

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: SCR 105 Report on System Funding

ITEM NUMBER: 6

CONSENT:

ATTACHMENT(S): 1

ACTION:

MEETING DATE: February 8, 2013 / 2 hrs.

INFORMATION: X

PRESENTER: Ed Derman

PURPOSE

This item is provided to review the final draft of the report being submitted to the Legislature pursuant to Senate Concurrent Resolution (Negrete McLeod) of 2012.

BACKGROUND

[SCR 105](#) encourages CalSTRS “in consultation with affected stakeholders, including, but not limited to, the Department of Finance and organizations representing members and school employers, to develop at least three options to address the long-term funding needs of the Defined Benefit Program in a manner that allocates any increased contributions among members of the system, school employers, and the state, consistent with the contractual rights of existing members, and submit those options to the Legislature before February 15, 2013”.

Staff has been meeting with stakeholders to develop parameters upon which alternative funding options would be based, and discussed potential options with the stakeholders. In addition, at the January 2013 meeting, the board discussed the structure of the report and the options being presented in the report.

Attached is the final draft of the report for the board’s review prior to its submission to the Legislature.

EXECUTIVE SUMMARY

Since the market downturn in 2008, state legislatures around the country have been dealing with the financial challenges facing their public employee retirement plans. The legislative responses have addressed the benefits provided by the pension plans as well as the financing of those plans. Between 2010 and 2012, at least 27 states, besides California, enacted legislation increasing member and/or employer contributions to their pension plans. Last year, the California Legislature enacted Assembly Bill 340 (Furutani) to address the benefits provided by public employee retirement plans in California. In the legislative hearings that led to the passage of AB 340, frequent reference was made by the California State Teachers' Retirement System (CalSTRS) and others to the unfunded liability that CalSTRS was facing with respect to its Defined Benefit (DB) Program.

In response to those discussions, Senate Concurrent Resolution 105 (Negrete McLeod) of 2012 encourages CalSTRS to work with affected stakeholders to develop at least three options to address the long term funding needs of the DB Program, and submit a report on those options by February 15, 2013. The DB Program is the primary, and often the exclusive, source of ongoing guaranteed retirement income paid to a public educator in California. As of June 30, 2011, the liabilities of the DB Program exceeded the program assets by \$64 billion, and if current economic and demographic assumptions were to hold, the program would deplete all of its assets by 2046. At that point, the state, as plan sponsor, would be responsible for ensuring that the constitutionally-guaranteed benefits were paid. In 2011-12, benefit payments totaled \$10.7 billion.

The resources generated from contributions made by members, employers and the state are projected to be more than sufficient to cover the ongoing costs of the DB Program (also known as the "normal cost"); the shortfall was caused primarily by the weak financial markets since 2000, and the shortfall has been exacerbated by those contributions not being adjusted earlier to offset the investment losses. The benefits provided to current DB Program members are not excessive, and AB 340 addressed the weakest aspects of the plan design. Although the changes enacted in that legislation will reduce the liabilities accrued as a result of service of future members, those benefit changes are nowhere near sufficient to fully offset the funding shortfall. Any additional reductions to the benefits paid to members would have limited impact on program funding because the reductions could only apply to future members. In addition, those reductions would likely significantly undermine the retirement security of those members, who do not earn Social Security benefits for their public education service.

The most effective means to provide long-term stability to the DB Program is to increase contributions made by members, employers and/or the state. Those contributions are fixed in statute; the CalSTRS board has no authority to establish the contribution rates. In addition, those rates have been remarkably stable. Member rates have not been increased since 1972, employer rates have not changed since 1990, and the state's rate is lower now than it was in 1997.

To provide long-term financial stability will require a significant increase in contributions. There are six key decisions the Legislature and the Governor must make in order to address the funding shortfall. They are:

1. What is the financial objective?
2. Over what period of time that objective should 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?

