	35,482	56	7,676	17.729	54,962
30	8,740	3.442	36,781	57	7,479	19.009	55,613
31	8,055	3.883	37,857	58	6,660	19.497	55,399
32	7,239	4.330	38,759	59	5,167	19.871	55,311
33	6,608	4.881	39,966	60	4,209	20.253	55,711
34	6,136	5.350	40,894	61	3,196	20.293	55,598
35	6,060	5.806	41,603	62	2,489	19.454	54,114
36	6,061	6.217	42,207	63	1,864	18.499	52,997
37	6,301	6.726	43,116	64	1,395	18.855	52,997
38	6,306	6.947	43,403	65	1,113	18.472	51,469
39	6,431	7.316	43,717	66	856	18.719	51,572
40	6,381	7.627	44,203	67	640	18.311	51,625
41	6,524	7.833	44,394	68	500	18.903	50,981
42	6,697	8.124	44,932	69	395	19.177	53,377
43	7,178	8.637	45,581	70	340	18.349	49,506
44	7,592	9.116	46,188	71	238	17.380	47,118
45	8,035	9.356	46,335	71+	769	15.488	44,460
46	8,541	10.227	47,908	Age Unknown	428	2.316	34,009
				Total	294,591	10.216[2]	$45,981[2]

[1] Average salary that would be paid if members worked on a full-time basis
[2] Overall averages

TABLE 4

Active Members Classified by Age

TOTAL

Age	Count	Average Service Credit	Average Earnable Salary	Age	Count	Average Service Credit	Average Earnable Salary[1]
20	7	.478	$23,654	47	12,649	11.005	$49,073
21	28	.735	22,685	48	13,485	11.606	49,619
22	213	.636	24,333	49	13,992	12.306	50,387
23	1,742	.676	26,966	50	14,496	13.356	51,735
24	4,294	.981	28,921	51	15,067	14.192	52,758
25	6,713	1.361	30,711	52	15,379	15.183	53,722
26	8,729	1.758	31,779	53	16,677	16.462	54,705
27	9,454	2.145	32,893	54	15,311	17.311	55,472
28	10,235	2.569	33,956	55	12,367	18.067	55,859
29	11,270	2.913	34,996	56	11,505	18.654	56,247
30	12,102	3.308	36,285	57	11,309	19.710	56,770
31	11,229	3.737	37,317	58	10,099	20.289	56,504
32	10,203	4.161	38,267	59	8,037	21.063	56,895
33	9,445	4.672	39,603	60	6,572	21.050	57,101
34	8,874	5.129	40,564	61	5,116	20.935	56,860
35	8,772	5.547	41,301	62	3,840	19.688	55,181
36	8,815	5.992	42,113	63	2,875	18.810	53,922
37	9,118	6.448	42,925	64	2,208	19.151	53,899
38	9,057	6.804	43,461	65	1,765	18.763	53,140
39	9,196	7.217	44,036	66	1,347	18.126	51,329
40	9,180	7.514	44,357	67	1,027	17.642	51,088
41	9,322	7.827	44,871	68	808	18.778	51,230
42	9,471	8.150	45,284	69	651	17.874	51,244
43	10,158	8.664	46,040	70	555	17.940	50,021
44	10,669	9.170	46,753	71	389	15.856	46,784
45	11,121	9.481	46,841	71+	1,285	14.292	43,482
46	11,863	10.335	48,320	Age Unknown	439	2.319	33,803
				Total	420,530	10.662[2]	$46,677[2]

[1] Average salary that would be paid if members worked on a full-time basis
[2] Overall averages

TABLE 5

Number of Inactive Members

Fiscal Year Ending June 30	Total	Male % of Total	Female % of Total
1991	49,396	28.5%	71.5%
1992	50,898	28.0	72.0
1993	51,094	27.3	72.7
1994	53,222	27.2	72.8
1995	54,159	26.7	73.3
1996	56,424	26.8	73.2
1997	59,385	27.2	72.8
1998	61,848	27.4	72.6
1999	69,112	27.7	72.3
2000	75,580	27.8	72.2

