

CALSTRS



**Sustaining
Retirement Security
100 Years of Service**

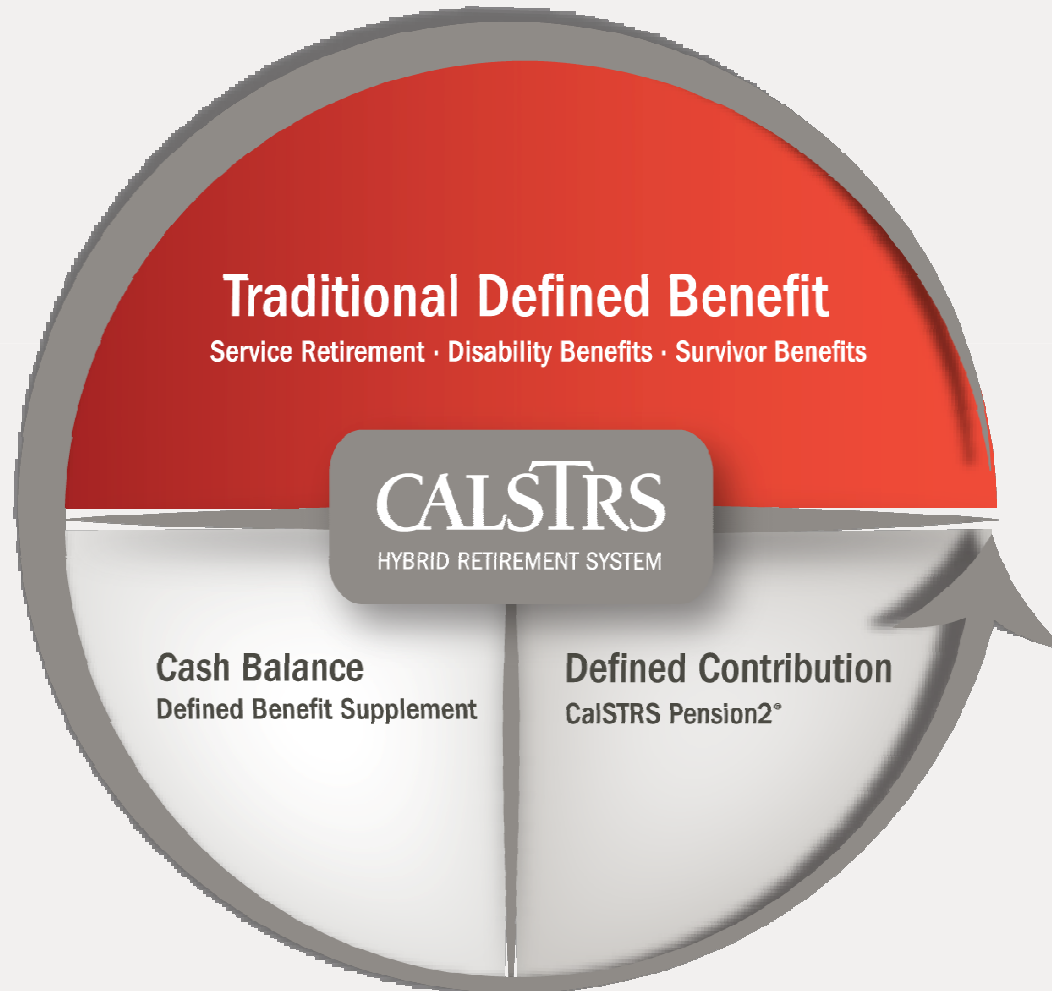
C A L I F O R N I A S T A T E T E A C H E R S ' R E T I R E M E N T S Y S T E M

CalSTRS Celebrates 100 Years

- 1913 Public School Teachers' Retirement Salary Fund founded
- Special events planned:
 - Redesigned website launched in January.
 - Feature articles.
 - Video history with personal photos from members' archives detailing their favorite teaching experiences.
 - Special reception to honor members who are 100 years and older.



