SPRING 2005

RETIRED Educator

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

INSIDE

Challenges to CalSTRS Undergo Change

Governor Delays Initiative to Close Current Plan

Pension Change Update

In the last four months, a number of changes to the CalSTRS pension system have been considered. The administration proposes to cut the state's contribution to the CalSTRS Defined Benefit Program and shift the cost to school districts. Legislation was introduced in the Assembly that would have changed California's public pension plans for new public employees, including educators, starting in July 2007. Additionally, a ballot initiative that addressed the same issue was developed. The legislation and the ballot initiative would close defined benefit programs in favor of defined contribution plans.

The Governor has since announced that he intends to delay the

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Client ID Used for Security

As a security measure, CalSTRS now uses client ID numbers instead of Social Security numbers in correspondence to you. Your client ID number is a unique, 10-digit number assigned to you. Our using it helps you avoid identity theft and protects your privacy.

When we send you a letter, it will include your client ID number. When you respond to us in writing, if you have your client ID number, please use it instead of your Social Security number. If you don't have your client ID number, continue to use your Social Security number so we can quickly and accurately identify your records for a response.

When you call us, if you don't have your client ID, we will ask for your Social Security number as verification of your identity.

Good News on Funding for Inflation Protection Program

By Jack Ehnes
CalSTRS Chief Executive Officer

A valuable, supplemental program for our long-term retirees is strong and continues thanks to recent positive progress on its funding.

The program, funded by the Supplemental Benefit Maintenance Account, supports quarterly supplemental payments made to approximately 63,000 members and their beneficiaries. These payments help eligible members keep pace when inflation erodes their purchasing power. The supplemental payments add to their monthly benefit when the purchasing power of their initial benefit payment falls below 80 percent.

Federal Payment Expected

Federal monies from the sale of the Elk Hills Petroleum Reserve continue to be made to CalSTRS. A $36 million payment, due in October 2005 has been approved and monies set aside by Congress thanks to the consistent efforts by California Representative Bill Thomas and Senator Dianne Feinstein. The President's budget for the next fiscal year includes an additional $48 million to be paid in October 2006.

The Elk Hills compensation was established when the federal government sold the petroleum reserve in 1997 for $3.65 billion. Nine percent of the proceeds, or $320 million, was set aside for California's retired teachers as compensation for some school lands included on the Elk Hills property.

Efforts to Recover Withheld State Funding

Assembly Bill 55 (Mullin), a bill that would repay over time a missed $500 million state contribution to the inflation protection program, was passed by the Assembly Committee on Public Employees, Retirement and Social Security in mid-March on a unanimous vote, bringing CalSTRS one step closer to recovering these funds.

In addition to supporting AB 55, CalSTRS has filed suit to recover these funds in Sacramento County Superior Court. The second hearing on CalSTRS' Motion for Summary Judgment was heard in the Sacramento County Superior Court in April, with a trial date set for July 15.

Although current supplemental benefit recipients in the near future will not be affected by the missed $500 million contribution, the Teachers' Retirement Board opposes the funding shortfall because of the long-term threat it presents to the program.

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

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CalSTRS Retired Educator is published twice a year for retired members and benefit recipients of the California State Teachers' Retirement System. Send your comments or suggestions to:

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Legislation Affects CalSTRS

Summarized below is pending legislation and legislation enacted on January 1, 2005, that could affect retired members. Also, summarized is a bill vetoed by the Governor in 2004. For more information on new laws and pending legislation, visit www.calstrs.com and click on *Legislation.*

Statutory changes are made from time to time that affect CalSTRS benefits and that may affect any decisions you make in relation to those benefits. These changes are made by the California Legislature and the Governor. Although CalSTRS makes every effort to keep its members informed about changes in its benefit structure, we cannot safely predict what the Legislature and Governor may do that might be of interest to you. For this reason, you should keep yourself informed about possible benefit changes by consulting CalSTRS at www.calstrs.com or 800-228-5453, CalSTRS benefits counselors, your union representative (if applicable), your legislative representative and any other source that you believe may be helpful to you before you make any final decision. You are ultimately responsible for any decision you make in regard to your CalSTRS benefits.

