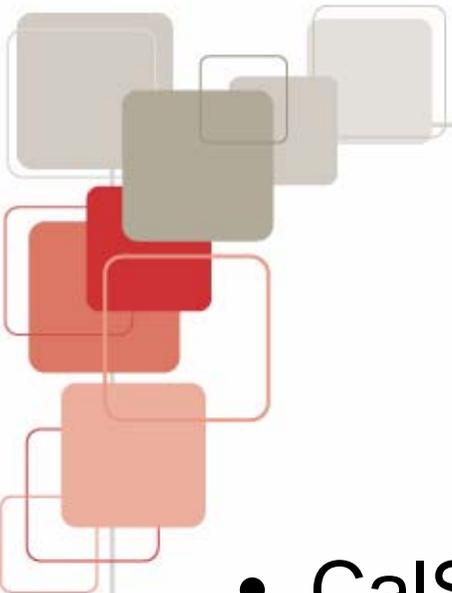




CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

Health Care and California's Educators



What is CalSTRS?

- CalSTRS administers retirement benefits for almost 800,000 active and retired educators and their beneficiaries
 - Employed in pre-kindergarten through community college

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Who is a CalSTRS Retiree?

- 64 percent are women
- Her average age is now 72 years old
- She has been retired for 11 years
- Almost 60 percent are unmarried

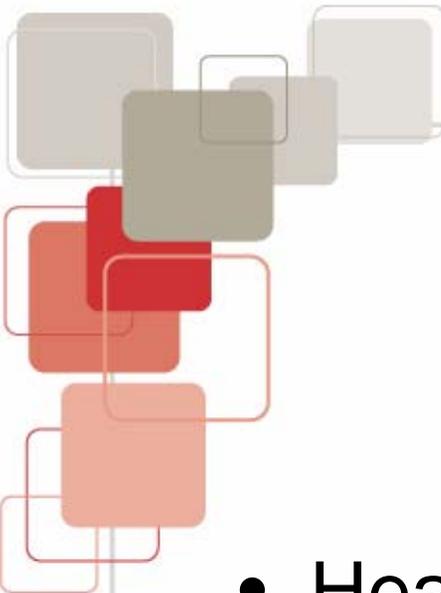
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Who is a CalSTRS Retiree?

- Average retiring member worked for almost 29 years and retires at age 61
- Expected to live 27 years after retirement
- Average benefit replaces 63 percent of salary
- No Social Security benefits earned from CalSTRS service
 - Social Security benefits often reduced for CalSTRS members

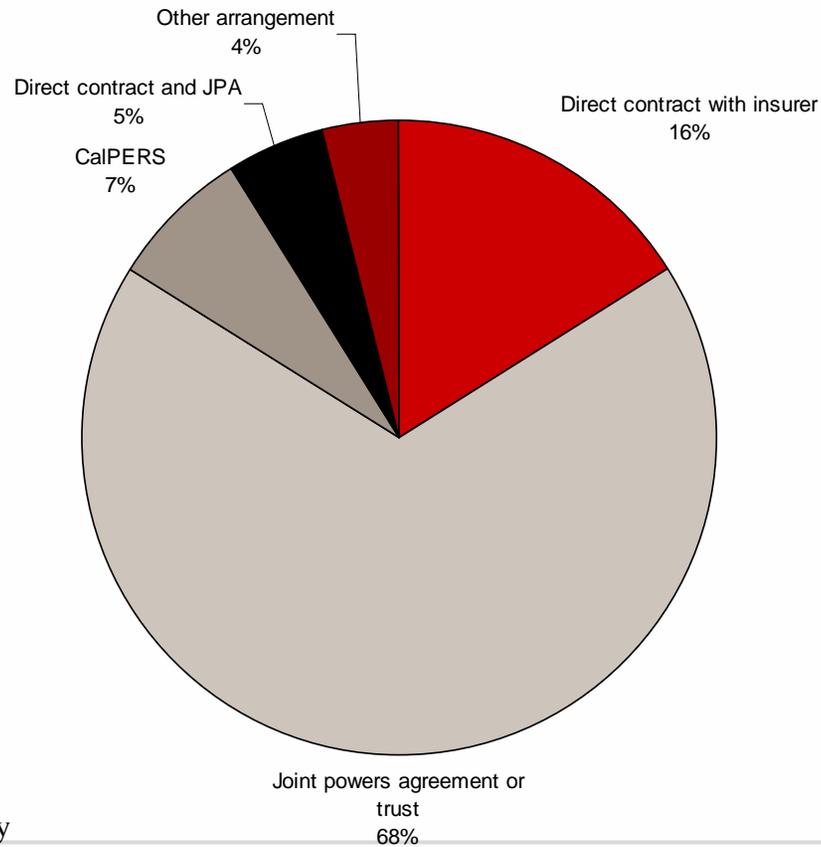
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Health Care and Public Educators