Comprehensive Hybrid System



Pension Legislation *Impact & Implementation*

- Governor Brown approved Assembly Bill 340, the Public Employees' Pension Reform Act of 2013 (PEPRA.)
- Law took effect Jan. 1, 2013.
- The new law affects both current and new CalSTRS members.
- CalSTRS has two benefit formulas.

Postretirement Employment

- ***2% at 60 and 2% at 62 members.***
- AB 340 expands \$0 earnings limit for the first 180 days after most recent retirement to all members, ***regardless of age.***
- Applies to members at or above normal retirement age if their most recent retirement date is on or after 1/1/13.

Postretirement Employment

- **2% at 60 and 2% at 62 members.**
- Narrow exemption **from \$0 earnings limit** granted for critical vacancies.
 - Must be at or above normal retirement age.
 - Governing body approval through resolution at public meeting.
 - No retirement incentive or financial inducement to retire **from any public employer.**
 - Termination of services not a factor in hiring justification.

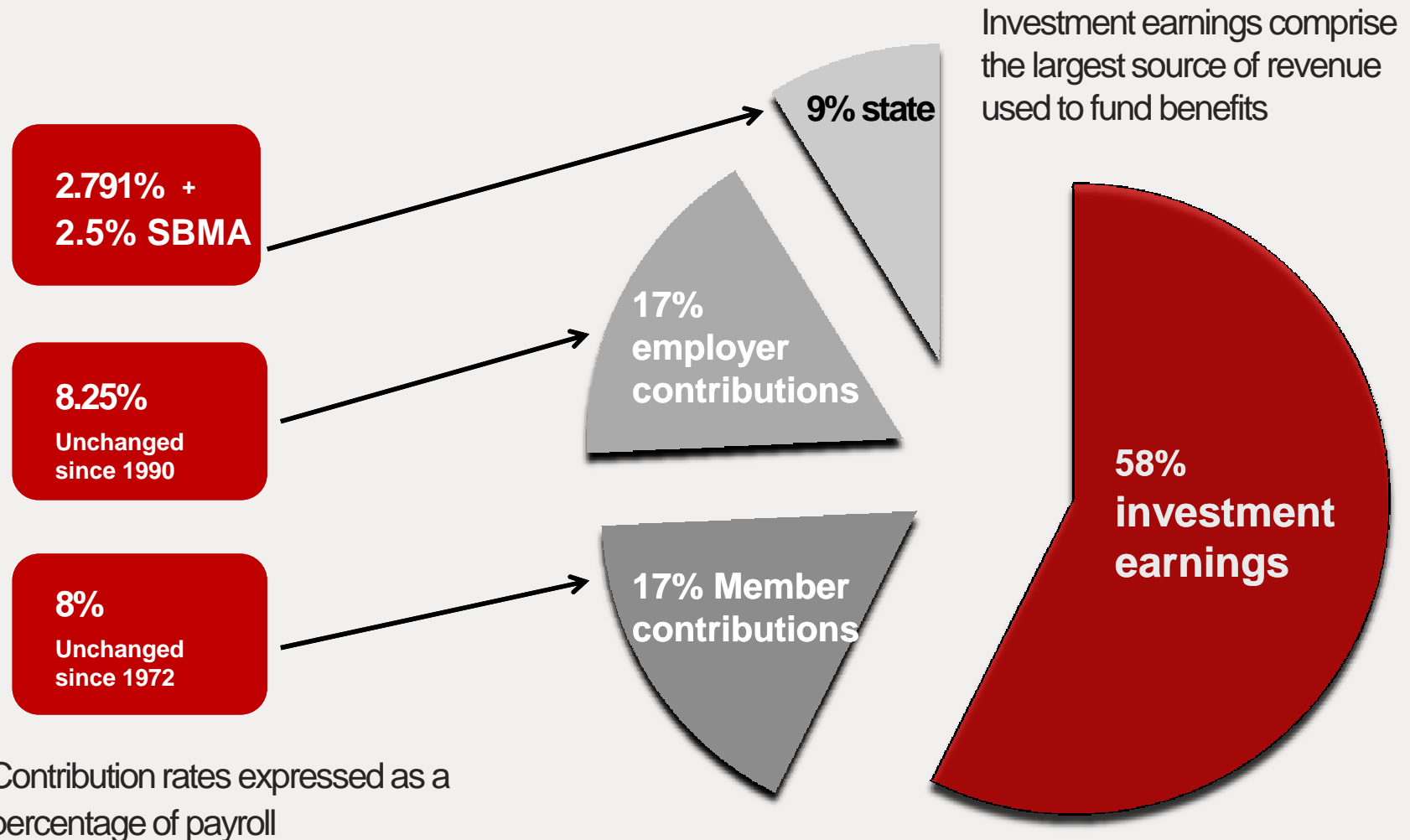
Postretirement Employment

- ***2% at 60 and 2% at 62 members.***
- AB 178 increased postretirement earnings limit.
 - Earnings limit for 2012-13 is \$40,011 for 2013-14 is \$39,903.
 - Based on 50% of average final compensation vs. 50% of average active member's salary.
- Some third-party contract employees excluded.

