

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

Options to Address Funding Status for the Defined Benefit Program

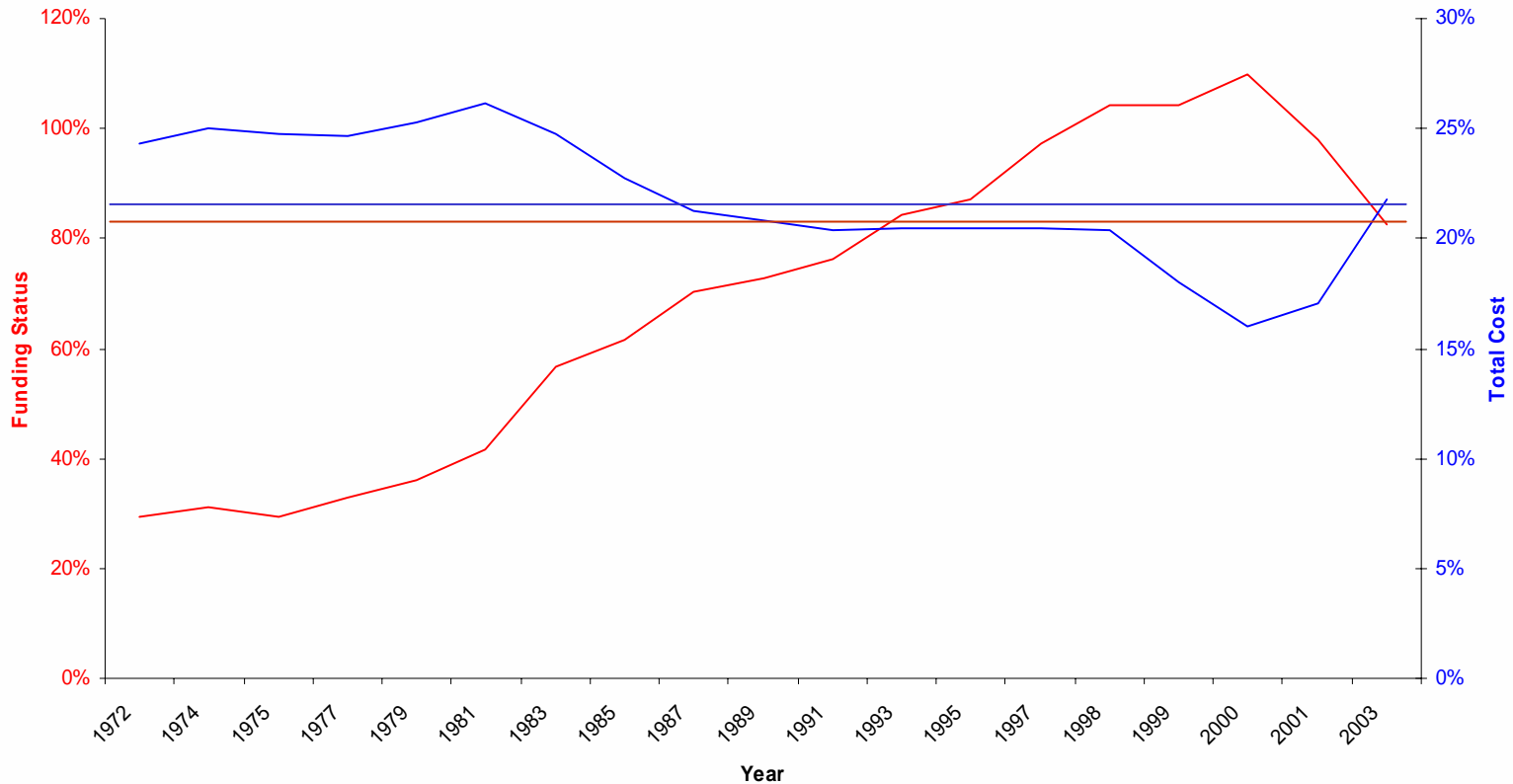
The June 30, 2003 DB Program Valuation

- Unfunded actuarial obligation of \$23.1 billion
 - Equivalent to 4.984 percent of present value of creditable compensation over next 30 years
- Incoming contributions over next 30 years exceed normal cost by 0.546 percent of pay
- Difference is equal to 4.438 percent of pay