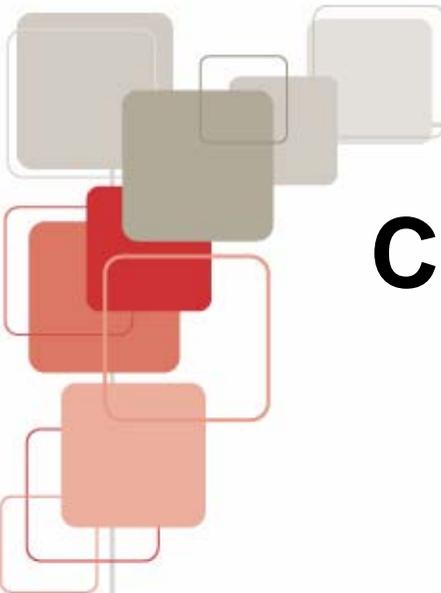
- Health care is negotiated at local level by 1,400 school employers and their employees
- Accessibility and affordability of health care varies substantially

Most Health Care Provided Through Pools



Source: 2006 CalSTRS Survey

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Current Board Activities on Health Care

- Pay Medicare Part A (Hospital) premiums for eligible members who do not receive premium-free coverage
- Conduct survey on the state of health care in public schools every three years
- Conducting study with CalPERS on feasibility of statewide health care pool for all public school employees, including retired employees
- Convened task force of school and health care stakeholders to determine how to improve affordability for health care



Medicare Part A Premium Payment

- Because CalSTRS members not covered by Social Security, many were not covered by Medicare
- CalSTRS pays Part A premium for those who didn't earn it from other employment or through spouse
 - Must retire prior to July 1, 2012 and meet other eligibility rules
 - About 6,200 members currently covered

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Medicare Part A Premium Payment

- Funded from “set aside” of \$1.257 billion that otherwise would have funded pension
- Set aside is well in excess of currently estimated cost of CalSTRS Medicare program
 - Up to \$700 million in total costs under current eligibility rules
 - Up to \$840 million if eligibility extended to all future retirements

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Medicare Part A Premium Payment

