



CALSTRS
California State Teachers' Retirement System



Public Sector Pension Plans: The CalSTRS Story

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California State Teachers' Retirement System



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CalSTRS DB Program

- CalSTRS provides retirement, disability and death benefits for public school educators in California
- Members qualify for retirement and disability benefits after the equivalent of five full years of service
 - Service in other systems does not count for vesting, but being vested in another California public plan entitles member to CalSTRS benefits
- No Social Security coverage



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CalSTRS DB Program

- Current actuarial obligation (6/30/04) is \$138 billion
- Current actuarial value of assets (6/30/04) is \$114 billion
- Current market value of assets (7/31/05) is \$132 billion



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How DB Program is Funded

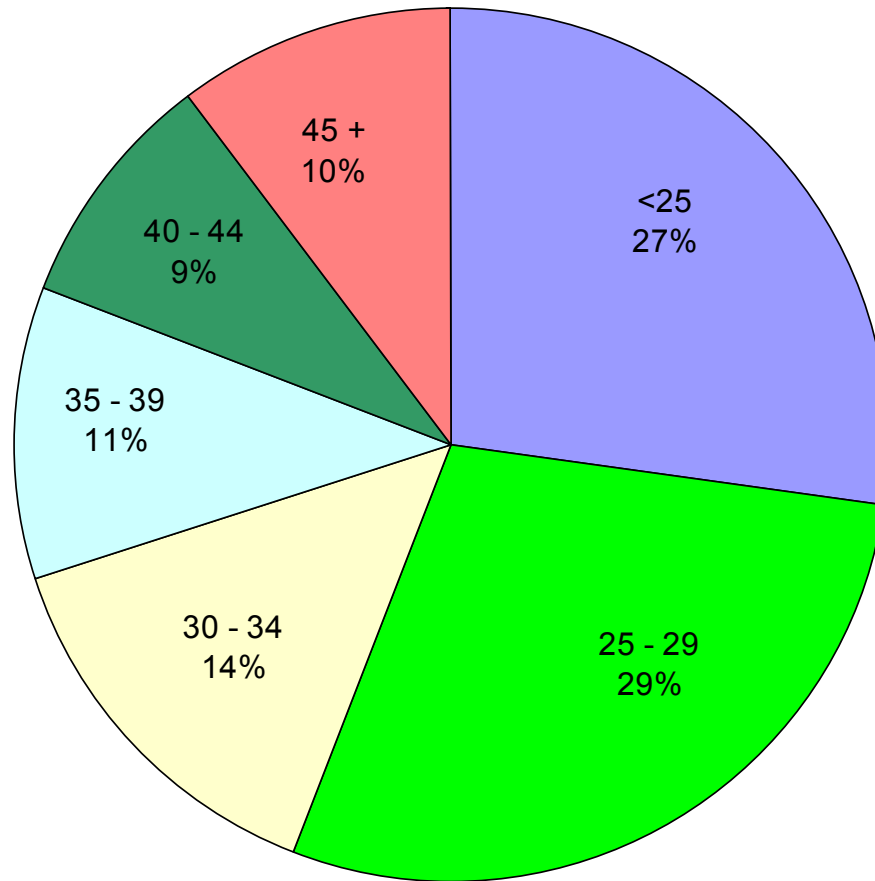
- 77% of benefit costs paid from member contributions and investment earnings
- Employer contribution rate has not changed since 1990
- Normal costs of benefits have been relatively stable for over 30 years, despite benefit enhancements



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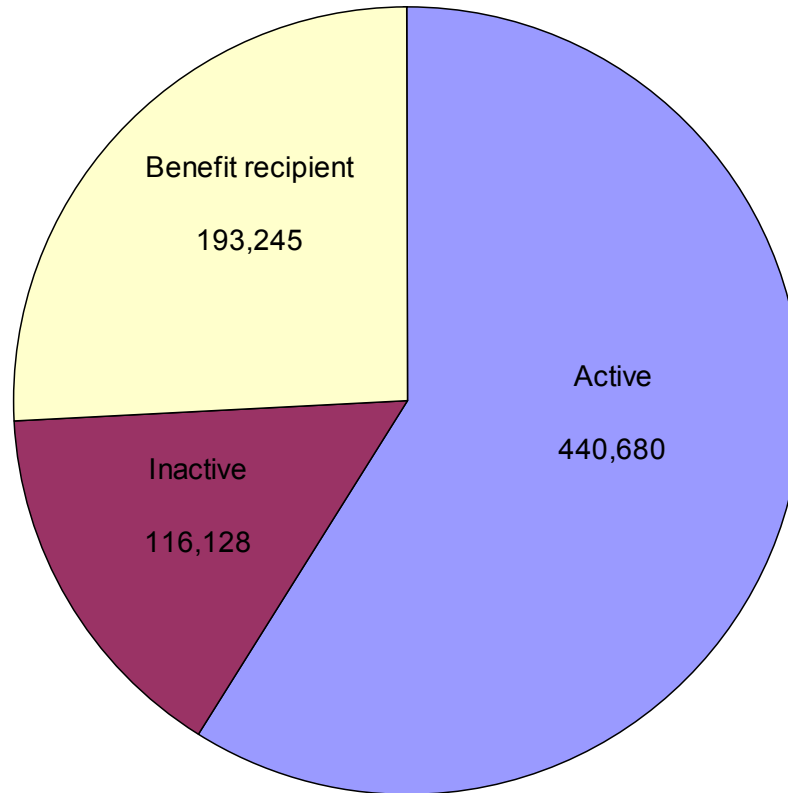