The June 30, 2003 DB Program Valuation

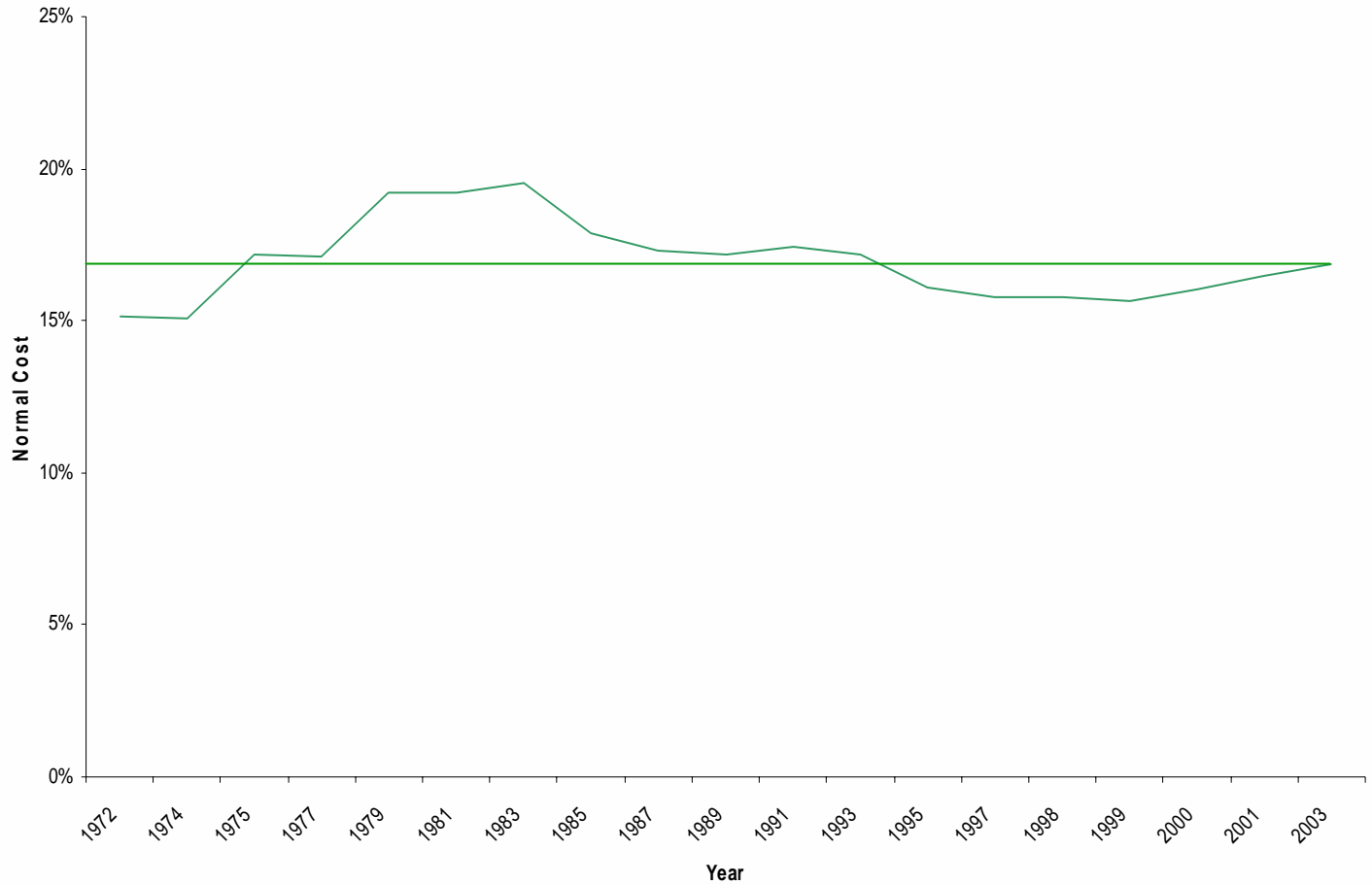
- Sufficient resources to fund existing benefits for many years
- Unfunded actuarial obligation never amortized
- Unfunded actuarial obligation would increase to \$207 billion by 2033
 - Earlier deficiency resolved, the lower the cost of the solution