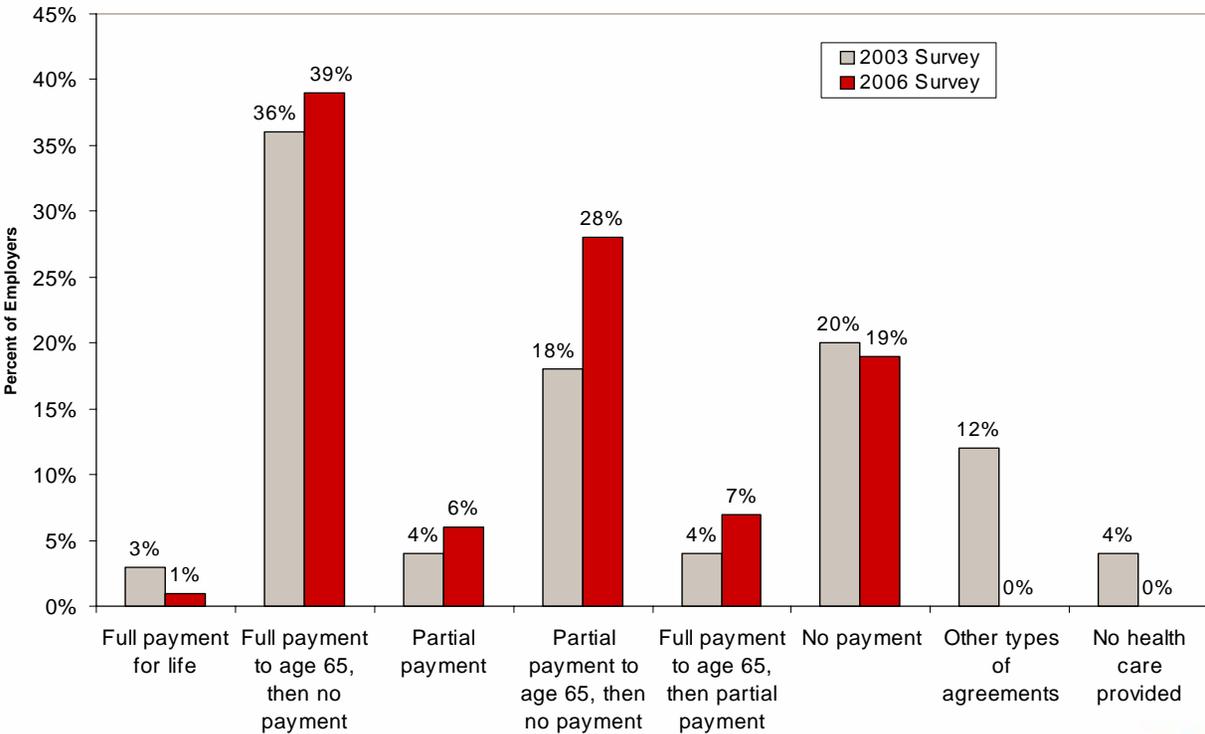
- For GASB purposes, appears to be highly unfunded plan
- By setting aside resources in developing all valuations, however, funding is well over 100 percent



2006 Health Care Survey

- Survey results indicate that financial assistance to retiree health care from employers is declining for educators, particularly after age 65