TABLE 6

Inactive Member Characteristics

Fiscal Year Ending June 30	Total Count	Averages: Contributions on Deposit	Averages: Age	Averages: Years Service Credit	Averages: Years Inactive	Vested Count
1991	49,396	$ 7,900	48.4	3.6	7.8	(a)
1992	50,898	8,312	48.3	3.5	8.0	11,446
1993	51,094	9,078	48.1	3.6	8.1	11,777
1994	53,222	9,607	47.9	3.5	8.2	12,318
1995	54,159	10,282	47.4	3.6	8.0	12,724
1996	56,424	10,931	47.2	3.5	8.0	13,261
1997	59,385	11,431	47.3	3.5	8.2	13,925
1998	61,848	11,731	47.5	3.4	8.3	14,038
1999	69,112	12,105	47.1	3.3	8.0	15,421
2000	75,580	12,325	46.8	3.2	7.8	16,211

(a) Count not available

TABLE 7

Number of Members Retired for Service[1]

Fiscal Year Ending June 30	Total	Male % of Total	Female % of Total
1991	115,010	36.6%	63.4%
1992	118,963	37.1	62.9
1993	122,762	37.6	62.4
1994	126,476	37.9	62.1
1995	130,576	38.1	61.9
1996	133,764	38.2	61.8
1997	135,809	38.3	61.7
1998	139,193	38.3	61.7
1999	142,309	38.3	61.7
2000	145,415	38.1	61.9

[1] Does not include formerly disabled members

TABLE 8

All Members Retired for Service Characteristics[1]

Fiscal Year Ending June 30	Average Age At Retirement	Average Years of Service Credit	Average Final Compensation	Average Current Allowance Payable
1991	60.9	23.8	$2,160	$1,115
1992	60.8	24.2	2,285	1,217
1993	60.9	24.3	2,414	1,297
1994	60.9	24.5	2,532	1,369
1995	60.9	24.6	2,637	1,434
1996	60.9	24.7	2,743	1,502
1997	60.8	24.8	2,837	1,566
1998	60.8	24.7	2,945	1,638
1999	60.7	24.8	3,057	1,729
2000	60.7	25.0	3,175	1,824

[1] Does not include formerly disabled members

TABLE 9

Members Retired for Service
During the 1999/2000 Fiscal Year[1]
Classified by Unmodified Allowance

MALE

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	143	62.3	8.543	$2,972	$665
500 - 1000	146	61.0	11.249	3,587	694
1000 - 1500	138	60.5	16.064	4,403	1,183
1500 - 2000	156	60.5	20.930	4,531	1,606
2000 - 2500	172	59.1	26.017	4,702	2,104
2500 - 3000	220	59.3	29.522	4,791	2,580
3000 - 3500	283	60.4	31.599	4,927	3,010
3500 - 4000	350	61.4	33.640	5,055	3,436
4000 - 4500	351	62.0	35.256	5,307	3,861
4500 - 5000	257	63.1	37.198	5,464	4,287
More than $5000	402	63.5	38.983	6,553	5,429
Total	2,618	61.5[2]	29.656[2]	$5,039[2]	$3,145[2]

FEMALE

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	362	60.9	9.673	$2,527	$516
500 - 1000	461	60.2	12.339	3,304	726
1000 - 1500	508	60.0	16.717	4,088	1,208
1500 - 2000	531	60.1	21.045	4,443	1,704
2000 - 2500	557	60.3	24.490	4,655	2,180
2500 - 3000	547	60.9	27.966	4,797	2,644
3000 - 3500	551	61.4	30.766	4,803	3,140
3500 - 4000	587	62.1	33.139	4,953	3,624
4000 - 4500	383	62.8	35.394	5,160	4,092
4500 - 5000	223	62.9	37.472	5,308	4,549
More than $5000	228	64.1	38.633	6,275	5,634
Total	4,938	61.2[2]	25.298[2]	$4,503[2]	$2,516[2]

[1] Does not include formerly disabled members
[2] Overall averages

TABLE 9
(CAFR)
Members Retired for Service
During the 1999/2000 Fiscal Year[1]
Classified by Unmodified Allowance
TOTAL

Monthly Unmodified Allowance	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Allowance Payable
Less than $500	505	61.3	9.353	$2,653	$558
500 - 1000	607	60.4	12.077	3,372	719
1000 - 1500	646	60.1	16.577	4,155	1,202
1500 - 2000	687	60.2	21.019	4,463	1,682
2000 - 2500	729	60.0	24.850	4,666	2,162
2500 - 3000	767	60.4	28.412	4,795	2,626
3000 - 3500	834	61.1	31.049	4,845	3,096
3500 - 4000	937	61.9	33.326	4,991	3,554
4000 - 4500	734	62.4	35.328	5,231	3,982
4500 - 5000	480	63.0	37.326	5,392	4,409
More than $5000	630	63.7	38.856	6,452	5,503
Totals	7,556	61.3[2]	26.808[2]	$4,688[2]	$2,734[2]