Change in Funding Status and Total Costs



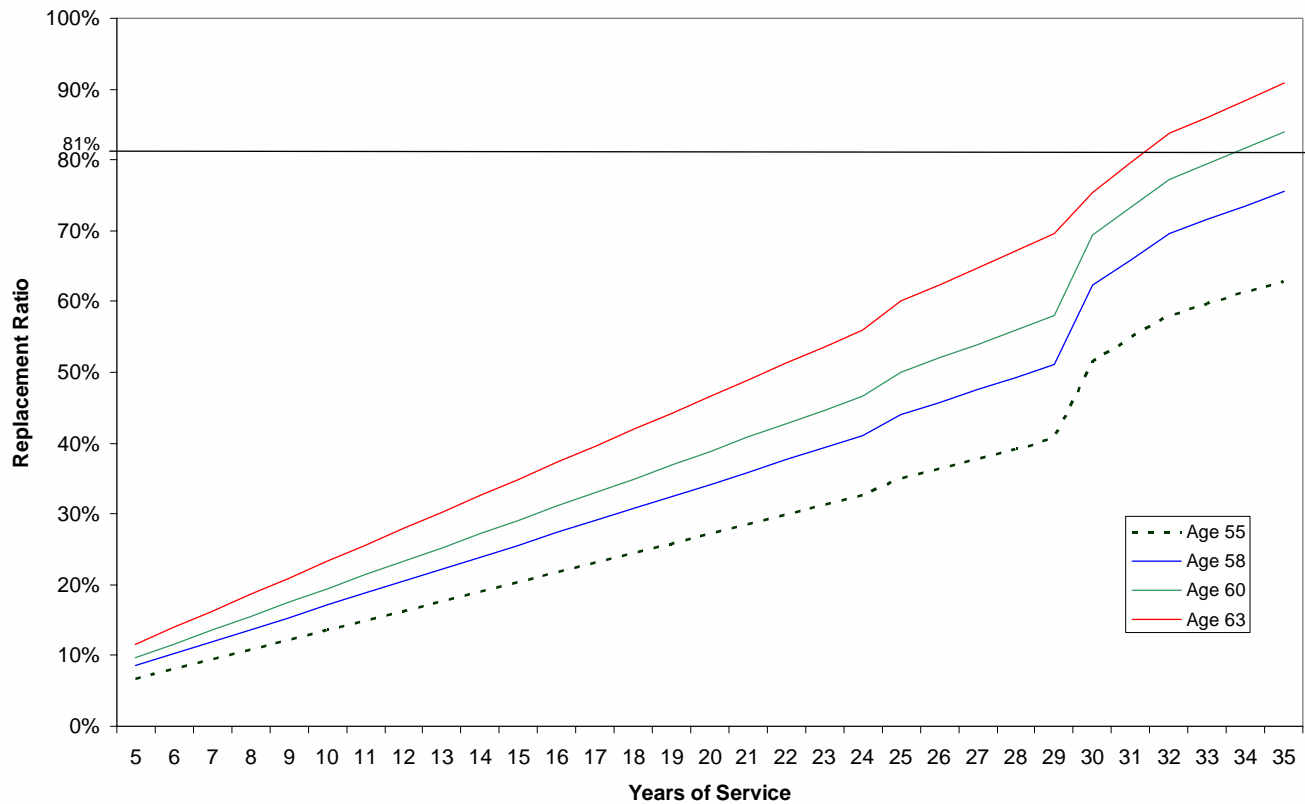
Change in Normal Cost

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?



How Replacement Ratios Change with Age and Service

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?



Distribution of Replacement Ratios

Unmodified Allowance as Percent of Final Compensation	Percent of Members Retiring in 2002-03 with 20+ Years of Service
Under 30%	Less than 1%
30% to 40%	4%
40% to 50%	7%
50% to 60%	12%
60% to 70%	15%
70% to 80%	17%
80% to 90%	20%
90% to 100%	16%
Over 100%	7%

Long-term Considerations

- Asset side
 - Impact of asset allocation
 - Intergenerational equity
- Liability side
 - Impact on replacement ratio
 - Impact of changing demographics
- Maintain a creative balance
 - Share the burden

Potential Responses to Funding Deficiency

- Increase contributions
- Change assets
 - Modify asset allocation
 - Recent stochastic modeling indicates that investment returns probably cannot solve problem
 - Issue pension obligation bonds
- Change benefits
- Merge with other plans
 - CalSTRS too big to merge
 - No impact on funding of current plan

