



CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

**Promises Made
Promises Kept**



CalSTRS: More than Meets the Eye

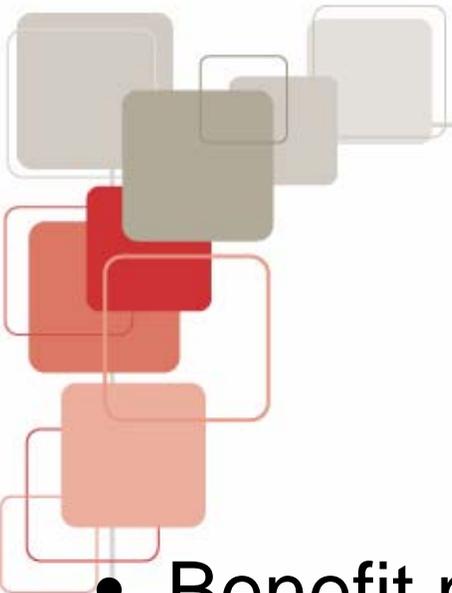
- Steward of the retirement security for 800,000 public educators and their families
- Largest public teacher pension fund in U.S.
 - Second-largest public pension fund in U.S.
 - Ninth largest in world

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Benefits Reward Long Service

- Defined benefit formula rewards service longevity
 - Average retiree has nearly 30 years of service
- Supplemental benefit similar to defined contribution plans



Retiree Benefit Value

- Benefit maintained to at least 80 percent of original purchasing power
- Average benefit to new retirees replaces 63 percent of income
 - At least 80 percent replacement needed if employer provides retiree health care benefit

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What Makes CalSTRS Different

- Members receive no Social Security benefits for teaching
- Legislature determines pension contribution rates
- Local employer determines health benefit support

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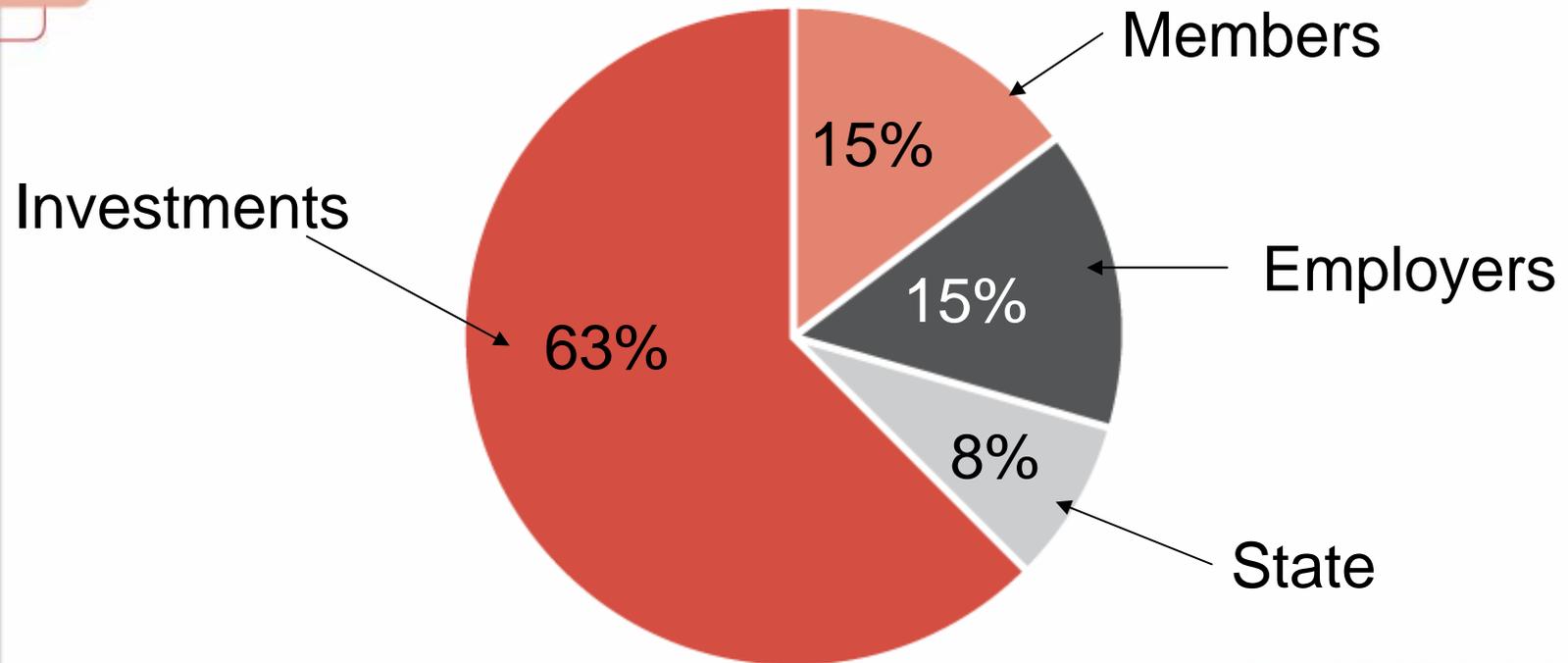
CalSTRS Benefits Have Statewide Economic Impact