[1] Does not include formerly disabled members
[2] Overall averages

TABLE 10

Members Retired for Service
During 1999/2000 Fiscal Year[1]

Classified by Age and Joint & Survivor Annuity Option Elected[2]

MALE

	Age	Total	Unmod.	Options 2	3	4	5	6	7	8
Under	55	16	4	2	0	0	2	4	4	0
	55	71	35	7	2	1	2	16	7	1
	56	170	73	26	4	4	6	35	20	2
	57	113	43	15	6	3	1	28	17	0
	58	165	59	20	5	9	1	44	26	1
	59	182	57	18	5	3	2	66	30	1
	60	278	76	51	8	6	1	91	44	1
	61	346	98	47	13	6	4	116	61	1
	62	319	100	39	11	6	3	114	46	0
	63	201	57	22	7	4	3	75	33	0
	64	169	53	29	5	5	3	49	25	0
	65	139	40	15	4	6	2	48	24	0
	66	126	40	23	7	3	2	32	19	0
	67	76	17	9	3	1	0	29	16	1
	68	66	17	19	3	1	3	17	6	0
	69	52	15	7	5	4	2	13	6	0
	70	41	13	9	0	0	1	14	4	0
	71	24	11	2	3	1	0	6	1	0
	72	21	8	6	0	1	0	5	1	0
	73	10	5	2	1	0	0	2	0	0
	74	9	7	1	1	0	0	0	0	0
	75	5	1	2	0	0	0	0	2	0
Over	75	19	6	5	1	1	0	3	2	1
Age Unknown		0	0	0	0	0	0	0	0	0
	Total	2,618	835	376	94	65	38	807	394	9
% of Total Males		100.0%	31.9%	14.4%	3.6%	2.5%	1.5%	30.8%	15.0%	.3%

[1] Does not include formerly disabled members
[2] See Plan Summary for description of Joint and Survivor Annuities

TABLE 10

Members Retired for Service
During 1999/2000 Fiscal Year[1]

Classified by Age and Joint & Survivor Annuity Option Elected[2]

FEMALE

	Age	Total	Unmod.	Options						
				2	3	4	5	6	7	8
Under	55	40	22	3	2	1	2	4	5	1
	55	182	117	17	1	0	1	13	32	1
	56	408	266	14	12	0	2	51	59	4
	57	325	204	8	8	0	1	50	53	1
	58	326	191	9	7	1	1	45	71	1
	59	354	224	6	7	1	4	48	64	0
	60	533	322	12	11	2	5	83	98	0
	61	563	326	11	11	0	2	88	119	6
	62	469	304	13	7	0	2	62	81	0
	63	375	233	7	4	1	2	58	69	1
	64	263	176	8	6	1	0	26	45	1
	65	262	178	8	9	2	1	30	32	2
	66	206	153	3	8	0	1	14	27	0
	67	150	108	3	2	0	0	12	25	0
	68	109	71	1	9	0	0	11	17	0
	69	101	77	0	2	0	0	9	12	1
	70	75	58	2	1	0	0	5	8	1
	71	58	46	3	0	0	1	0	7	1
	72	47	34	1	1	0	0	6	4	1
	73	35	26	1	1	0	0	5	2	0
	74	14	12	0	1	0	0	1	0	0
	75	13	9	0	1	0	0	2	1	0
Over	75	30	24	2	0	0	0	1	3	0
Age Unknown		0	0	0	0	0	0	0	0	0
	Total-	4,938	3,181	132	111	9	25	624	834	22
% of Total Females		100.0%	64.4%	2.7%	2.3%	.2%	.5%	12.6%	16.9%	.4%

[1] Does not include formerly disabled members
[2] See Plan Summary for description of Joint and Survivor Annuities

TABLE 10
(CAFR)
Members Retired for Service
During 1999/2000 Fiscal Year[1]
Classified by Age and Joint & Survivor Annuity Option Elected[2]
TOTAL