The report identifies four alternative financial outcomes. In order of descending long-term impact on the DB Program, they are:

1. Fully fund the DB Program
2. Establish a target ratio of program assets to program liabilities
3. Increase contributions to *avoid* fully depleting assets in the future
4. Increase contributions to *delay* the date assets are fully depleted

It is CalSTRS expectation that contribution increases would occur gradually over time, and likely not be implemented for a period of time, in order to allow affected stakeholders to make adjustments in their spending plans to accommodate the increases. A more rapid increase in contributions (for example, a one percentage point annual increase versus a ½ percentage point annual increase) has a greater positive impact on program funding than an earlier implementation (a 2014 implementation versus a 2016 implementation), if the increase in the contribution rate is significant. If the total increases are relatively small, when those increases begin, rather than how quickly they increase, will be of greater significance.

The timing of the enactment of legislation to address the funding shortfall, regardless of when the legislated changes become effective, can significantly affect the financial statements of school districts. Accounting standards for public employers recently adopted by the Governmental Accounting Standards Board will affect the financial statements of those school district employers if pension fund assets are expected to be exhausted in the future. If legislation is enacted in this legislative session that avoids an expected depletion of program assets in the future, future school district financial statements will not reflect pension liabilities based on

excessively low expected rates of return. Requiring the disclosure of liabilities based on these low expected rates of return could, for example, hinder the ability of school employers to implement their financial programs to improve their infrastructure, by making it appear that the school employers have higher levels of existing debt.

In addition, there is a very high likelihood, given the 75 years over which this report makes projections and the probability that from year to year actual investment experience will vary from the assumed rate of return, that any increase in contributions will result in too little or too much money being generated for the DB Program during that time period, if no further adjustments to contribution rates are made in the future. As a result, the Legislature should anticipate that the contribution rate program enacted in the legislation needs to be re-evaluated in approximately ten to 15 years, so any needed adjustments can be made.

CalSTRS stands ready to assist the Legislature and the Governor in projecting the implications of alternative approaches requested and providing information desired to address this important issue.

BACKGROUND ON THE DEFINED BENEFIT PROGRAM

The California State Teachers' Retirement System (CalSTRS) administers a hybrid retirement system consisting of a traditional defined benefit component (the Defined Benefit, or DB, Program), a cash balance component (the Defined Benefit Supplement, or DBS, Program) and a defined contribution component (Pension2, a voluntary 403(b)/457 program). By far, the most significant component of this hybrid system is the DB Program. The DB Program provides retirement, disability and survivor benefits to academic personnel in California public education (prekindergarten through grade 12 and community college), such as teachers and faculty, academic administrators, counselors, librarians, nurses and others who are required to hold a credential or meet appropriate minimum standards set by the Board of Governors of the California Community Colleges. Similar personnel who work in charter schools whose charter elects CalSTRS as their retirement administrator also participate in the DB Program. Members of the DB Program do not earn Social Security benefits for their public education service.

Relatively Modest Benefits Paid to Current DB Program Members

The retirement benefit is based on the retiring member's years of service, age at retirement and final compensation. The member generally must have at least five years of service credit to retire. For members who were first hired prior to 2013, the normal retirement age is age 60, and the benefit paid at that age equals 2 percent of final compensation per year of service. (By comparison, many other current state and local non-safety employees can retire with a benefit of 2 percent of final compensation per year of service as early as age 55.) This is known as the "CalSTRS 2% at 60" formula. Members who retire after age 60 retire with a higher percentage of final compensation for each year of service. The maximum percentage of final compensation per year of service payable as a benefit is 2.4 percent at age 63. Members can retire as early as age 50 (if they have at least 30 years of service) or age 55 (if the member has less than 30 years of service) with a benefit that is based on a declining percentage of final compensation per year of service as the retirement age drops.