- For California, \$6 billion in annual benefit payments result in
 - \$9.2 billion in total economic impact
 - Over 60,000 jobs and over \$600 million in government revenue
 - High benefit to rural mountain counties relative to their overall economies
 - \$6.71 to state economy for each dollar from government

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Financing CalSTRS Benefits

1984-85 to 2005-06



Data Source: Comprehensive Annual Financial Reports, CalSTRS

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Contributions from State, Employers and Members

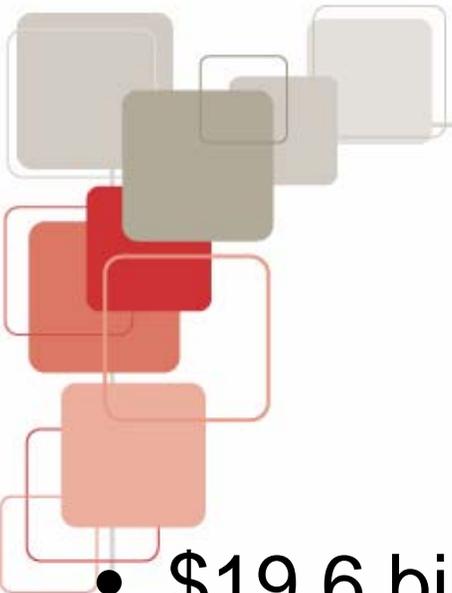
- State contributions
 - Declined from 4.3 percent in 1998 to current 2.017 percent
 - Saved state over \$3 billion to date
- Employer contributions
 - 8.25 percent, unchanged since 1990

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Contributions from State, Employers and Members

- Member contributions
 - 8 percent, unchanged since 1972
- 2.5 percent additional state contribution to maintain retiree purchasing power



2006 Valuation Improved from 2005

- \$19.6 billion unfunded obligation as of June 30, 2006
 - 87 percent funded
 - Expected to be \$22.1 billion in the 2005 valuation
 - Although contributions exceed normal cost, surplus cannot retire shortfall over any time frame

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Lower Returns and Higher Salaries Caused Shortfall

- For three straight years, investment returns were less than the expected 8 percent
 - 2000-01 - 9.12 percent
 - 2001-02 - 5.95 percent
 - 2002-03 3.41 percent



Lower Returns and Higher Salaries Caused Shortfall

- Higher than expected teacher salaries increased actuarial obligation by \$5.3 billion
- Benefit enhancements in late 1990s did not cause the shortfall



Normal Circumstances = No Shortfall

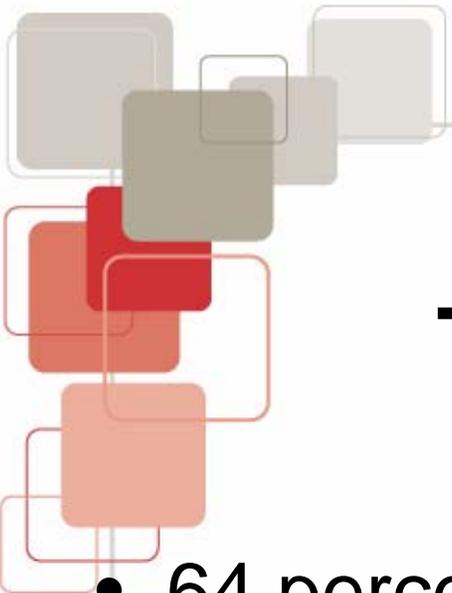
- CalSTRS would still have 100 percent funding with different 2000 – 2003 events:
 - Annual market return of about 6.7 percent
 - Annual market return of about 2.9 percent and expected salary increases

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Normal Circumstances = Ability to Amortize Shortfall

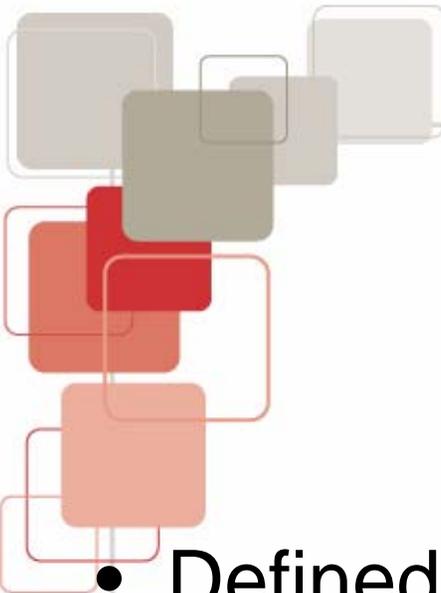
- Unfunded actuarial obligation could have been amortized over 30 years with different 2000 – 2003 events:
 - Annual market return of about 5.4 percent
 - Annual market return of about 1.5 percent and expected teacher salary increases