			Options						
Age	Total	Unmod.	2	3	4	5	6	7	8
Under 55	56	26	5	2	1	4	8	9	1
55	253	152	24	3	1	3	29	39	2
56	578	339	40	16	4	8	86	79	6
57	438	247	23	14	3	2	78	70	1
58	491	250	29	12	10	2	89	97	2
59	536	281	24	12	4	6	114	94	1
60	811	398	63	19	8	6	174	142	1
61	909	424	58	24	6	6	204	180	7
62	788	404	52	18	6	5	176	127	0
63	576	290	29	11	5	5	133	102	1
64	432	229	37	11	6	3	75	70	1
65	401	218	23	13	8	3	78	56	2
66	332	193	26	15	3	3	46	46	0
67	226	125	12	5	1	0	41	41	1
68	175	88	20	12	1	3	28	23	0
69	153	92	7	7	4	2	22	18	1
70	116	71	11	1	0	1	19	12	1
71	82	57	5	3	1	1	6	8	1
72	68	42	7	1	1	0	11	5	1
73	45	31	3	2	0	0	7	2	0
74	23	19	1	2	0	0	1	0	0
75	18	10	2	1	0	0	2	3	0
Over 75	49	30	7	1	1	0	4	5	1
Age Unknown	0	0	0	0	0	0	0	0	0
Total	7,556	4,016	508	205	74	63	1,431	1,228	31

[1] Does not include formerly disabled members

[2] See Plan Summary for description of Joint and Survivor Annuities

TABLE 11
(CAFR)
Members Retired for Service Characteristics[1]
By Year of Retirement

Effective Date of Retirement Number by Service Credit	Average of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Age At Retirement
7/1/90 thru 6/30/91	7,712	26.9	$1,813	$3,748	61.3
7/1/91 thru 6/30/92	6,913	26.6	$2,050	$3,862	61.4
7/1/92 thru 6/30/93	7,780	26.8	$2,153	$3,960	61.3
7/1/93 thru 6/30/94	7,152	27.0	$2,187	$4,043	60.9
7/1/94 thru 6/30/95	7,140	26.5	$1,984	$4,030	61.1
7/1/95 thru 6/30/96					
0 - 5	68	2.5	$ 241	-	-
5 - 10	474	7.3	395	-	-
10 - 15	514	12.4	763	-	-
15 - 20	639	17.6	1,222	-	-
20 - 25	883	22.6	1,663	-	-
25 - 30	1,298	27.7	2,171	-	-
30 - 35	1,660	32.4	2,662	-	-
35 - 40	1,213	37.1	3,393	-	-
40 & over	236	42.1	4,107	-	-
Total	6,985	26.6	$2,171	$4,110	61.3
7/1/96 thru 6/30/97					
0 - 5	50	2.4	$ 292	-	-
5 - 10	419	7.3	398	-	-
10 - 15	480	12.4	769	-	-
15 - 20	526	17.6	1,245	-	-
20 - 25	790	22.6	1,724	-	-
25 - 30	1,066	27.6	2,251	-	-
30 - 35	1,447	32.5	2,722	-	-
35 - 40	1,026	37.2	3,443	-	-
40 & over	207	42.0	4,080	-	-
Total	6,011	26.6	$2,210	$4,206	60.9

[1] Does not include formerly disabled members

TABLE 11 *(Continued)*

Members Retired for Service Characteristics[1]
By Year of Retirement

Effective Date of RetirementNumber by Service Credit	Average of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Age At Retirement
7/1/97 thru 6/30/98					
0 - 5	73	2.5	$ 298	-	-
5 - 10	530	7.4	414	-	-
10 - 15	572	12.6	834	-	-
15 - 20	581	17.7	1,280	-	-
20 - 25	884	22.6	1,811	-	-
25 - 30	1,356	27.7	2,331	-	-
30 - 35	1,799	32.5	2,817	-	-
35 - 40	1,259	37.2	3,548	-	-
40 & over	278	42.0	4,251	-	-
Total	7,332	26.8	$2,310	$4,345	60.8
7/1/98 thru 6/30/99					
0 - 5	72	2.8	$ 355	-	-
5 - 10	459	7.6	491	-	-
10 - 15	611	12.6	959	-	-
15 - 20	644	17.5	1,394	-	-
20 - 25	806	22.6	1,999	-	-
25 - 30	1,081	27.6	2,574	-	-
30 - 35	1,852	32.5	3,237	-	-
35 - 40	1,312	37.2	4,093	-	-
40 & over	411	42.6	5,147	-	-
Total	7,248	27.2	$2,706	$4,541	61.2
7/1/99 thru 6/30/2000					
0 - 5	92	2.2	$ 279	-	-
5 - 10	519	7.6	504	-	-
10 - 15	658	12.5	994	-	-
15 - 20	694	17.6	1,512	-	-
20 - 25	900	22.5	2,099	-	-
25 - 30	960	27.4	2,733	-	-
30 - 35	1,968	32.5	3,487	-	-
35 - 40	1,382	37.1	4,495	-	-
40 & over	383	42.3	5,532	-	-
Total	7,556	26.8	$2,872	$4,688	61.3