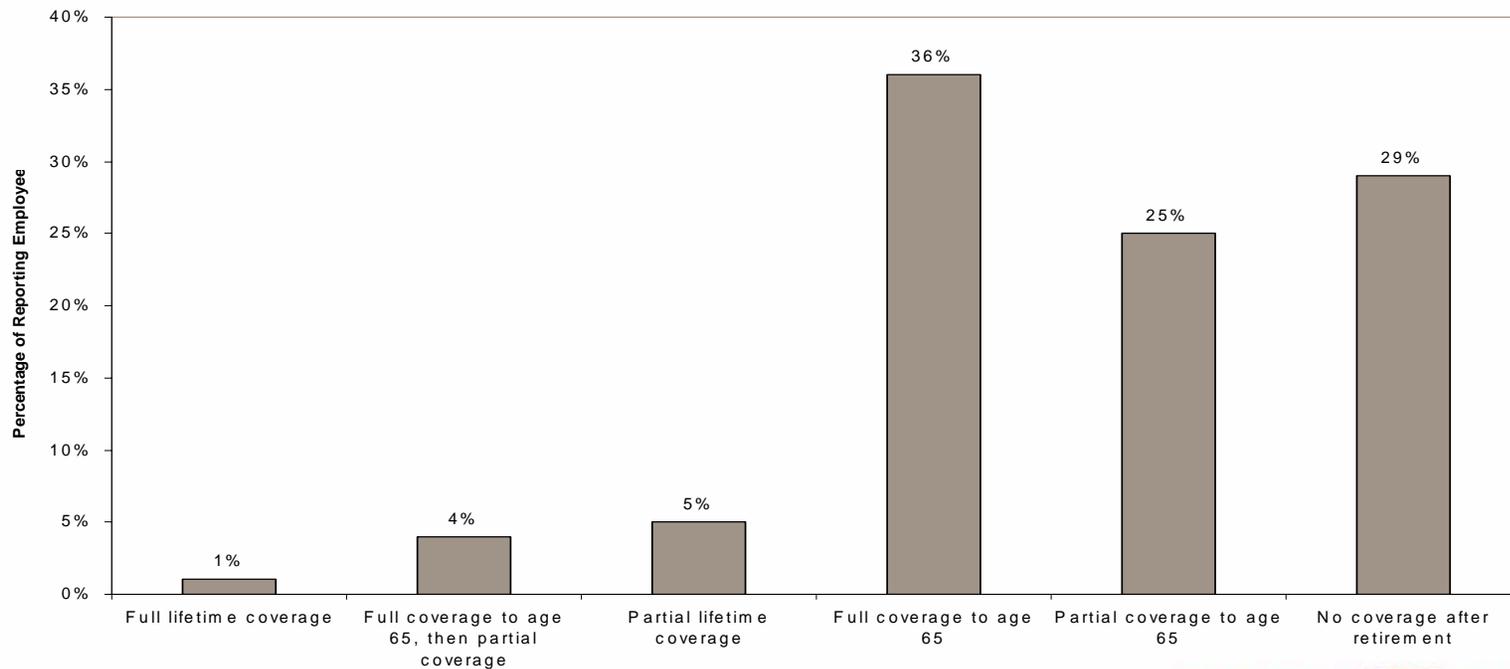
Employers Increasingly More Likely to Reduce or Eliminate Support After Age 65



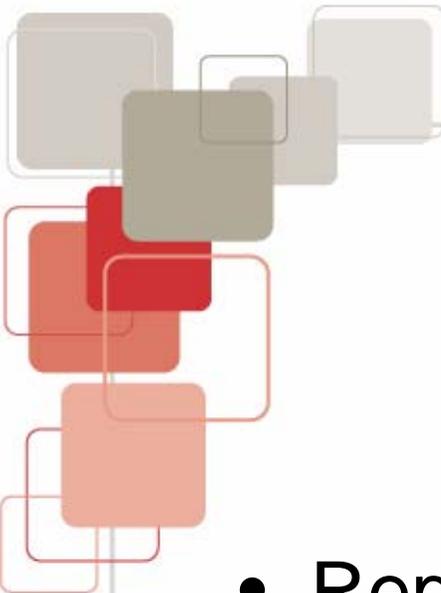
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Fewer New Employees Will Receive Support for Health Benefits After Age 65

Post-retirement Health Benefits For New Employees Supported by Employer



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Health Care Task Force

- Representatives of certificated and classified employees, employers, health insurers
- Focusing on opportunities for CalSTRS to make health care more affordable for retirees

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Four Proposals Evaluated

- Health Care Security Accounts
- Medicare Part B Premium Payment
- Monthly Health Allowance
- Medical Purchasing Power Allowances



Health Care Security Accounts

- Employer makes contribution to individual employee accounts
- Accounts earn guaranteed minimum interest
- Available at retirement to pay qualified health care costs

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Health Care Security Accounts

		6% Medical Inflation
		7% Interest
Age 25	Required contribution rate	6.10%
	Account value at age 65	\$975,075
Age 30	Required contribution rate	7.39%
	Account value at age 65	\$731,393
Age 35	Required contribution rate	9.37%
	Account value at age 65	\$546,393
Age 45	Required contribution rate*	17.26%
	Account value at age 65	\$305,117

* Note: At 7.5% Inflation and 8% Interest, requires 21.47% required contribution.