Starting Age of Membership Varies Widely





Distribution of Membership





Active Member Demographics

2003-04 data	Mean	Median
Current Age	44.5	45.2
Current Service Credit	10.7 years	7.6 years
Current Annual Salary	\$57,500	\$57,400



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Inactive Member Demographics

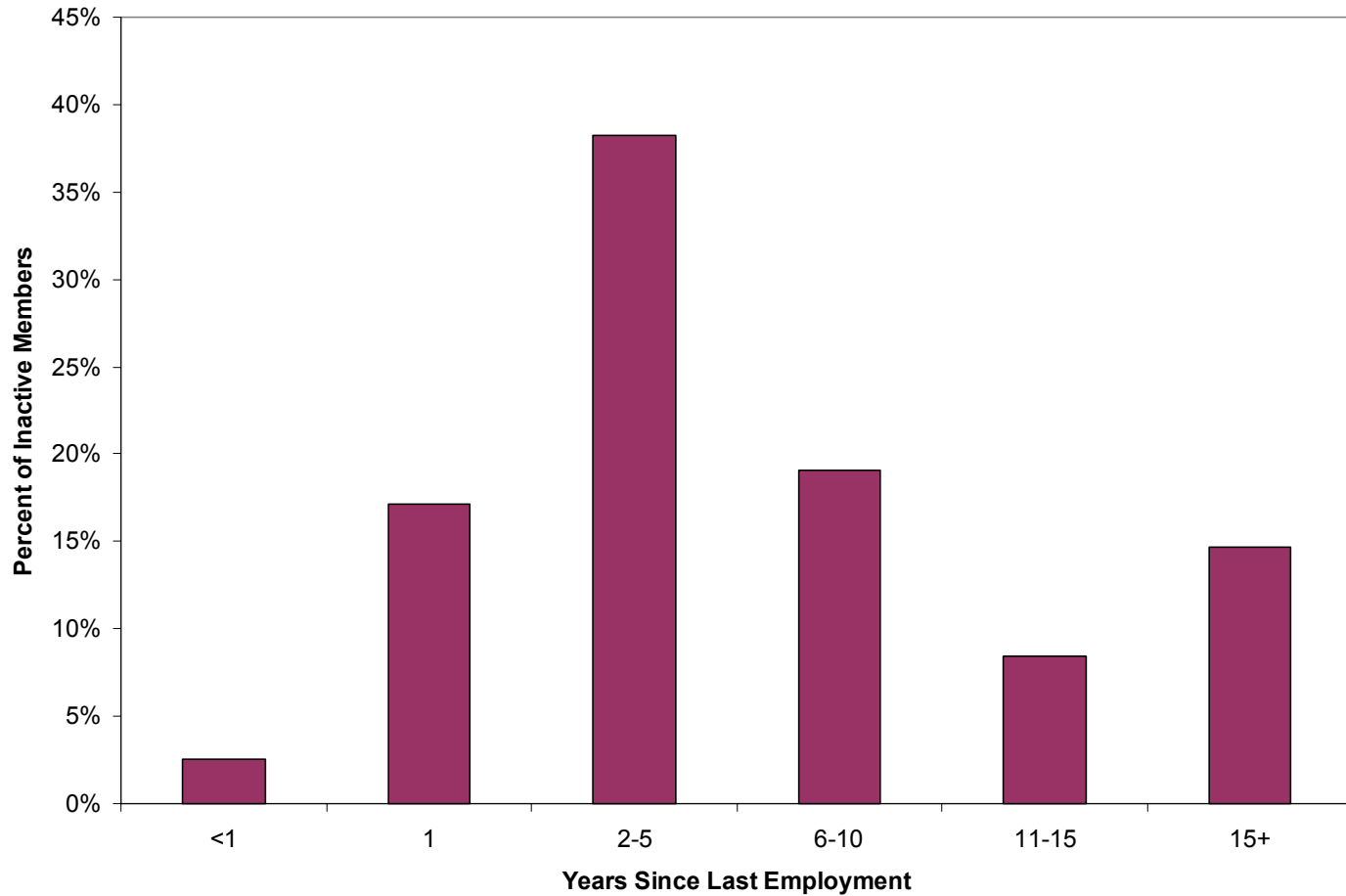
- Average current age of 46
- Mean of 3 years of service (median of 1.3 years of service)
- 20% of inactive members are vested
- Inactive members who terminate membership receive return of contributions plus interest



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Distribution of Inactive Members