Other Potential Threat

- Amortizing unfunded actuarial obligation presumes new members
 - If future educators are prohibited from participating in DB Program, much more restricted ability to amortize liability with fixed membership
 - Plan becomes more expensive as trust assets needed to pay benefits, rather than relying on contributions from new members

Other Potential Threat

- Alternatively, portion of future contributions for new retirement plan redirected to amortize unfunded actuarial obligation

The Options

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

Most Desirable Impact

Medium Impact

Least Desirable Impact

Issue Pension Obligation Bonds

- Used to immediately pay all or portion of unfunded actuarial obligation
- Issued by state as plan sponsor
- Reduces the cost of resolving the funding deficiency if bond rate is less than investment return

Amortize Unfunded Actuarial Obligation Over 40 Years

Impact on Program Funding	0.808 percent
Impact on Member Benefits	\$0
Percent of Members Affected	0 percent

Base Final Compensation on 3 Highest Consecutive Years

Impact on Program Funding	0.181 percent
Impact on Member Benefits	\$136
Percent of Members Affected	67 percent

Eliminate Career Factor



Impact on Program Funding	0.173 percent
Impact on Member Benefits	\$383
Percent of Members Affected	35 percent

Reduce Age Factor After Age 60 to 2 Percent

Impact on Program Funding	0.679 percent
Impact on Member Benefits	\$511
Percent of Members Affected	58 percent

Do Not Convert Unused Sick Leave to Service Credit



Impact on Program Funding	0.151 percent
Impact on Member Benefits	\$143
Percent of Members Affected	87 percent

Eliminate 2 Percent Member Contribution to DBS

Impact on Program Funding	0.045 percent
Impact on Member Benefits	\$81
Percent of Members Affected	100 percent

Reduce or Eliminate 8 Percent Employer Contribution Credited to DBS

Impact on Program Funding	0.197 percent (if employer contribution crediting eliminated)
Impact on Member Benefits	\$54
Percent of Members Affected	64 percent

Eliminate 2 Percent Annual Benefit Adjustment



Impact on Program Funding	5.022 percent, if applied to all prior and future service for all active members 2.394 percent, if applied to all future service 0.911 if applied to all future members
Impact on Member Benefits	\$94, increasing to \$1,889 by 20 th year
Percent of Members Affected	100 percent

Do Not Extend Medicare Premium Payment Program

Impact on Program Funding	0.139 percent
Impact on Member Benefits	\$375
Percent of Members Affected	5 percent

Impose Employer Contribution on Postretirement Service

Impact on Program Funding	0.070 percent
Impact on Employer	\$17 million annually
Percent of Members Affected	15 percent

Increase Member Contribution Rate

Impact on Program Funding	0.333 percent for each 1 percent
Impact on Member Net Compensation	\$58
Percent of Members Affected	100 percent