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Medicare Part B Premium Payment

- CalSTRS pays percentage of basic Part B (doctor visits) premium
 - Currently \$93.50 per month
- Percentage increases with years of service



Medicare Part B Premium Payment

Plan Design	Required Increased Contribution
All members with 20+ years	1.047%
All members with 10+ years	1.161%
Currently retired members with 20+ years	0.227%
Currently retired members with 10+ years	0.252%

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Monthly Health Allowance

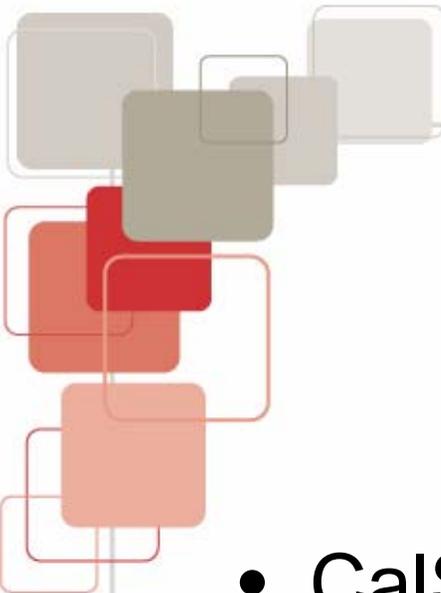
- CalSTRS pays percentage of specified dollar amount exclusively for health care
- Percentage increases with years of service



Monthly Health Allowances

Plan Design	Required Increased Contribution
All members with 20+ years	3.364%
All members with 10+ years	3.725%
Currently retired members with 20+ years	0.729%
Currently retired members with 10+ years	0.809%
Payments begin at age 60 with 20+ years	4.814%
Payments begin at age 60 (current retirees only)	0.978%

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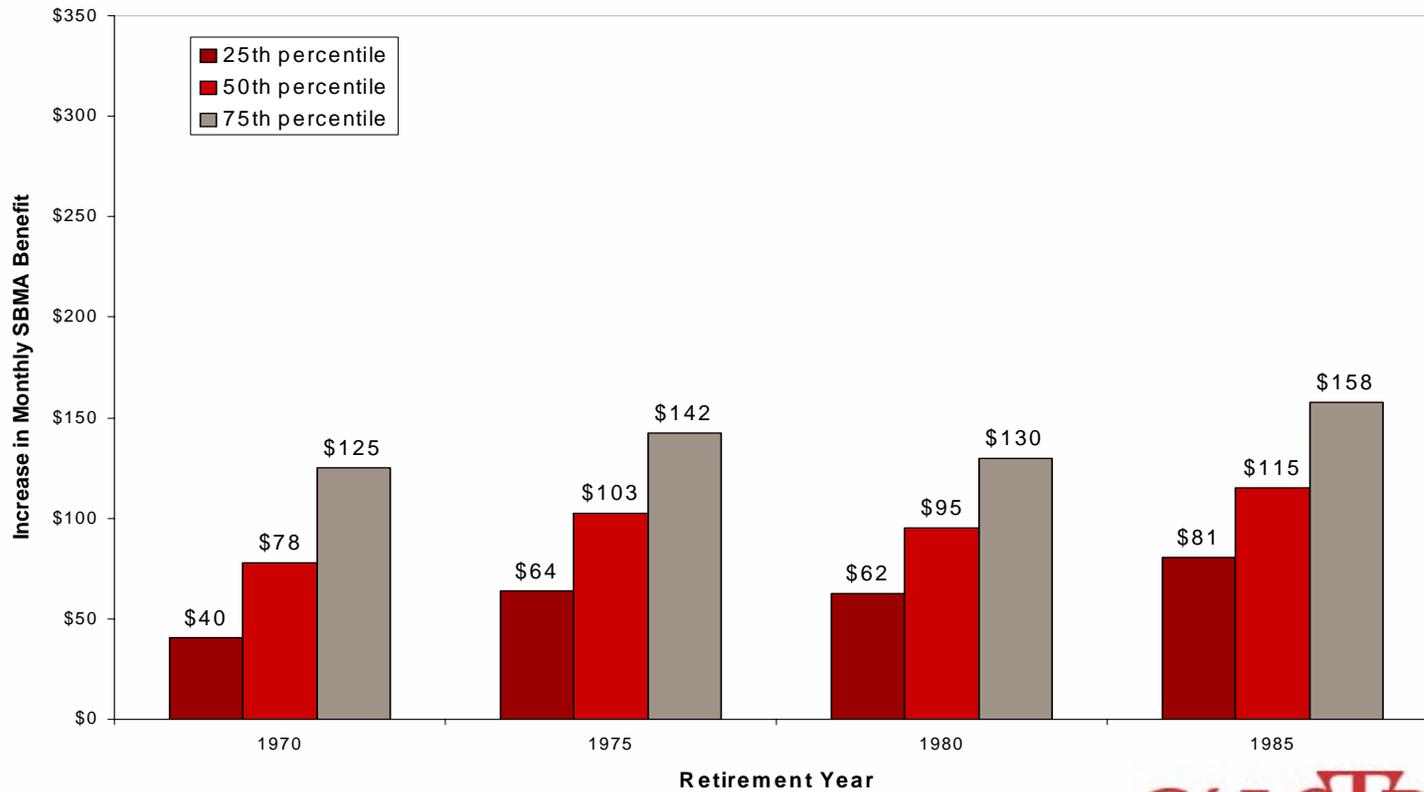