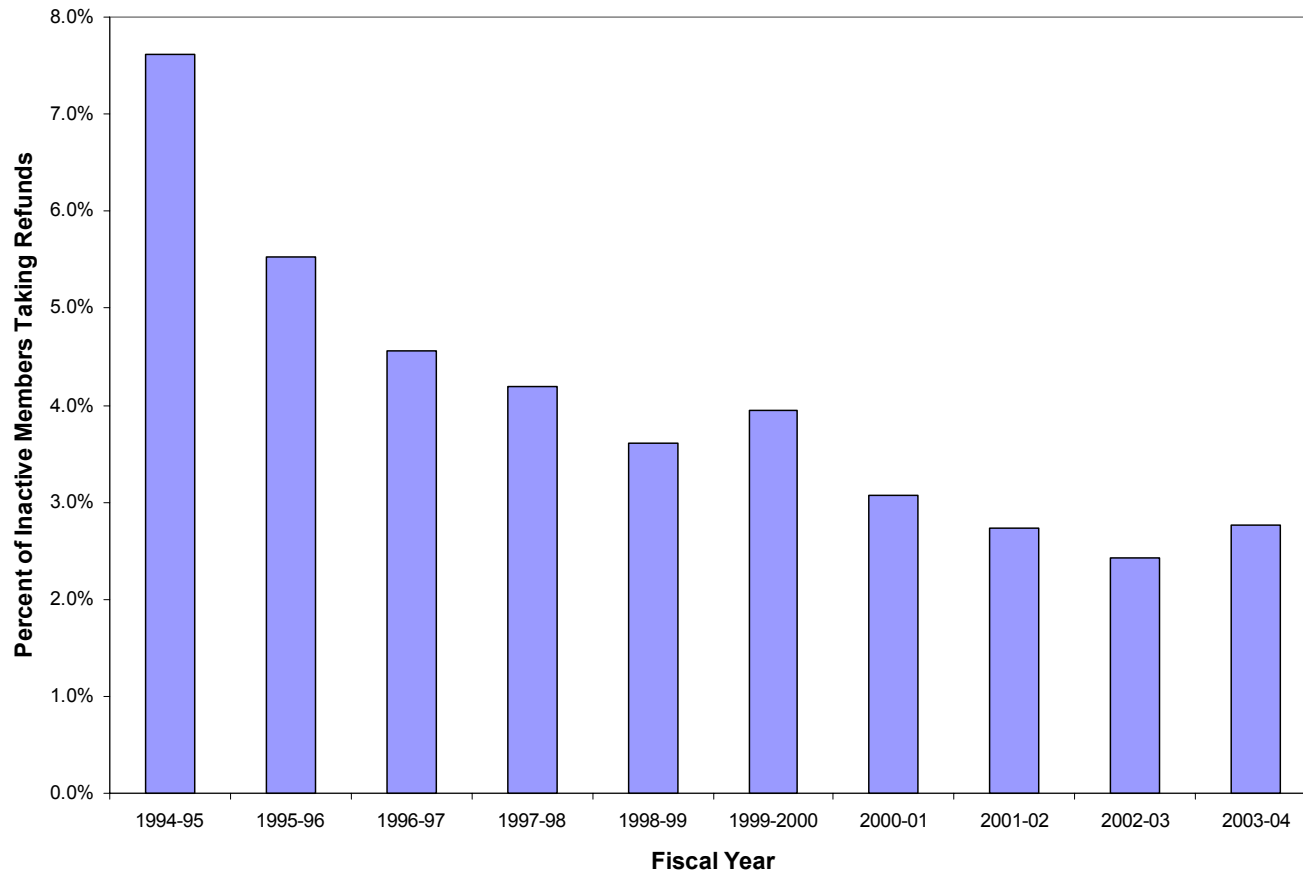




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Leaving the Program is Rare, and Declining