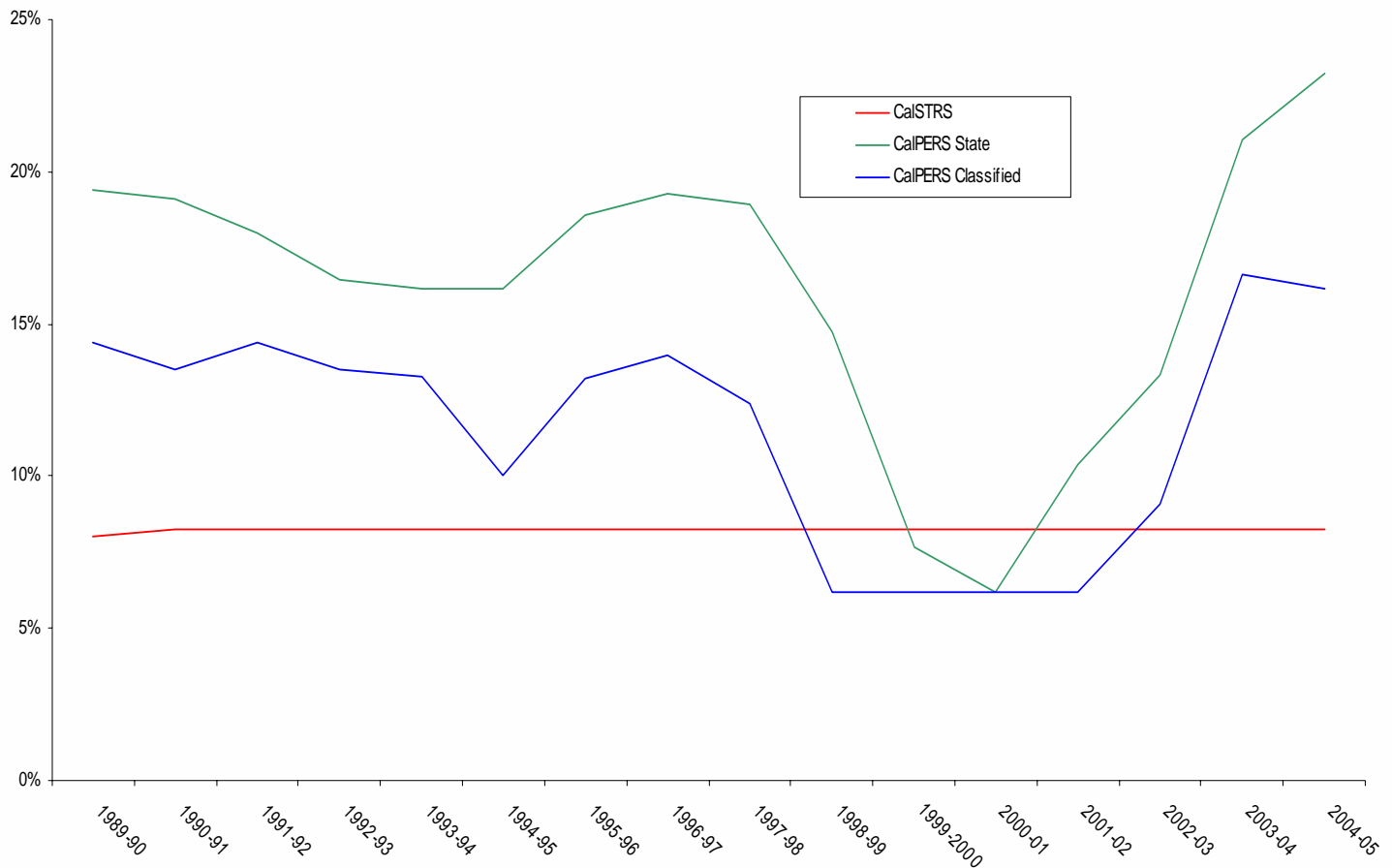
Increase Employer Contribution Rate

Impact on Program Funding	1.000 percent for each 1 percent
Impact on Employer	\$240 million for each 1 percent
Percent of Members Affected	0 percent