Typical CalSTRS Retiree

- 64 percent women, average age 72
- Retired for 11 years
- Median monthly benefit \$2,400
- Almost 60 percent unmarried
- Lives 27 years after retirement

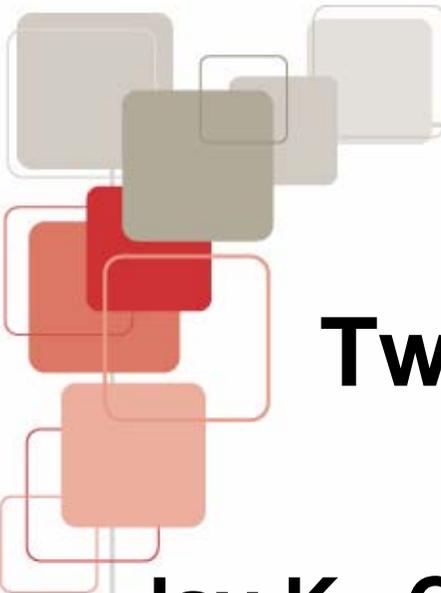
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CalSTRS Retirees Have Fewer Safety Nets

- Defined Benefit primary source of retirement security
- Unlike other public employees
 - Lower, if any Social Security benefits
 - Less likelihood of employer-paid health care after age 65

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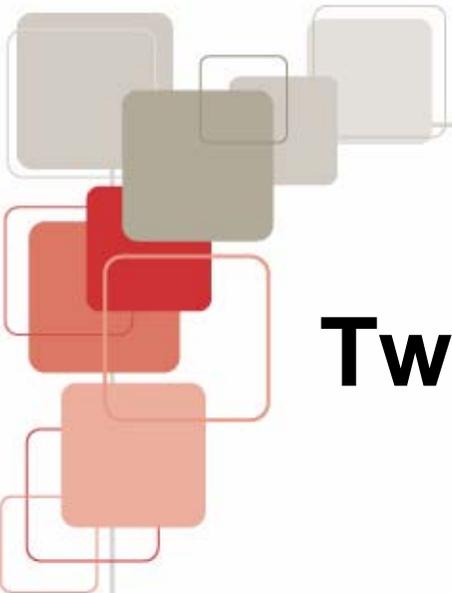
A Closer Look Two CalSTRS Retirees



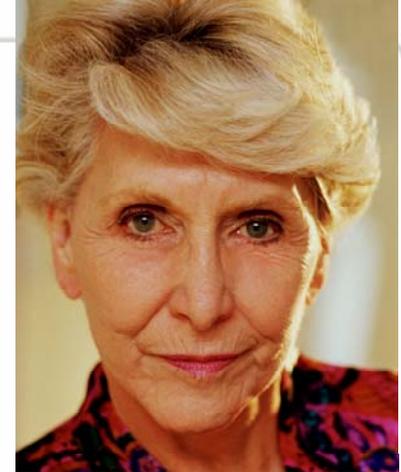
Jay K., Carlsbad, CA

- 39 years teaching, mostly high school
- Working two jobs since “retiring” in 2000
- Buys insurance for hospitalized adult son through former employer

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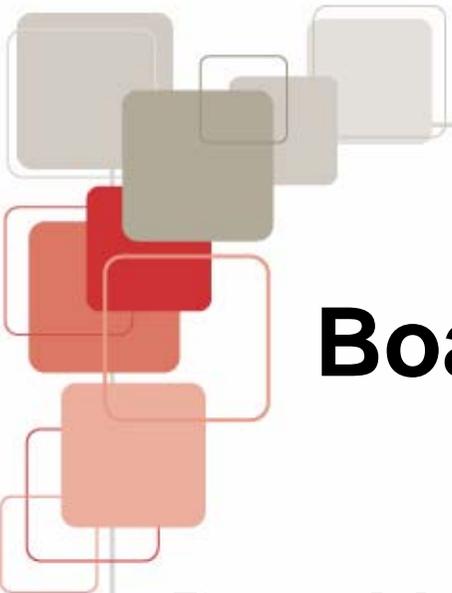
A Closer Look Two CalSTRS Retirees