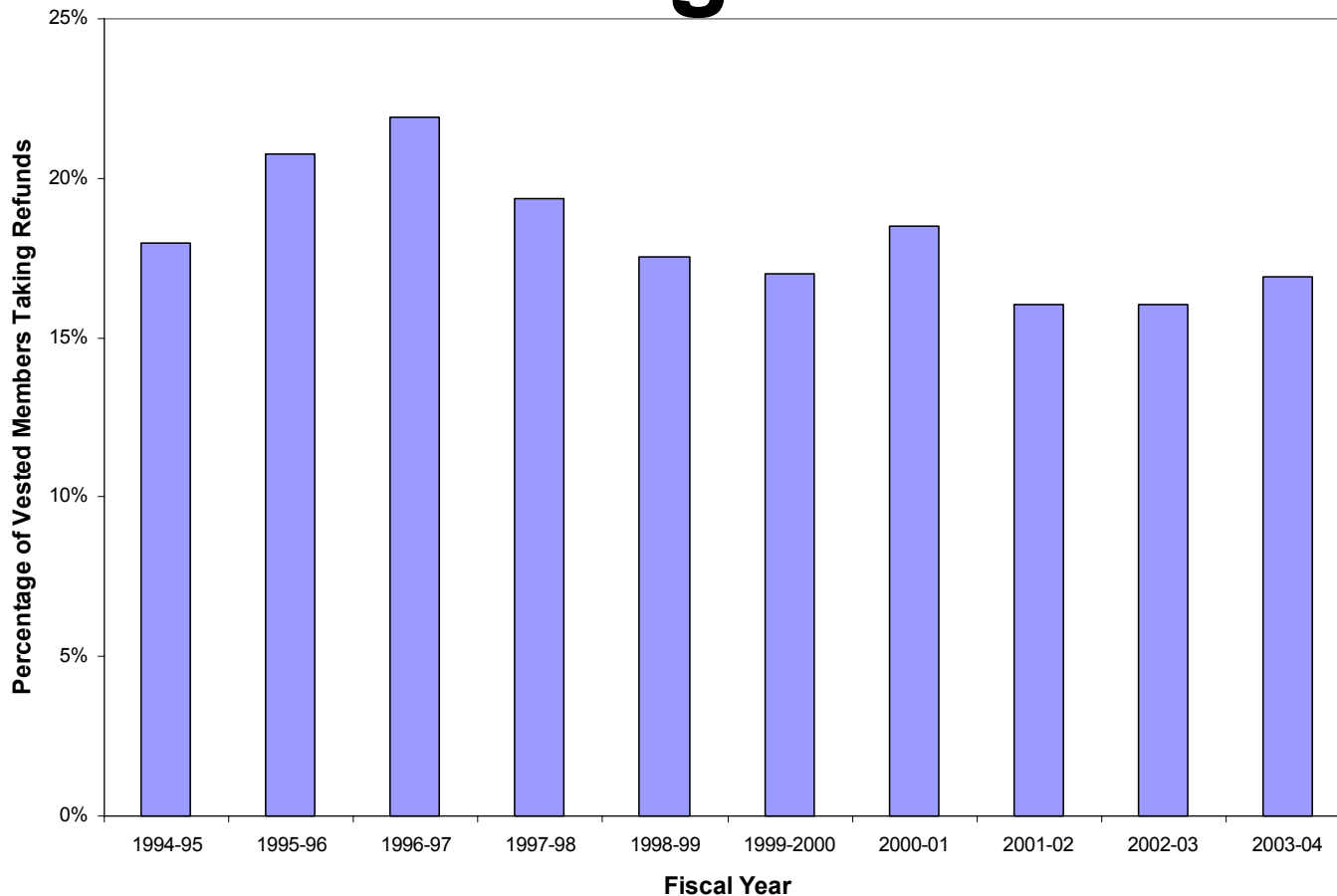




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Vested Members Don't Leave Program





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New Retired Member Demographics

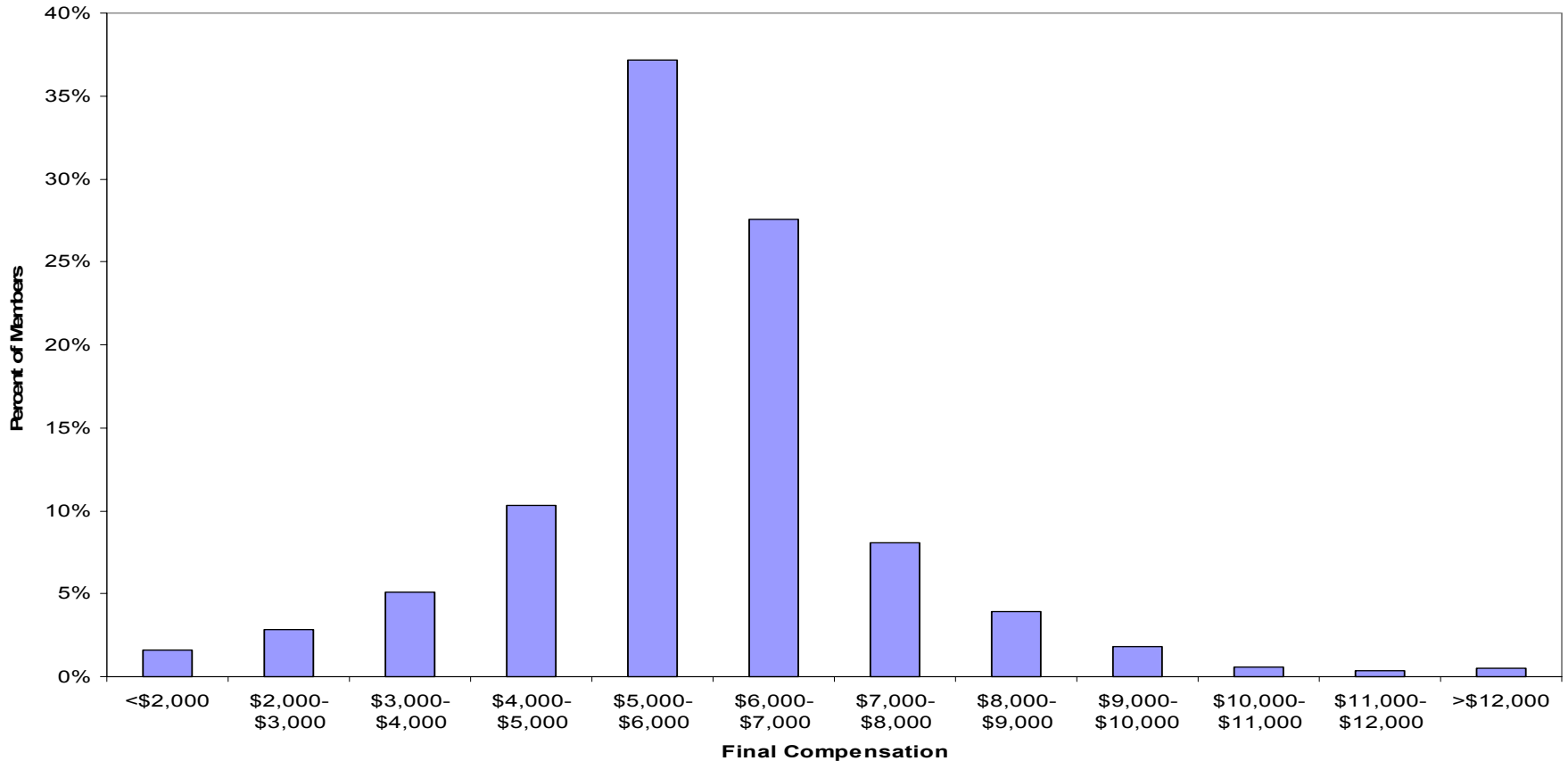
2003-04 data	Mean	Median
Age at Retirement	61.2	61.0
Service Credit at Retirement	27.1 years	30.6 years
Annual Salary at Retirement	\$70,700	\$70,400
Initial Annual Benefit (Replacement Ratio)	\$45,800 (65%)	\$44,400 (63%)