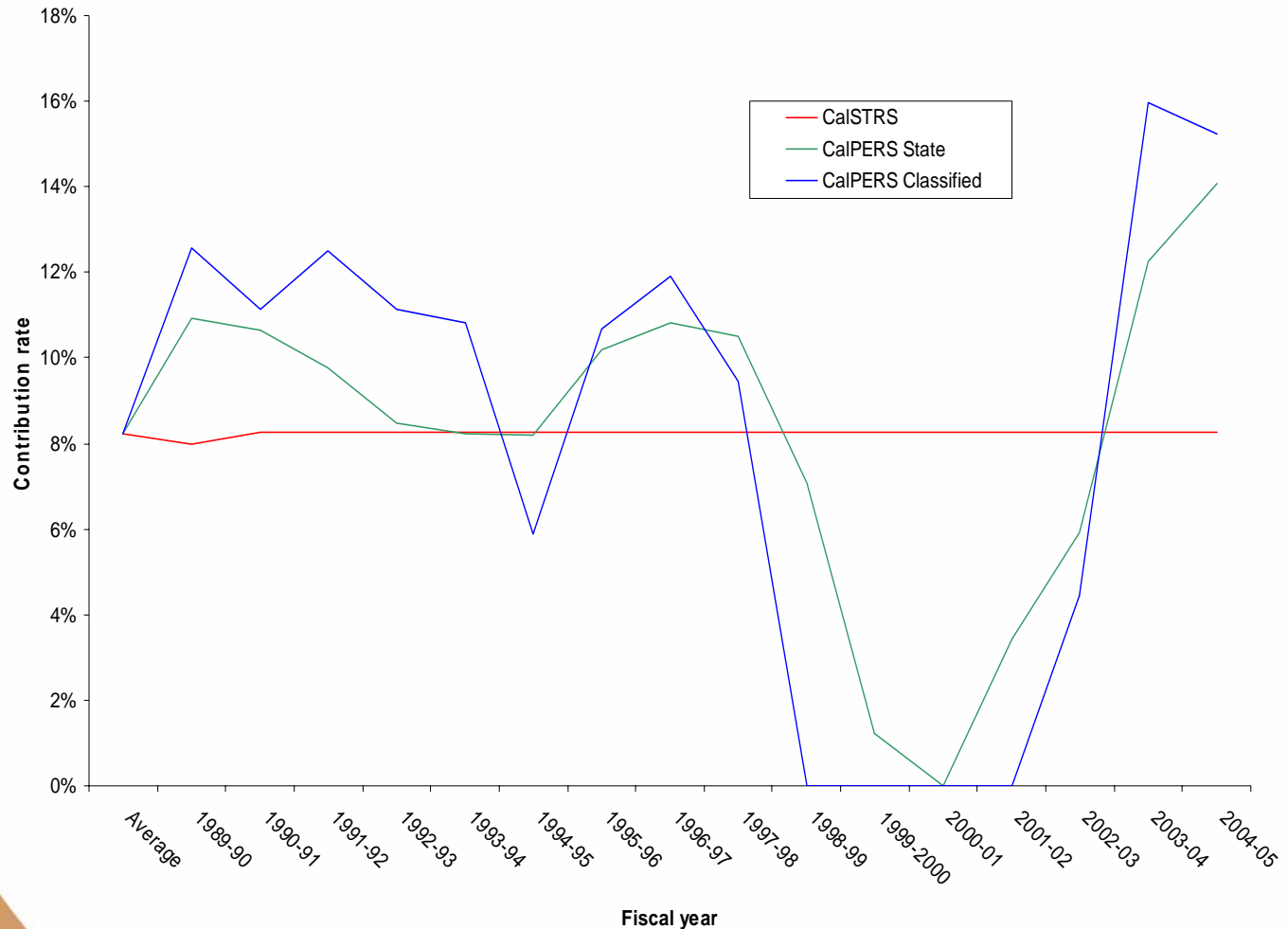
Increase State Contribution Rate

Impact on Program Funding	0.898 percent for each 1 percent
Impact on State	\$220 million for each 1 percent
Percent of Members Affected	0 percent