Pending Legislation

Senate Bill 758 (Maldonado)

Proposes to exempt from the post-retirement earnings limit those retired members of the Defined Benefit Program who serve as mentors to principals working in schools subject to federal sanctions.

Assembly Bill 55 (Mullin)

Proposes to increase contributions to the Supplemental Benefit Maintenance Account, beginning in fiscal year 2005-06 through 2010-11, to offset reduced contributions in 2003-04. CalSTRS is pursuing litigation to compel payment of the contributions that were not paid in fiscal year 2003-04. If AB 55, a Teachers' Retirement Board-sponsored bill, were enacted, that litigation would no longer have to be pursued.

Signed Into Law

Assembly Bill 1852 (Mullin)
Chapter 935, Statutes of 2004

Affects retired members of the Defined Benefit Program who received a CalSTRS Retirement Incentive Benefit on or after January 1, 2004, and return to work as a retired annuitant in a California public school. The bill eliminates the one-year employment prohibition for those members. They may now return to work within one year of retirement and not forfeit their incentive benefit if they do not work for the school district that provided the incentive. They must continue to wait five years before working in that district. The five-year ban now not only applies to K-12 employers that granted the incentive benefit, but also to all participating community college and county office of education members and employers. The five-year restriction does not apply to those community college and county office of education employees who retired in 2004.

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What Does Your Monthly Benefit Payment Stub Mean?

You're not alone if you've ever looked at your monthly benefit payment stub and wondered how your initial benefit was calculated, how your benefit is adjusted each year, or what some of the terms on your payment stub mean. We receive scores of inquiries every month from retired members with the same questions.

You can get definitions of terms and view your benefit payment information on the *my*CalSTRS Web site. Go to the CalSTRS Web site at www.calstrs.com and log in to or register at *my*CalSTRS. You can view your year-to-date and net payments information on the *Benefit Payments* page.

Below is basic information to help you understand and decipher your payment stub. Each one of you has circumstances that are different, so if you have specific questions, please call or e-mail us.

Service Retirement Initial Benefit

Your monthly benefit stub will not tell you how your initial benefit was calculated. You can learn that by looking at the last award letter you received from CalSTRS. That letter shows the three basic elements used to calculate your unmodified retirement benefit and other factors that applied. The three elements are:

1. *Service Credit: accumulated years of credited service*
   Unused sick leave credit and purchased service credit may have increased your service credit.
2. *Age Factor: a percentage determined by your age when you retire*
   The career factor may have increased your age factor if you retired with at least 30 years of service credit.
3. *Final Compensation: the highest average annual compensation earned*
   Using one-year final compensation may have increased your final compensation.

Other factors that may have affected your initial benefit include choosing an option, which would have reduced your benefit from the highest, or unmodified, amount. Another factor is the longevity bonus, which would have increased your benefit based on whether you had 30, 31 or 32 or more years of service credit.

How Your Monthly Benefit is Increased

The annual benefit adjustment, often referred to as COLA or a cost of living adjustment, is an automatic increase to your benefit. It is added to service retirement, disability, family and survivor benefits.

The annual benefit adjustment is a 2 percent increase of your initial benefit each September. The increase begins the September following the first anniversary of your effective date of retirement. If you retired on June 14, 2003, you would have seen your first benefit adjustment beginning September 1, 2004.

Annual benefit adjustments are not compounded. That is, the adjusted amount will not change. For example, if your initial monthly benefit was $3,000 per month, your first adjustment would be $60 added to your benefit for a total of $3,060. The next adjustment would be another $60 added to your benefit for a total of $3,120.

How Your Monthly Benefit May Be Decreased

Your monthly benefit may be decreased in a number of ways, including the choice of an option when your benefit was first calculated. That decrease will not be specifically identified on your payment stub. However, other deductions that you might see on your payment stub include withholding for taxes, Medicare premium payments, receivables collected from CalSTRS or dues.