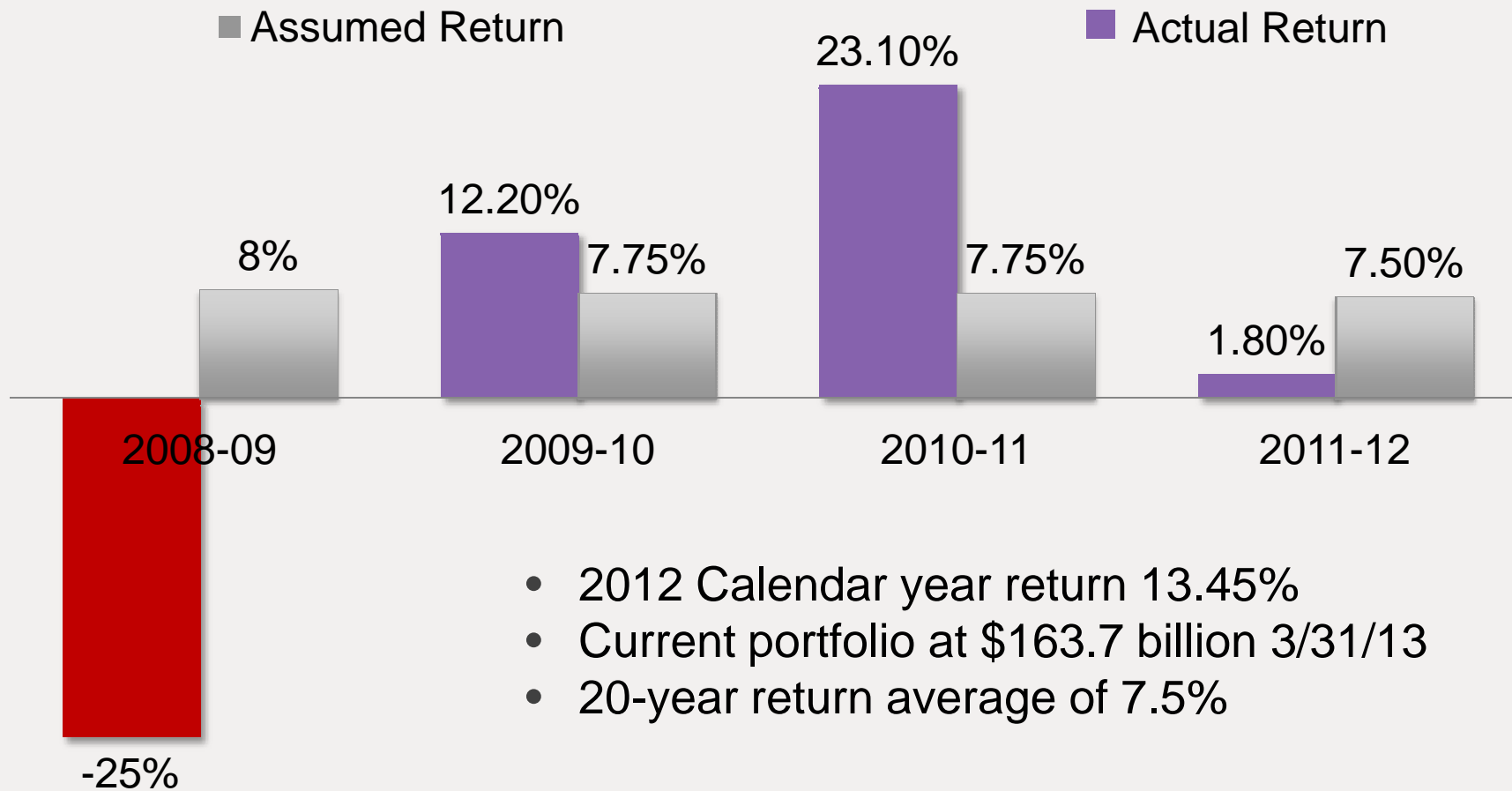
Post Retirement Employment

- ***2% at 60 and 2% at 62 members.***
- Narrow exemption in AB 178 extended through 2013-14.
 - Applies to appointments with financially or academically distressed schools.
 - Adds restrictions based on the receipt of retirement incentives.