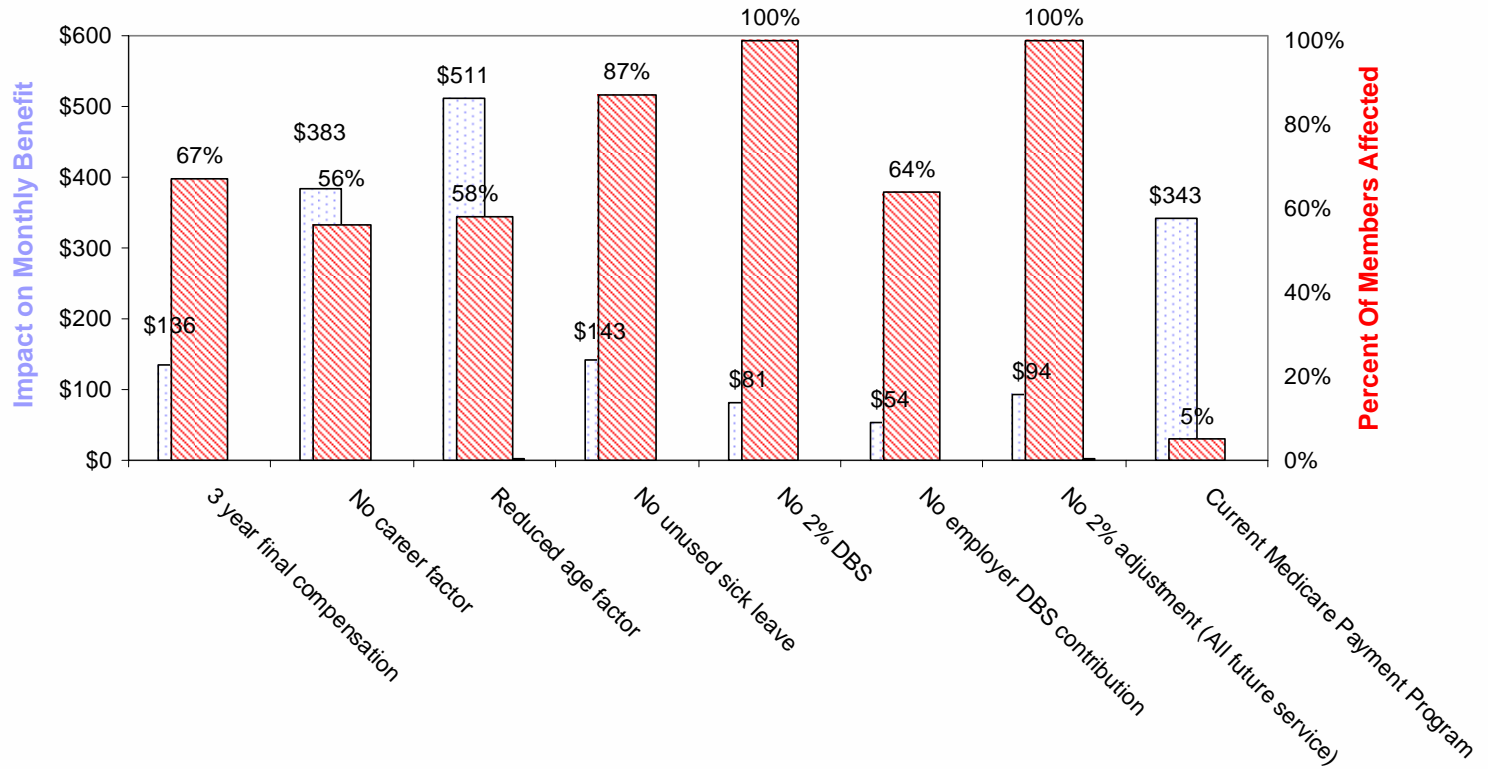
CalSTRS and CalPERS Contribution Rates (including Social Security taxes) 1989-90 to Present



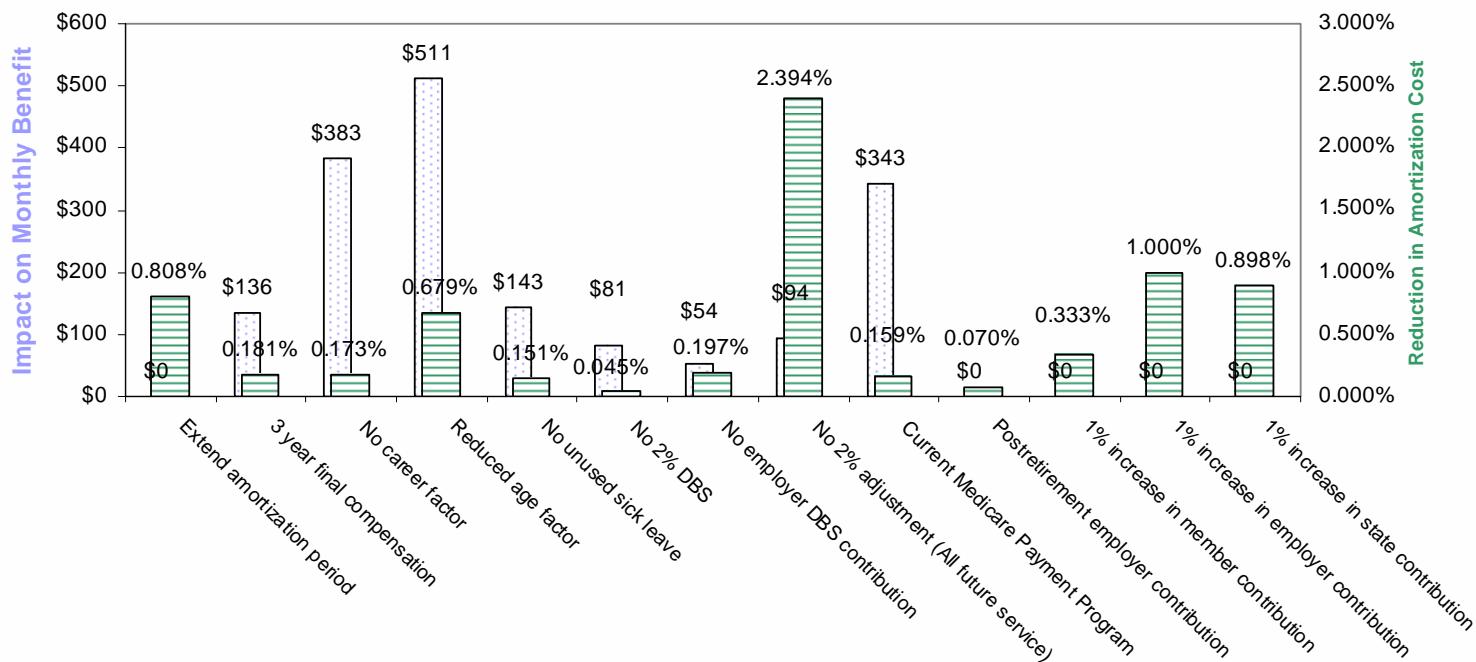
Volatility in CalPERS and CalSTRS Contribution Rates