See the box for a description of some of the most commonly used terms.

Common Terms Found on the Monthly Pay Stub

Here are some of the most common terms you may see associated with your monthly benefit stub. You may also see other terms on your stub.

Adjusted Gross: Benefit amount paid before deductions.

Adjusted Net: Benefit amount paid after deductions.

Dues: Total amount paid to a teacher-affiliated organization for dues.

Employer Paid Amount: Amount paid by the employer on behalf of the member.

Federal Tax: Amount paid to the Internal Revenue Service.

Gross: Total amount of calendar year-to-date payables.

Insurance: Total of premiums paid to insurance carriers or brokers for member health benefits.

Medicare A or B: Total amount paid to Medicare.

Net: Total amount of calendar year-to-date payables distributed to payee.

Normal Allowance: The initial benefit amount paid.

State Tax: Total amount paid to the state Franchise Tax Board.

Your monthly benefit stub will not tell you how your initial benefit was calculated. You can learn that by looking at the last award letter you received from CalSTRS

Exchange Equity for Cash

A reverse mortgage allows older homeowners to live in and retain title to their homes until they permanently move, sell their homes, die or reach the end of their loan term

Reverse Mortgage Overview

You may have heard a lot about reverse mortgages lately. While CalSTRS does not offer a reverse mortgage at this time, nor does it endorse any lender or type of reverse mortgage, we want to provide you with this brief overview about reverse mortgages.

A reverse mortgage may be the financial solution for homeowners who are at least 62 years old and need money to supplement their income. A reverse mortgage operates very differently from the typical home mortgage. With a regular home loan, the owner makes payments to a lender. With a reverse mortgage, the homeowner receives payments, and the loan does not have to be paid back as long as the homeowner is living in the home. In return, the lender holds some of the home's equity until the loan is due, usually when the owner dies, sells the home, or permanently moves out.

How it Works

With a reverse mortgage, the owner receives payments in exchange for equity, so debt increases while equity decreases. Homeowners can receive reverse mortgage funds in a number of ways, including:

- a lump sum
- monthly payments

- a line of credit
- some combination of the three.

The amount of money available depends on the value of the home, the equity in the home, the homeowner's age and the interest rate of the loan negotiated.

Qualifications

- The homeowner must be at least 62 years old.
- The homeowner must hold the mortgage.
- The homeowner must have already paid off all or most of the home's mortgage.
- The homeowner must own a single-family dwelling of 1 to 4 units.
- The homeowner must live in the home as his or her primary residence.
- The homeowner must be responsible for taxes, insurance, maintenance and other housing expenses.

Advantages

According to the Federal Trade Commission, a reverse mortgage allows older homeowners to live in and retain title to their homes until they permanently move, sell their homes, die, or reach the end of their loan term. There are no income or credit qualifications, and payments generally do not impact Social Security or Medicare benefits. Reverse mortgages pay off existing loans, and owners can use the money for any purpose.

Disadvantages

The FTC warns that reverse mortgages tend to be more costly as the interest is added to the principal loan balance, which increases with each payment to the homeowner because interest continues to accrue until the loan is paid off. The reverse mortgage must be repaid if the borrower is no longer living in the residence. These loans use up all or most of the equity in a home, leaving fewer assets for the homeowner or heirs. Interest is not deductible for income tax purposes until the loan is paid off in part or whole. Depending on the lender, origination fees and closing costs may be charged.

What to Watch Out For

Homeowners should shop around, compare loan terms, and watch for the following:

- annual percentage rates – the yearly cost of credit
- type of interest rate – fixed or adjustable
- points on the loan
- payment terms, including acceleration clauses
- total amount loan cost rates – project annual average cost.