[1] Does not include formerly disabled members

TABLE 12

Members Retired for Service Classified by Years in Retirement[1]

MALE

Years in Retirement	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Unmodified Allowance[2]	Average Allowance Payable[3]
Less than 1	2,618	61.5	29.656	$5,039	$3,422	$3,145
1	2,665	61.6	30.453	4,817	3,299	3,031
2	2,608	60.9	29.797	4,626	2,812	2,631
3	2,200	61.0	28.763	4,517	2,672	2,546
4	2,621	60.8	29.278	4,460	2,648	2,580
5	2,684	61.0	28.959	4,346	2,526	2,503
6	2,792	60.8	29.344	4,399	2,583	2,618
7	3,140	61.1	29.506	4,309	2,553	2,623
8	2,684	61.1	28.965	4,166	2,434	2,526
9	3,045	61.0	29.031	4,081	2,356	2,492
10	2,573	60.6	27.715	3,808	2,145	2,364
11	2,647	60.7	27.717	3,554	1,959	2,186
12	2,311	60.6	27.288	3,358	1,863	2,130
13	2,478	60.5	27.663	3,212	1,773	2,053
14	1,920	60.1	27.463	2,972	1,581	1,867
15	2,186	60.2	27.553	2,828	1,525	1,798
16	2,266	60.2	26.261	2,651	1,357	1,613
17	2,072	60.2	26.375	2,540	1,305	1,564
18	1,680	59.8	26.614	2,352	1,228	1,487
19	1,526	59.8	25.537	2,130	1,054	1,296
20 and more	6,702	60.0	24.045	1,684	811	1,069
Total	55,418	60.7[4]	27.846[4]	$3,562[4]	$2,062[4]	$2,167[4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages

TABLE 12

Members Retired for Service Classified by Years in Retirement[1]

FEMALE

Years in Retirement	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Unmodified Allowance[2]	Average Allowance Payable[3]
Less than 1	4,938	61.2	25.298	$4,503	$2,580	$2,516
1	4,545	60.9	25.669	4,371	2,431	2,365
2	4,604	60.7	24.894	4,193	2,108	2,087
3	3,715	60.7	23.918	4,038	1,990	2,009
4	4,140	60.9	24.086	3,922	1,926	1,988
5	4,183	60.9	24.374	3,839	1,900	1,997
6	4,084	60.9	24.584	3,849	1,900	2,042
7	4,191	61.2	24.442	3,747	1,834	2,005
8	3,739	61.0	24.169	3,665	1,801	1,994
9	4,054	61.4	24.658	3,558	1,784	2,012
10	3,203	60.9	22.924	3,299	1,554	1,814
11	3,342	60.9	22.984	3,096	1,431	1,691
12	2,746	60.8	22.283	2,915	1,351	1,630
13	2,915	60.6	22.083	2,759	1,246	1,523
14	2,727	60.6	22.826	2,505	1,119	1,396
15	2,811	60.5	22.777	2,384	1,063	1,345
16	2,869	60.4	22.619	2,249	990	1,274
17	2,794	60.6	22.521	2,133	948	1,238
18	2,441	60.5	21.826	1,938	850	1,126
19	2,330	60.4	21.403	1,795	777	1,047
20 and more	19,626	60.5	21.358	1,237	531	798
Total	89,997	60.8[4]	23.246[4]	$2,937[4]	$1,435[4]	$1,613[4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages

TABLE 12

Members Retired for Service Classified by Years in Retirement[1]