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Monthly Salaries at Retirement Not Widely Distributed





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CalSTRS Benefits Older Members

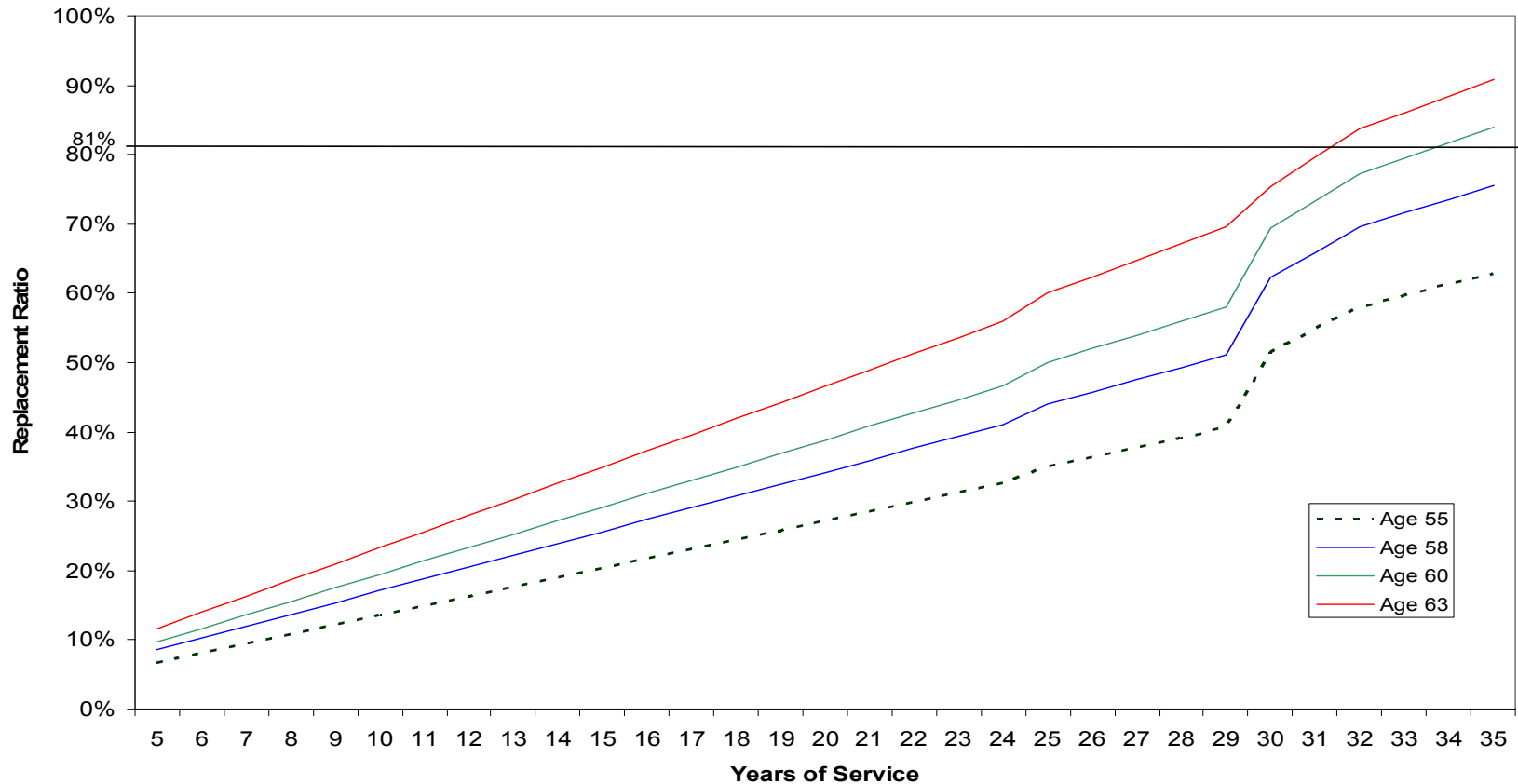
- CalSTRS provides enhancements for long-term careers
- Intended to encourage longer employment, not earlier retirement
 - Age factor continues to increase after age 60
 - Increase in age factor after 30 years of service
 - Dollar increase in monthly benefit
 - Shorter period to determine final compensation



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Career Educators Get Significant Boost





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CalSTRS Benefits and Replacement of Income

- 2004 CalSTRS analysis indicates replacement ratio of 81% to 88% needed
 - Assumes employers provide same financial support for health care to retired employees as current employees
 - However, 2003 CalSTRS survey indicates that 57% of current employees entirely responsible for health care premiums after age 65
 - Replacement ratio would have to be higher to pay costs



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CalSTRS Benefits and Replacement of Income