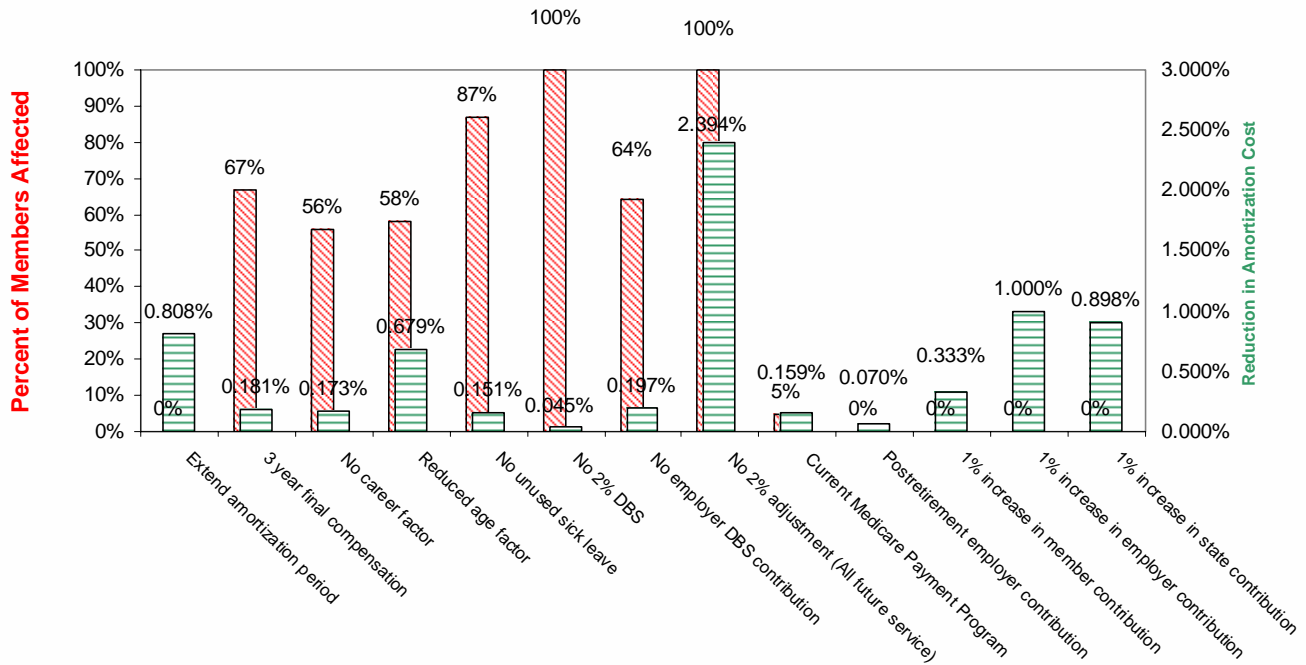
Relative Impact of Options



Relative Impact of Options



Relative Impact of Options



Conclusions

- No one option will solve the problem
- Solution will probably have significant negative impact on someone
- Staff seeks direction from Board on which options it wishes to investigate further, and which options are least attractive

California State Teachers' Retirement System

CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

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