Types of Reverse Mortgages

- Federally-insured Home Equity Conversion Mortgages
- Mortgages offered by state or local government agencies
- Mortgages offered by banks, mortgage companies and other private lenders

For More Information

- **Federal Trade Commission**
  www.ftc.gov or (877) FTC-HELP
- **AARP:** www.aarp.org/revmort
  (888) OUR-AARP (1-888-687-2277)
  Monday – Friday, 7am – 12 midnight ET
- **National Reverse Mortgage Lenders Association**
  www.reversemortgage.org
- **U.S. Department of Housing and Urban Development**
  www.hud.gov/buying/rvrsmort.cfm

CalSTRS Benefits Extended to Registered Domestic Partners

A new law, Assembly Bill 205, that went into effect on January 1, 2005, extends certain CalSTRS benefits to registered domestic partners. The law gives registered domestic partners many of the same rights and responsibilities as spouses under California law – including, but not limited to, laws concerning community property, child custody and support, and access to family court for the dissolution of a partnership.

Who is Eligible?

To be eligible for CalSTRS benefits under the new law, you must be registered as a domestic partner with the state of California. If you are registered in any other state, except Vermont, which has substantially equivalent civil union laws, you'll still need to register with the California Secretary of State's office. We cannot recognize partnerships from other states unless you have documents proving the state where you registered has civil union laws substantially equivalent to California's registered domestic partner law. However, even if you registered in Vermont or a state that you can prove has equivalent laws, you may still want to register in California to prevent any question of your partnership's legal status in California.

How to Register

You may be eligible to register a domestic partnership with the California Secretary of State's office if you and your partner are of the same sex or if you and your partner are opposite sexes and one partner is at least 62 years old. To register, submit a notarized *Declaration of Domestic Partnership* form to the Secretary of State with the required filing fee. The form can be downloaded at www.ss.ca.gov.

New Law Affects CalSTRS Benefits

Under limited circumstances a retired member may add, change, or cancel an option selection if the member registers or terminates a domestic partnership. These limited circumstances, which are described for spouses in the current CalSTRS *Member Handbook*, also apply to registered domestic partners. For specific questions about your situation, you can send a secure message to CalSTRS by clicking on *Contact Us* at www.calstrs.com or call 800-228-5453.

If you terminate or dissolve your partnership, your former registered domestic

For More Information and Forms

- To read the text of Assembly Bill 205, go to www.leginfo.ca.gov/bilinfo.html and enter AB 205 under *Search by: Bill Number.* In the pull down menu by *Session*, make sure 2003-2004 is selected.
- CalSTRS Web site has *FAQ* under *Resources* at www.calstrs.com.
- The Secretary of State's Web site also has *Frequently Asked Questions* at www.ss.ca.gov/dpregistry/dp_faqs.htm.
- Domestic partnership forms are available at the Secretary of State's Web site at www.ss.ca.gov/dpregistry/dp_formsfees.htm.

Additional domestic partnership information including more specific *Frequently Asked Questions* can be located at www.lambdalegal.org.

partner may be eligible for a community property interest in your retirement benefit. CalSTRS will be required to distribute your benefits according to community property laws.

Your New Responsibilities

The new law imposes new responsibilities on registered domestic partners. As a CalSTRS member you need to make sure your registered domestic partner signs any forms where a spouse's signature is currently required.

Challenges *continued from page 1*

ballot initiative process and seek changes to the existing defined benefit plan through the legislative process. However, the Governor has also said that if an agreement cannot be reached, he will "improve the (initiative) language and put our plan on the June 2006 ballot."

Budget Proposal to Change Contributions Remains

The proposed budget cut to CalSTRS remains, which would replace the state's contribution to the Defined Benefit Program with an increased local contribution.

Under the budget proposal, the existing state contribution to the CalSTRS Defined Benefit Program would be eliminated and shifted to the school districts that, through collective bargaining, could shift to individual teachers.

While the budget proposal would affect the Defined Benefit Program, it would not affect the inflation protection program for long-time retirees, the Supplemental Benefits Maintenance Account, or SBMA.