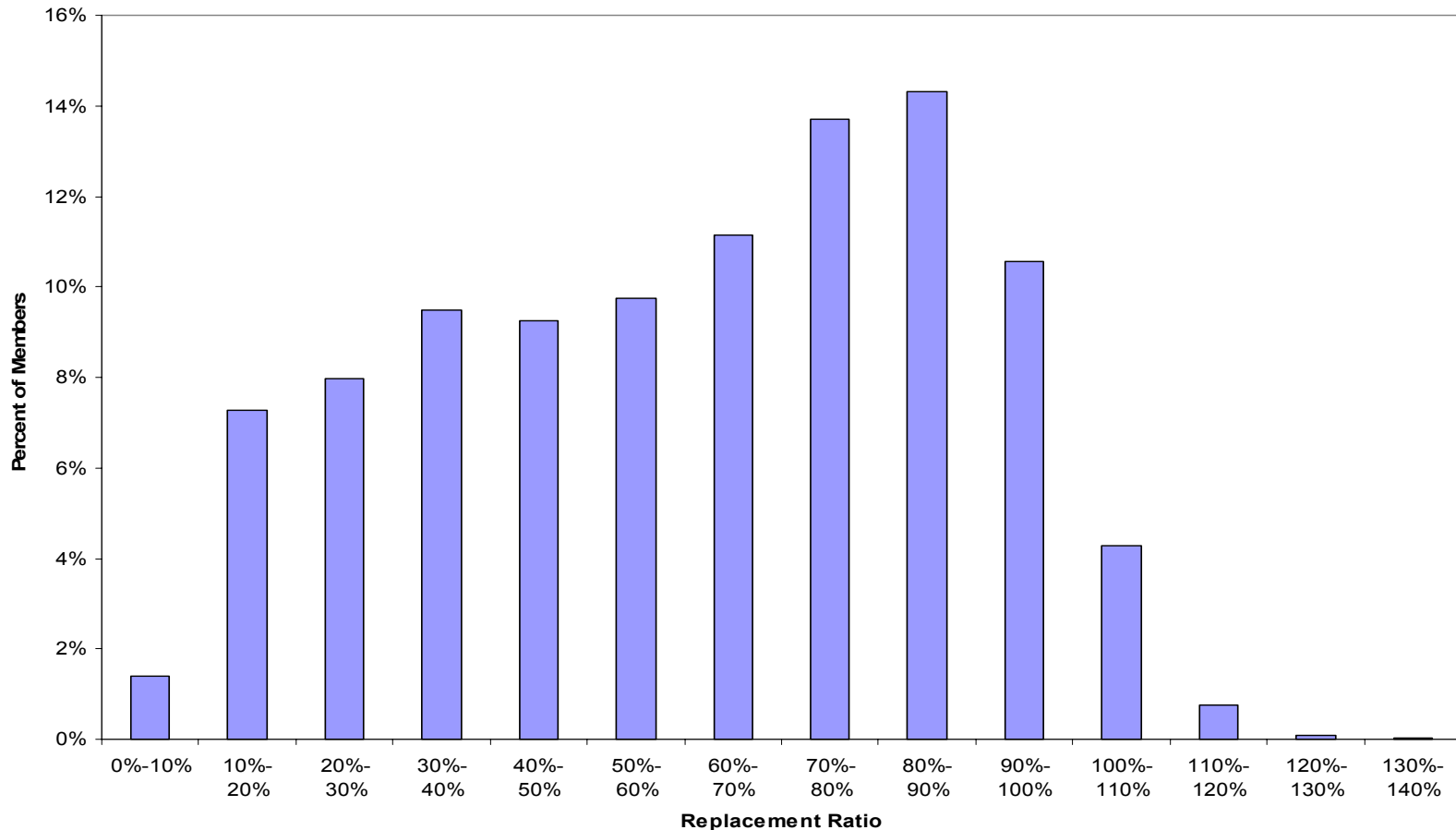
- 42% of members retiring in 2003-04 have replacement ratio of 80% or higher
 - 2% annual benefit adjustment
 - Purchasing power of current benefit cannot drop below 80% of initial value
 - Will still lose up to 20% of purchasing power



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Replacement Ratios For New Retirees Center Around 70%-90%