Benefit Funding Sources



Portfolio Performance & Market Volatility



Funding Status – *Continued Decline*

2000 | **110** percent funded

2009 | **78** percent funded

2010 | **71** percent funded

2011 | **69** percent funded

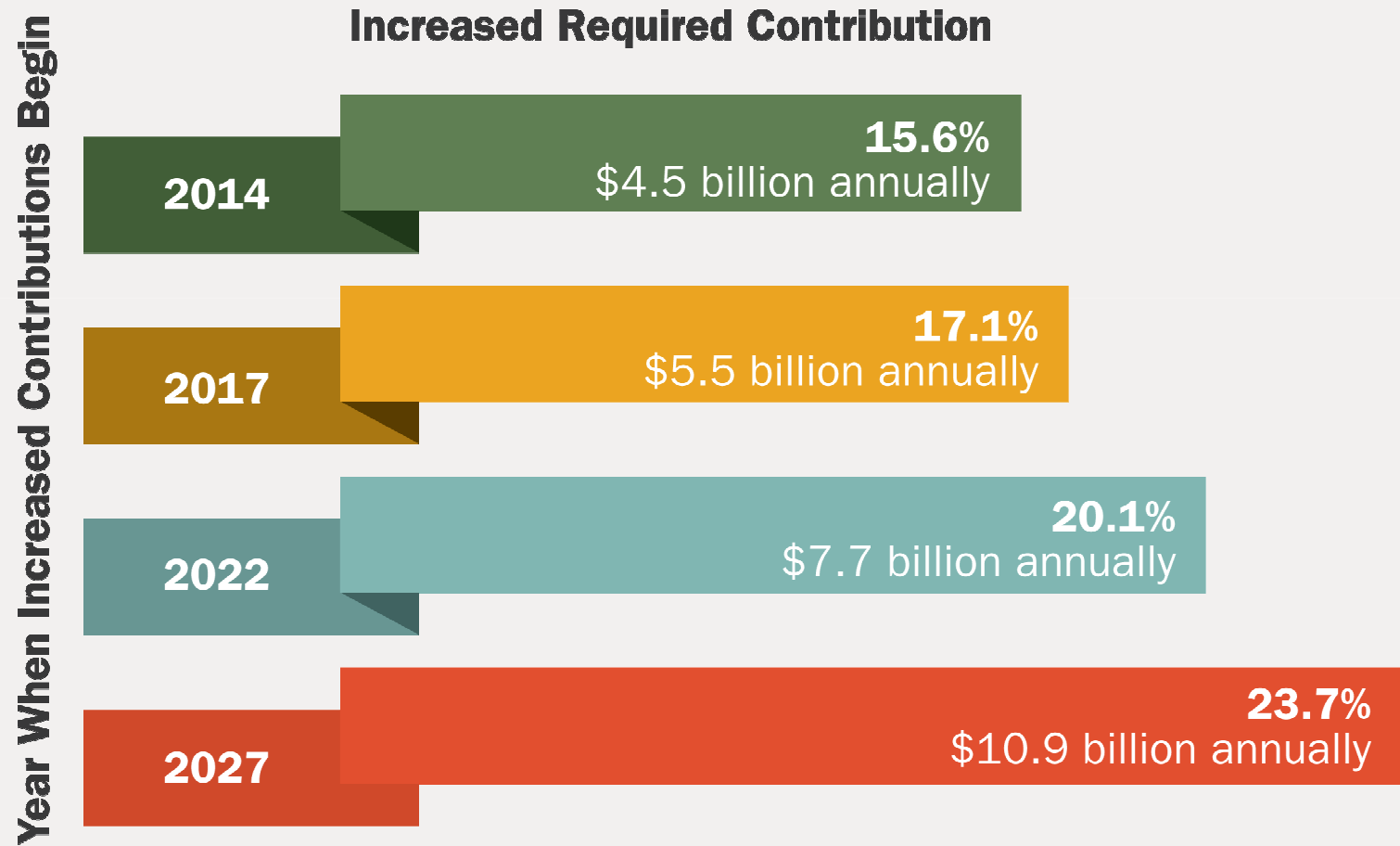
2012 | **67** percent funded

Measures long-term income and liabilities

Unfunded Liability Shows Gap

- Benefits projected from prior service exceed estimated assets by \$70 billion, as of 6/30/12.
- Program projected to deplete assets in 35 years if no changes.
- State of California is plan sponsor & guarantor of benefit payments.
- State must ensure benefits are paid.

Cost of Waiting



Senate Concurrent Resolution 105

- Establishes framework for development of a funding plan.
- Encourages CalSTRS to work with stakeholders.
- Submitted options to Legislature on Feb. 14, 2013.
- Legislature intends to address funding in 2013-14 session.

SCR 105 Report on System Funding

In developing the options for inclusion in this report, CalSTRS identified six primary issues that the Legislature and the Governor need to consider in developing a funding program. The primary issues are:

1. What is the financial objective?
2. Over what period of time should that objective be achieved?
3. When should contributions rates begin to increase?
4. How quickly should those contribution rates be increased?
5. How should those contribution rate increases be allocated among current and future members, employers and the state?
6. When should the Legislature and the Governor re-evaluate the DB Program funding changes being made?

Vested Rights = Contractual Rights

- Education Code sets member contribution rate of 8%.
 - Member's contribution rate is component of a vested right.
- Core benefits (retirement, disability & survivor benefits) are a vested right – ***a contract.***
- Core benefits are constitutionally guaranteed.

Annual Benefit Adjustment Not Covered

- 2 percent of initial pension amount added annually to benefit payment.
- Law permits reduction or elimination of annual increase in response to economic conditions.
- No suggestion made to reduce or eliminate annual benefit adjustment.
- Guaranteeing adjustment example of comparable offsetting advantage appears in SCR 105 report.

GASB Implications

- Governmental Accounting Standards Board may require school employers to report their proportionate shares of CalSTRS' unfunded liability on their balance sheets.
- If so, “Net Pension Liability” reported on school employer balance sheets.
- If a funding solution is adopted in the 2013-14 session per SCR 105 liabilities may be substantially lower.

100 More Years to Come

- CalSTRS core benefits are secure, guaranteed and appropriate for years of service.
- The long-term financial health of the plan is the issue.
- Increases will likely be incremental and may not take effect for a couple of years.
- The earlier a plan is enacted and implemented, the less expensive it will be.

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