Teachers' Retirement Board Takes Positions on Legislation

The Teachers' Retirement Board voted at its February meeting to oppose the legislative proposals and the budget proposal. They did so, because, among other things, these changes could potentially worsen the funding condition of the Defined Benefit Program, and negatively affect the actuarial balance of funds administered by CalSTRS. The budget proposal would also impose a severe administrative burden on employers, county offices of education and CalSTRS. The board has not considered or taken a position on a proposed ballot initiative.

For More Information

Go to the "Pension Issues Resource Center" at www.calstrs.com for additional information on this topic. The site includes an e-newsletter and information on how to register on *my*CalSTRS, which will allow you to automatically receive future e-newsletters on these pension issues.

New Web Site Helps You Compare 403(b) Plans

403b compare

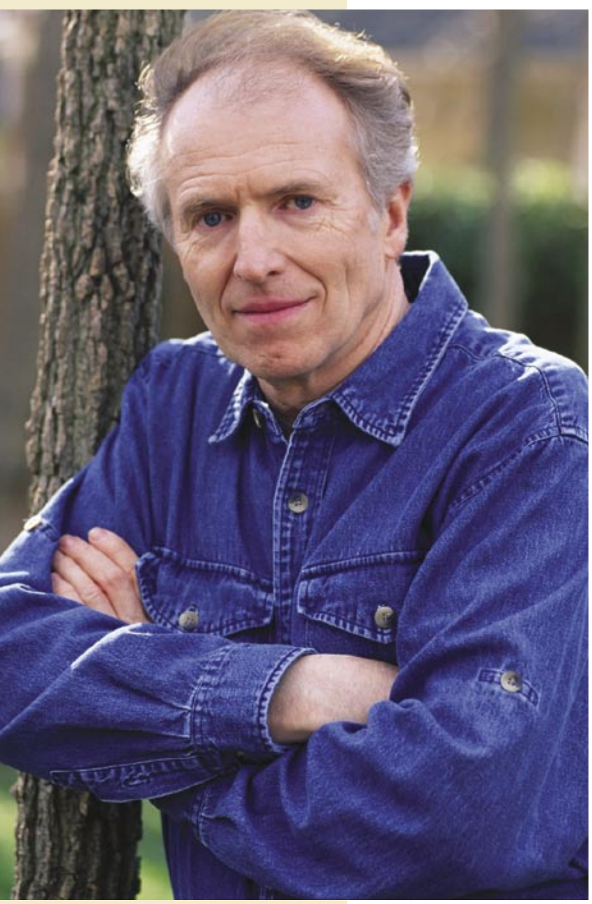
Your California School Employee Retirement Product Information Bank

If you are considering a rollover of your 403(b), there is a Web site available for you to compare administrative costs. The 403bCompare Web site at www.403bcompare.com provides detailed, objective information about 403(b) products.

The Web site, created and managed by CalSTRS, will help you compare the performance, features and fees of registered 403(b) products. The site will show you available investment options, fees involved and product performance, as well as each vendor's experience and services.

In addition, the 403bCompare Web Site has general retirement planning information and educational materials. Visit www.403bcompare.com and see how it can help you make better-informed investment decisions.

Exemptions to Limitations Placed on Post-Retirement Earnings



New Post-Retirement Earnings

The post-retirement earnings limitation for the 2004-2005 school year is $27,720. For the 2005-2006 school year, the limitation is $27,940. The earnings limitation, set by the Teachers' Retirement Board each year, applies to public school employment, including employment in community colleges and county offices of education. The law prohibits a retired member from working in a classified position, with the exception of a teacher's aide in certain circumstances. If you receive a retirement incentive and you return to work with the same employer who granted the retirement incentive within five years, you will forfeit the retirement incentive.

If you earn more than the limit in any year, your retirement benefit will be reduced dollar for dollar by the overage until the excess amount is repaid to CalSTRS.

If you choose to work after retirement, you may qualify for one of the following exemptions. Your district will need to submit the necessary documentation for you.