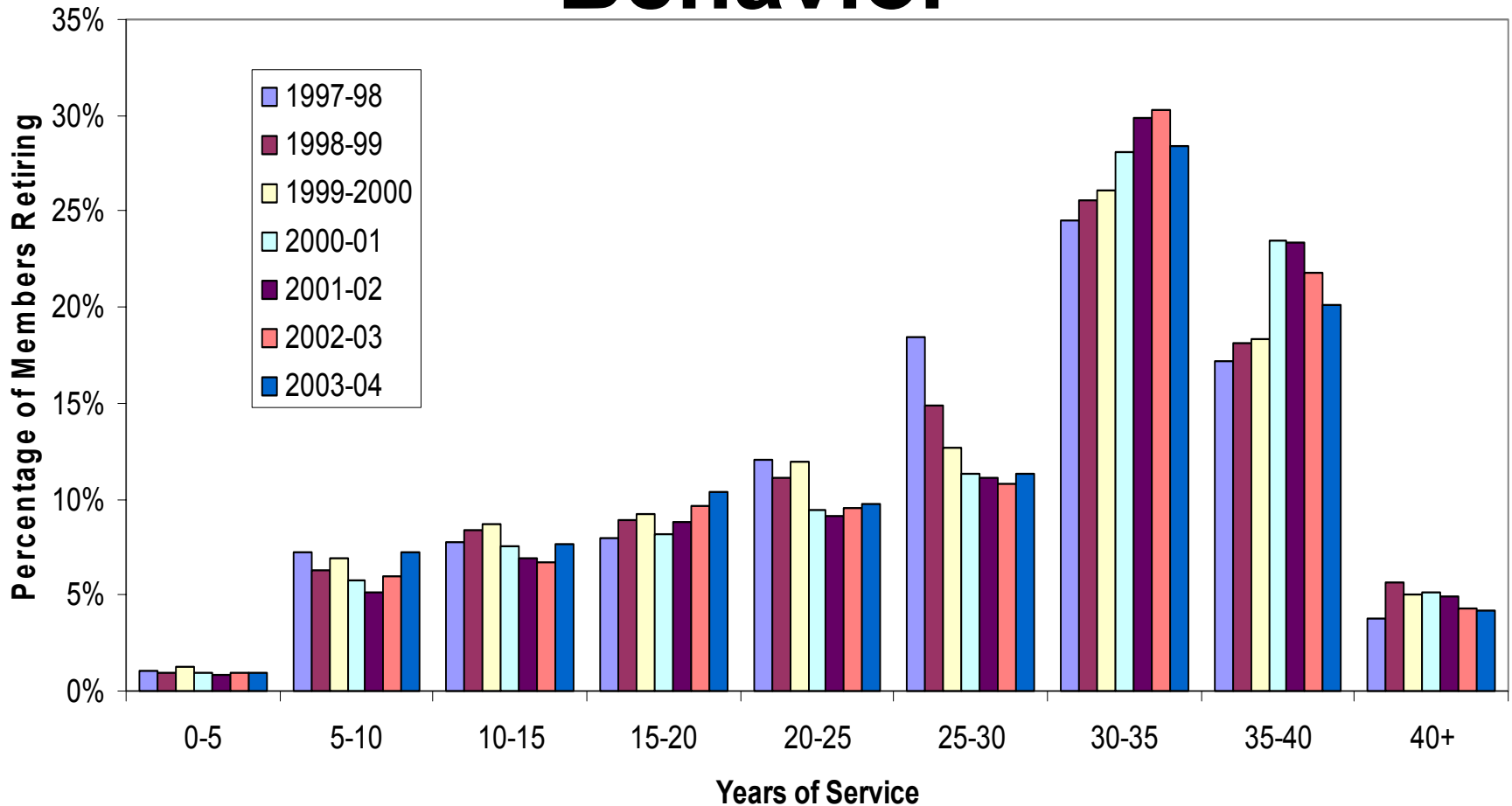




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Enhancements Have Affected Behavior