Medical Purchasing Power Allowances

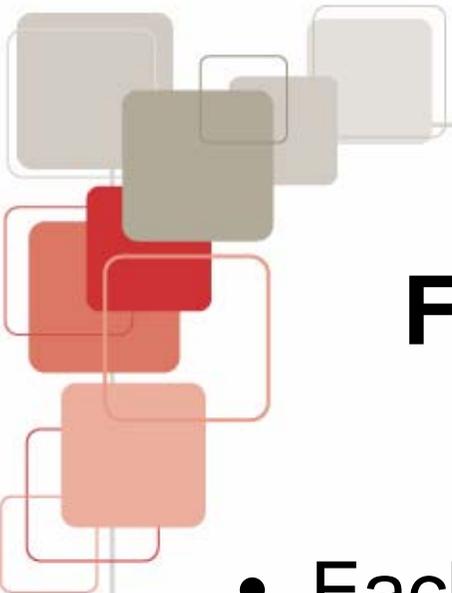
- CalSTRS currently pays supplemental benefit when purchasing power of current monthly benefit falls below 80 percent of value of original allowance
- Purchasing power benefit would be increased to 85 percent, with increase used exclusively for health care

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Impact of 85 Percent Purchasing Power



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Four Proposals Evaluated

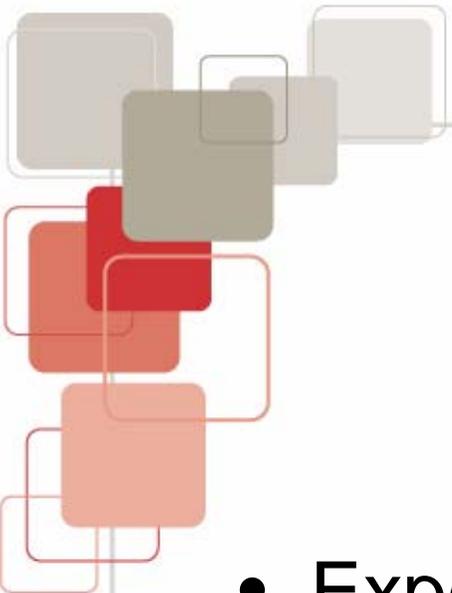
- Each would provide financial assistance for tax-free health benefits in retirement
- Benefit would be pre-funded to provide specific dollar coverage



Four Proposals Evaluated

- Health care security accounts more appropriate for paying retiree health care costs of current and future active employees
- CalSTRS now detailing impacts of monthly health allowance/Medicare Part B premium payment

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Health Care Task Force

- Expect to report recommendations to Board in second half of 2007

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*