In addition, if the member retires with at least 30 years of service, the percentage of final compensation for each year of service upon which the retirement benefit is based is increased by 0.2 percent (an enhancement referred to as the career factor), up to the maximum 2.4 percent, which would be reached at age 61½. For example, a member retiring at age 60 with less than 30 years of service will receive a benefit equal to 2 percent of final compensation per year of service, while a member retiring at age 60 with 30 or more years of service will receive a benefit equal to 2.2 percent of final compensation per year of service. For members retiring with at least 25 years of service, final compensation is based on the highest 12 consecutive months of the average annual full-time salary rate; otherwise, final compensation is generally based on the highest average annual full-time salary rate for three consecutive school years. All benefits are increased each year by an amount equal to 2 percent of the original benefit. The median benefit paid to the members who retired in 2011-12 replaced 53 percent of their final compensation.

Future DB Program Members Will Have Lower Benefits

For members first hired in 2013 and thereafter, the DB Program retirement benefit is smaller than that paid to CalSTRS 2% at 60 members. Although the benefit paid at normal retirement age remains 2 percent of final compensation for each year of service credit, the normal retirement age for these newer members is increased from age 60 to age 62. (This is referred to as the “CalSTRS 2% at 62” formula.) As a result, the initial benefit paid to a CalSTRS 2% at 60 member at age 60 will be paid to a CalSTRS 2% at 62 member with the same amount of service and final compensation at age 62, and the age that the maximum percentage of final compensation is paid will increase from age 63 to age 65. In fact, the percentage of final compensation per year of service paid to a CalSTRS 2% at 62 member generally will be the same as is paid to a CalSTRS 2% at 60 member who retired two years earlier. CalSTRS 2% at 62 members will not have their benefit enhanced by the career factor. Finally, the amount of compensation that will count towards retirement for CalSTRS 2% at 62 is limited to \$136,440 in 2013, an amount that will be adjusted each year for changes in the California Consumer Price Index.

The minimum required service credit remains at five years, but the minimum retirement age is age 55, regardless of how many years of service above five years the member was credited. Final compensation will be based on the highest three consecutive school years, regardless of the number of years of service earned. The 2 percent annual benefit adjustment will continue to be paid. This lower benefit formula will reduce the median percentage of final compensation paid as a benefit from the current formula’s 53 percent to about 47 percent, assuming the future member’s age and service at retirement is the same as for recent retired members. This is very similar to what a private-sector employee with a similar amount of service would receive from a typical private-sector employer defined benefit plan, when combined with the Social Security benefits the employee would receive.

CURRENT FINANCIAL STATUS OF THE DEFINED BENEFIT PROGRAM

The DB Program is financed from four sources. The first three sources are the members, employers and the state, which each pay contributions at a rate that is determined by statute; the Teachers' Retirement Board has no authority to set contribution rates. Only the contributions from earnings attributable to a maximum of one year of service credit per school year are credited to the DB Program; contributions from earnings attributable to service in excess of a year per school year generally are credited to the member's DBS account. CalSTRS 2% at 60 members contribute 8 percent of their earnings (this DB Program contribution rate is equal to 44 percent of the ongoing (or "normal") cost of the DB Program benefit as of June 30, 2011). CalSTRS 2% at 62 members will contribute 50 percent of the normal cost of their benefit program, which currently results in a member contribution rate of 8 percent of earnings. Employers contribute 8.25 percent of the member's earnings.

The state's contribution rate is currently equal to 2.791 percent of the member's compensation earned two years ago for up to a year of service; the state makes no contributions for compensation from service in excess of a year. The state contribution rate will be increasing by $\frac{1}{4}$ percentage point per year through 2015-16, when the state's contribution rate reaches 3.522 percent. (The state also makes a contribution of approximately 2.5 percent of the member's compensation from two years ago to finance a program that protects the purchasing power of the member's DB Program benefit.) The final source of funding for the DB Program is the investment of these contributions. From 1984-85 through 2011-12, investment earnings represented about 58 percent of total resources available to fund benefits.