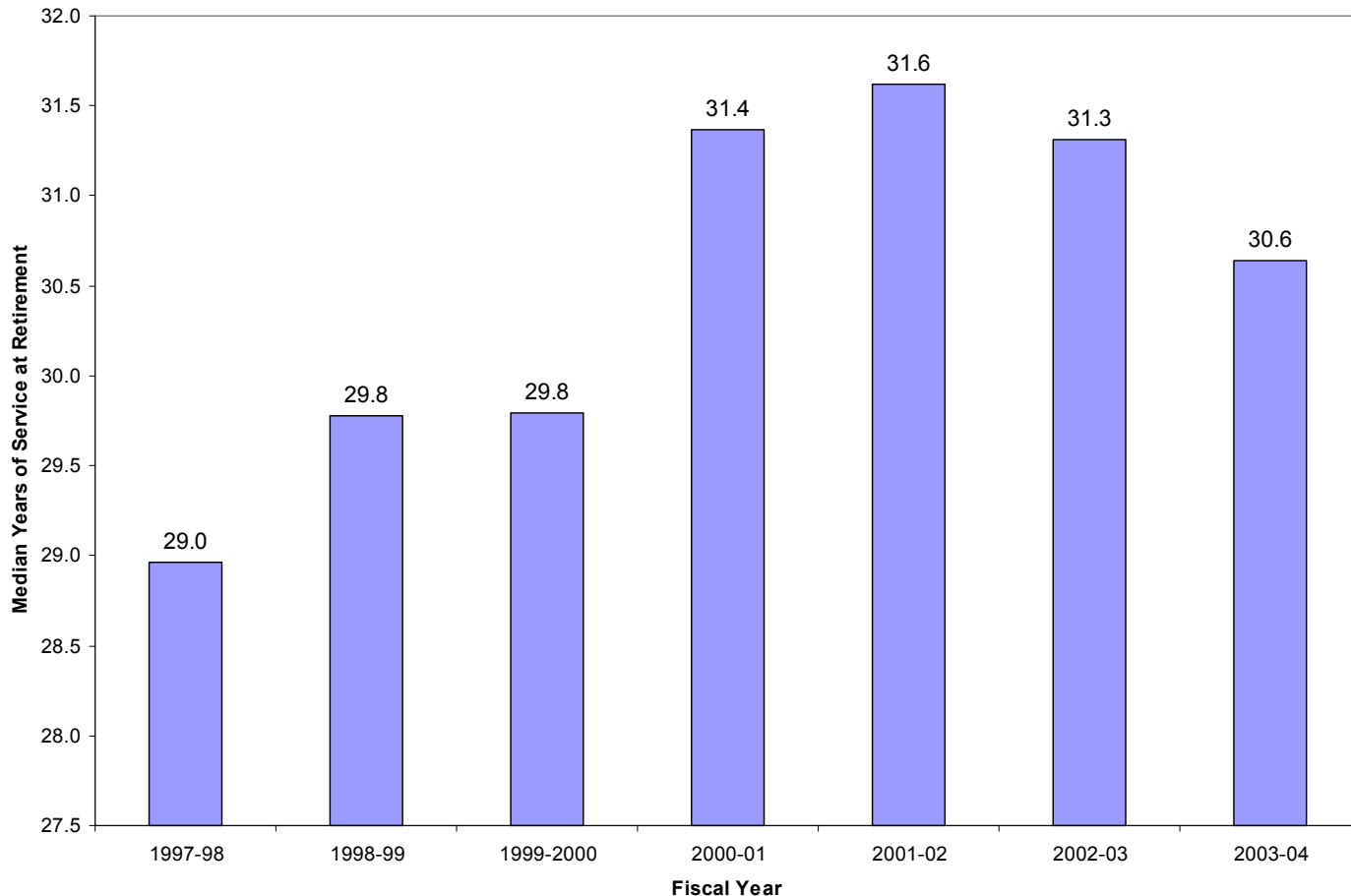




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Members Working Longer Since Enhancements Took Effect

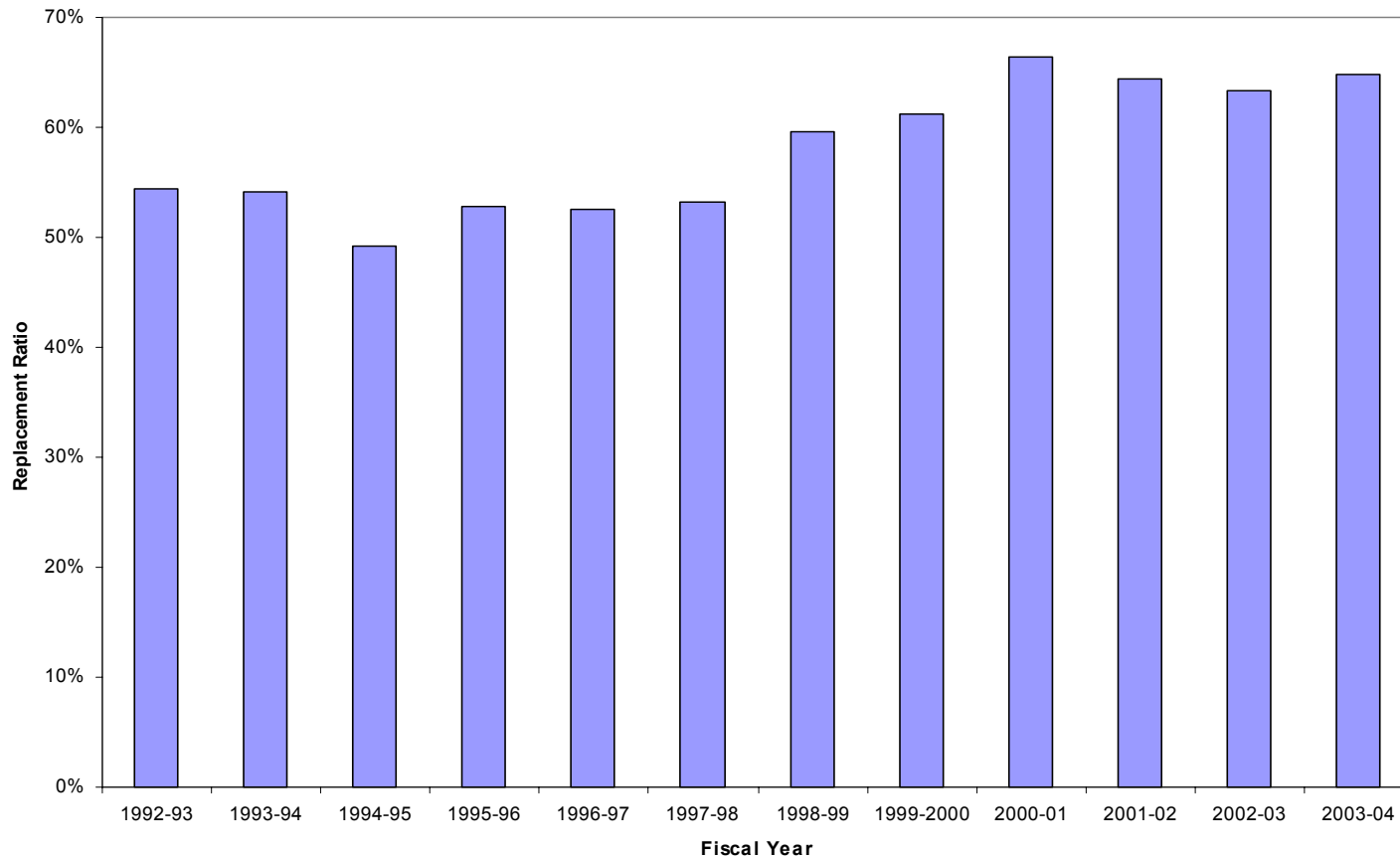




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Enhancements Have Improved Retirement Security





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Difficult to Replicate Defined Benefit with DC Plan

- Evaluated how to duplicate current DB benefit with DC investing and private annuity
- Looked at average age, salary and benefit paid to newly-retired members with 25, 30 and 35 years of service



Difficult to Replicate Defined Benefit with DC Plan

- Replicating resulting DB benefit would require higher returns or contributions

If	Then
16.25% contributed*	10% to 11% investment return required
8% investment return achieved*	23% to 25% contribution rate required

*Current employee and employer contribution rate and actuarial assumption

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HOW WILL YOU SPEND YOUR FUTURE?

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