Exemptions from the Earnings Limit

Provided your employer submits the required documentation, the following post-retirement earnings are exempt from the earnings limit:

- If you return to post-retirement CalSTRS-covered employment without performing CalSTRS-covered employment for at least 12 consecutive months after retirement, you are automatically exempt from the earnings limit (this exemption ends on January 1, 2008, and does not require employer documentation).
- If you retired on or before January 1, 2004, and are providing direct remedial education in a classroom for grades 2 through 12.
- If you retired on or before January 1, 2004, and return to:
  - Provide direct instruction in a K-12 classroom.
  - Support or assess new teachers in Beginning Teaching Support and Assessment Program.
  - Provide support to individuals completing student teaching assignments, in Pre-Internship Teaching Program, alternate certification programs or in School Paraprofessional Teacher Training Program.
  - Provide direct instruction in Special Education and English language learner programs.
- If you return to work as a trustee or administrator for a financially insolvent employer.
- If you return to work in an emergency situation in an administrative position requiring highly specialized skills (this exemption is for one-half or the full-time salary).

For More Information

- Visit the CalSTRS Web site at www.calstrs.com and click on *Contact Us* with your question.
- Refer to the CalSTRS *Member Handbook* available on the CalSTRS Web site at www.calstrs.com or by calling 800-228-5453.

New Legislation

continued from page 3

Assembly Bill 2554 (Pavley)
Chapter 934, Statutes of 2004

Affects retired members who return to perform direct classroom instruction and certain other instruction as a retired annuitant. This law extends certain exemptions to the post-retirement earnings limit to January 1, 2008. These exemptions allow retired members to return to part-time or full-time teaching without restrictions in their income or reductions to their retirement benefits. The bill extends to January 1, 2004, the date by which a member of the Defined Benefit Program must have been retired in order to receive an exemption for remedial, direct classroom instruction, special education or English language learner programs to pupils enrolled in grades K-12.

Vetoed Legislation

Senate Bill 1137 (Burton)

Would have required the retired member seat on the Teachers' Retirement Board be elected by retired members of the Defined Benefit Program, those receiving a disability allowance, and participants of the Cash Balance Benefit Program receiving annuity payments. In his veto letter, Governor Schwarzenegger stated that "this bill weakens the Administration's ability to ensure the continued viability of the (Cal)STRS fund."

CALSTRS

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Call	800-228-5453
	TTY 916-229-3541
	866-384-4457 Home Loan Program
	888-394-2060 Registration Workshops
	800-699-4032 Voluntary Investment Program
Visit	Member Services 7919 Folsom Blvd. Sacramento, CA 95826
Fax	916-229-3879

2005 Pay Dates to Keep All Year

Here are the CalSTRS pay dates for the remainder of 2005. These are the dates that your benefit check should be available electronically at your bank or in your mailbox.

What to do if Your Check is Late

If your check is mailed to you and you have not received it by the 5th of the month, please call CalSTRS. In the event the electronic payment does not reach your bank, please verify with the bank that your payment has not been received before you contact CalSTRS. Normally, CalSTRS is notified by the bank in advance if a direct deposit is rejected. In those cases, CalSTRS mails a paper check to you shortly after payday.

Put Direct Deposit to Work for You

With Direct Deposit, no matter where you are, your money is right where you want it – in the bank. It is the safest, quickest and most reliable way to get your money into your account each month. With direct deposit, there's no chance your check will be lost in the mail, stolen or forged. Most importantly, although this rarely happens, if your monthly payment fails to transfer, CalSTRS can replace your payment in a fraction of the time it takes to replace a paper check.

If you'd like to have your check electronically deposited in your bank account, please fill out the *Direct Deposit Authorization* form. Go to the CalSTRS Web site at www.calstrs.com, then click on *Forms and Publications,* and then *Forms* or call us at 800-228-5453 and choose option 3.

Clip and Save CalSTRS 2005 Pay Dates

June 1

July 1

August 1

September 1

September 30

November 1

December 1

January 3 (2006)