TOTAL

Years in Retirement	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Unmodified Allowance[2]	Average Allowance Payable[3]
Less than 1	7,556	61.3	26.808	$4,688	$2,872	$2,734
1	7,210	61.1	27.437	4,536	2,752	2,611
2	7,212	60.8	26.667	4,349	2,363	2,284
3	5,915	60.8	25.720	4,216	2,243	2,209
4	6,761	60.9	26.099	4,130	2,206	2,217
5	6,867	60.9	26.166	4,038	2,145	2,195
6	6,876	60.9	26.517	4,072	2,178	2,276
7	7,331	61.2	26.611	3,988	2,142	2,270
8	6,423	61.1	26.173	3,874	2,065	2,217
9	7,099	61.2	26.534	3,782	2,029	2,218
10	5,776	60.8	25.058	3,526	1,817	2,059
11	5,989	60.8	25.076	3,298	1,664	1,910
12	5,057	60.7	24.570	3,118	1,585	1,859
13	5,393	60.6	24.647	2,967	1,488	1,767
14	4,647	60.4	24.742	2,698	1,310	1,590
15	4,997	60.4	24.866	2,578	1,265	1,543
16	5,135	60.3	24.226	2,427	1,152	1,423
17	4,866	60.4	24.162	2,306	1,100	1,377
18	4,121	60.2	23.778	2,107	1,004	1,273
19	3,856	60.2	23.039	1,928	886	1,145
20 and more	26,328	60.4	22.042	1,351	602	867
Total	145,415	60.7[4]	25.000[4]	$3,175[4]	$1,674[4]	$1,824[4]

[1] Does not include formerly disabled members
[2] Initial allowance before application of option factor
[3] Includes cumulative application of annual 2% benefit improvement factor
[4] Overall averages

TABLE 13

Characteristics of Members Going on Disability

MALE

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
1991	108	$1,861	19.709	$3,320	50.4
1992	111	1,894	17.637	3,468	49.2
1993	116	1,909	16.340	3,314	50.8
1994	151	1,995	17.754	3,948	51.2
1995	132	1,893	16.764	3,821	52.1
1996	144	1,953	16.514	3,767	51.7
1997	131	2,097	16.949	4,091	51.9
1998	126	2,040	14.400	4,557	51.4
1999	103	2,330	16.955	4,198	53.9
2000	119	2,153	14.713	4,178	53.1

FEMALE

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
1991	198	$1,651	16.387	$3,101	50.0
1992	187	1,834	17.831	3,404	50.3
1993	272	1,767	17.155	3,294	50.1
1994	317	1,743	15.130	3,546	51.5
1995	337	1,834	15.581	3,591	50.9
1996	352	1,821	15.722	3,590	52.0
1997	333	1,854	15.154	3,802	52.1
1998	325	1,972	15.345	3,888	52.5
1999	311	2,042	15.192	3,970	51.6
2000	335	2,114	15.407	4,194	52.4

Note: Some data are updated in the following year to include late approvals of disability applications.

TABLE 13
(CAFR)

Characteristics of Members Going on Disability

TOTAL

Fiscal Year Ending June 30	Count	Disability Allowance Payable	Service Credit	Final Compensation	Age at Disability
1991	306	$1,725	17.559	$3,178	50.1
1992	298	1,856	17.759	3,428	49.9
1993	388	1,809	16.014	3,300	50.3
1994	468	1,824	15.977	3,676	51.4
1995	469	1,851	15.914	3,656	51.3
1996	496	1,859	15.952	3,641	51.9
1997	464	1,923	15.660	3,883	52.0
1998	451	1,989	14.446	3,906	52.3
1999	414	2,114	15.630	4,027	52.2
2000	454	2,124	15.224	4,190	52.6

Note: Some data are updated in the following year to include late approvals of disability applications.

TABLE 14
(CAFR)
Number of Benefit Recipients by Type of Benefit

Fiscal Year Ending June 30	Service Retirement	Disability Benefits	Benefits for Survivors	Total Benefit Recipients
1991	115,010	4,872	8,292	128,174
1992	118,963	4,914	8,634	132,511
1993	122,762	4,879	9,346	136,987
1994	126,476	5,126	10,271	141,873
1995	130,576	5,331	10,898	146,805
1996	133,764	5,540	11,501	150,805
1997	135,809	5,676	12,154	153,639
1998	139,193	5,758	12,796	157,747
1999	142,309	5,822	13,326	161,457
2000	145,415	5,885	13,982	165,282

TABLE 15

Refunds of Member Contributions and Interest Characteristics by Fiscal Year and Service Credit