As of June 30, 2011, the normal cost of benefits of the DB Program was equal to 18.299 percent of covered earnings. With an effective total contribution rate of 19.418 percent, the contributions paid by members, employers and the state, together with the investment of those contributions, are more than sufficient to pay the normal cost of benefits accrued in the DB Program, if all actuarial assumptions are met. However, because investment returns during the ten years ending in 2011-12 were 6.5 percent, which is below the assumed return on investments (currently 7.5 percent, which is a reduction from the 8 percent return the Teachers Retirement Board had assumed between 1995 and 2010), the actuarial value of liabilities of the DB Program associated with service already performed by members was \$64 billion greater than the actuarial value of assets. Put another way, the actuarial value of assets was sufficient to fund 69 percent of the actuarial value of liabilities at that time. Attached is a summary of the current status of the DB Program provided by Milliman, CalSTRS independent actuary.

Based on the current law specifying the contributions paid by members, employers and the state, and assuming that investment returns and other economic and demographic assumptions are realized, as of June 30, 2011, there were sufficient assets to fund benefits through 2046. The benefits owed to members and beneficiaries, however, are contractually guaranteed. One exception to this is an annual adjustment to benefits paid to members and beneficiaries. This is discussed in more detail on page 10. As a result, the state, as the plan sponsor, would have a legal obligation to ensure that benefits continue to be paid even after the DB Program assets are depleted. It is currently estimated that the cost of paying benefits on a pay-as-you-go basis would

be approximately 50 percent of covered earnings, because CalSTRS would have no opportunity to invest assets to help fund the cost of benefits.

The enactment of Assembly Bill 340 (Furutani) in 2012, also known as the California Public Employees' Pension Reform Act, or PEPRRA, will only slightly improve the financial status of the DB Program. Rather than the DB Program depleting its resources in 2046, as was projected in the June 30, 2011, actuarial valuation, the reduction in benefits accrued by CalSTRS 2% at 62 members under AB 340 will reduce the normal costs of the program for those members by 2.61 percent of earnings, and delay the projected date at which DB Program assets are depleted by one year, to 2047. This slight improvement in the viability of the DB Program, however, will be more than offset by the impact on DB Program funding of the 1.8 percent investment return in 2011-12, reflecting the ongoing weakness in the financial markets.

Other aspects of AB 340, however, such as the limitation on compensation upon which the final compensation of CalSTRS 2% at 62 members is determined, will have a beneficial impact on program funding, by substantially reducing the opportunity for members to "spike" their retirement with large end-of-career compensation increases. Nonetheless, the magnitude of the impact on the program funding for these additional spiking controls will be relatively small because comparatively few members currently have such an opportunity to spike their benefit.