Anne H., Anderson, CA

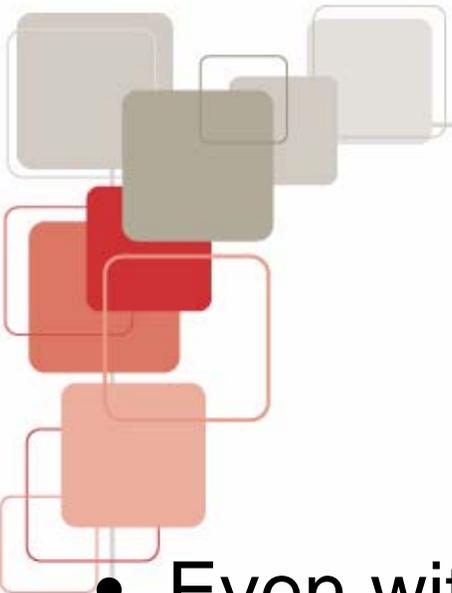
- 35 years as an elementary school teacher
- \$2,500 monthly CalSTRS benefit
- Pays for medical insurance from former employer

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Board Actions on Health Care

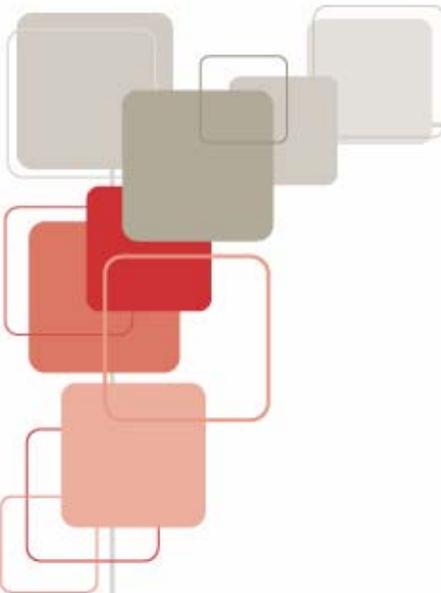
- Pays Medicare hospital premiums for retired members who don't qualify on own
- Established task force to identify how CalSTRS can assist members and employers with retiree health care



Future Funding Issues

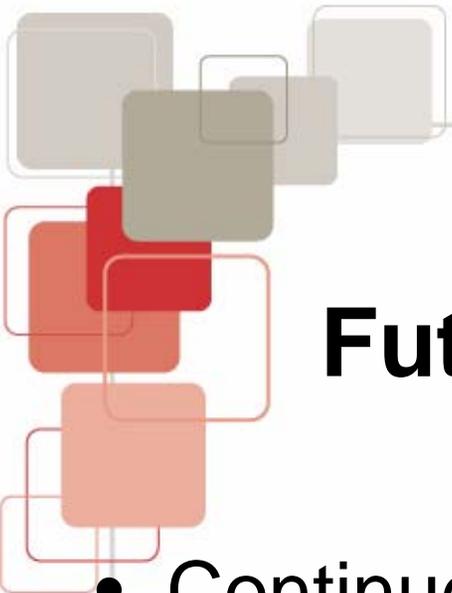
- Even with substantial investment returns, assets alone cannot eliminate shortfall
- Board principles for future pension funding
 - No reductions in benefits
 - Potential for funding retiree health care
 - Limited flexibility for Board to set contributions

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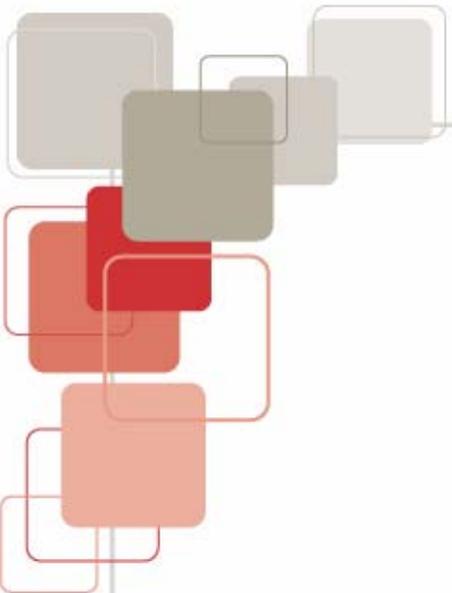
Future Funding Issues

- Limited Board authority to set contributions would eliminate shortfall and prevent wild employer cost swings



Future Health Care Strategies

- Continue well-funded Medicare Premium Payment Program
 - Nearly \$1.7 billion in assets vs. projected future liabilities under \$1 billion
- Act on recommendations from Public Education Health Benefits Task Force



CalSTRS: Promises Made, Promises Kept

- Fair member benefit
- Well-managed fund
- Plan to meet projected shortfall

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California State Teachers' Retirement System

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HOW WILL YOU SPEND YOUR FUTURE?

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