MALE

Fiscal Year Ending June 30	From Active Status: Count by Amount of Service Credit <5	5 +	Average Service Credit	From Inactive Status[1]: Count by Amount of Service Credit <5	5 +	Average Service Credit	Average Contributions	Total Count
1992	1,433	286	3.146	239	72	4.000	$8,506	2,030
1993	1,348	312	3.576	1,428	101	1.577	6,595	3,189
1994	1,078	304	3.715	700	76	2.095	8,695	2,158
1995	966	313	3.681	1,185	116	1.853	7,719	2,580
1996	987	299	3.562	775	123	2.434	9,439	2,184
1997	845	229	3.413	647	140	2.606	9,795	1,861
1998	1,202	249	2.905	667	130	2.630	9,043	2,248
1999	1,258	232	3.047	642	120	2.640	9,949	2,252
2000	1,279	224	2.978	754	117	2.422	9,604	2,374

[1] Status is determined as of the end of the previous fiscal year. Inactive Status describes a member who has not contributed during that previous fiscal year.

TABLE 15

Refunds of Member Contributions and Interest Characteristics by Fiscal Year and Service Credit

FEMALE

Fiscal Year Ending June 30	From Active Status: Count by Amount of Service Credit <5	From Active Status: Count by Amount of Service Credit 5 +	From Active Status: Average Service Credit	From Inactive Status[1]: Count by Amount of Service Credit <5	From Inactive Status[1]: Count by Amount of Service Credit 5 +	From Inactive Status[1]: Average Service Credit	Average Contributions	Total Count
1992	2,622	516	3.084	644	257	4.172	$8,204	4,039
1993	2,311	508	3.245	2,651	380	2.435	6,599	5,850
1994	1,910	556	3.670	1,472	245	2.745	8,810	4,183
1995	1,738	529	3.752	2,400	421	2.556	8,024	5,088
1996	1,619	527	3.709	1,807	412	3.024	9,542	4,365
1997	1,380	457	3.722	1,517	407	3.369	10,860	3,761
1998	1,719	428	3.100	1,399	392	3.365	10,213	3,938
1999	2,041	409	3.105	1,368	368	3.277	10,513	4,186
2000	2,053	388	3.098	1,660	447	3.301	10,963	4,548

[1] Status is determined as of the end of the previous fiscal year. Inactive Status describes a member who has not contributed during that previous fiscal year.

TABLE 15

Refunds of Member Contributions and Interest Characteristics by Fiscal Year and Service Credit

TOTAL

Fiscal Year Ending June 30	From Active Status: Count by Amount of Service Credit <5	From Active Status: Count by Amount of Service Credit 5 +	From Active Status: Average Service Credit	From Inactive Status[1]: Count by Amount of Service Credit <5	From Inactive Status[1]: Count by Amount of Service Credit 5 +	From Inactive Status[1]: Average Service Credit	Average Contributions	Total Count
1992	4,055	802	3.106	883	329	4.128	$8,305	6,069
1993	3,659	820	3.368	4,079	481	2.147	6,597	9,039
1994	2,988	860	3.687	2,172	321	2.543	8,771	6,341
1995	2,704	842	3.727	3,585	537	2.334	7,921	7,668
1996	2,606	826	3.654	2,582	535	2.854	9,508	6,549
1997	2,225	686	3.608	2,164	547	3.147	10,507	5,622
1998	2,921	677	3.022	2,066	522	3.139	9,788	6,186
1999	3,299	641	3.083	2,010	488	3.083	10,316	6,438
2000	3,332	612	3.052	2,414	564	3.044	10,497	6,922

[1] Status is determined as of the end of the previous fiscal year. Inactive Status describes a member who has not contributed during that previous fiscal year.

TABLE 16

Market Value of Assets and Annual Rate of Return

Ending June 30	Market Value of Assets (in millions)	Annual Return on Investments
1985	$14,208	31.42%
1086	$19,412	27.80%
1987	$22,352	16.80%
1988	$24,348	0.62%
1989	$28,984	16.46%
1990	$32,208	9.16%
1991	$35,259	8.82%
1992	$40,772	14.10%
1993	$46,828	13.84%
1994	$47,523	0.56%
1995	$55,481	16.40%
1996	$63,368	13.20%
1997	$74,842	17.40%
1998	$88,289	17.05%
1999	$99,920	13.35%
2000	$112,600	12.69%