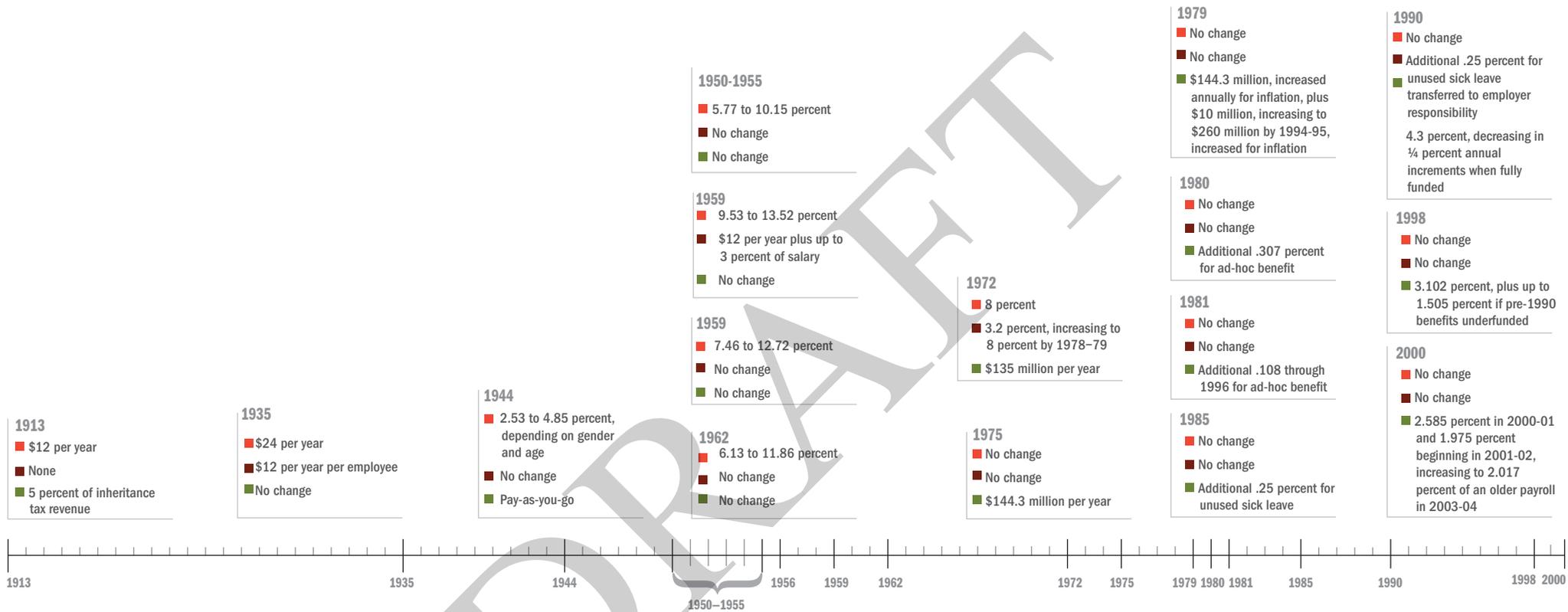
As stated above, the principal cause of the \$64 billion unfunded liability is the weak financial markets since 2000. (Over the past 20 years, however, investment returns met the current 7.5 percent annual investment return assumption.) If investment returns had equaled the currently assumed rate of return of 7.5 percent since 2000, the DB Program would have had sufficient assets as of June 30, 2011 to fund 103 percent of its liabilities. Moreover, the magnitude of the shortfall has increased throughout the decade because the amount contributed by the state and the employer was a decreasing percentage of the amount needed to maintain full funding of the program. In 2001-02, when the DB Program first became underfunded, the state and employer contributed 90 percent of the amount needed to fully fund the program within 30 years. By 2011-12, that percentage had declined to 46 percent.

The Teachers' Retirement Board first explored options to address the unfunded liability in 2004, following adoption of the June 30, 2003, actuarial valuation, which determined: that there was a \$23.1 billion unfunded liability; the actuarial value of assets represented 82 percent of program liabilities; and the future contributions and investment returns were projected to be insufficient to amortize the unfunded liability over any time period. Since that time, the board has regularly communicated with the Legislature the increasing size of the funding shortfall, in transmitting both the annual actuarial valuation of the DB Program, and CalSTRS annual financial report. During that time, CalSTRS has also continually communicated with stakeholder groups on the funding shortfall, and facilitated their understanding on the need to increase contributions to address the funding shortfall.

HISTORY OF DB PROGRAM FUNDING

The funding of the DB Program has changed substantially in the 100 years since CalSTRS was established in 1913. This is summarized in the timeline shown on the next page.

- Member Contributions
- Employer Contributions
- State Contributions



Contribution Rate History

In 1913, what is now the DB Program had only two sources of contributions—a \$12 per year contribution from members and a state contribution equal to five percent of the revenue generated by the state's inheritance tax. The employer did not make a contribution until 1935, when it began to make a \$12 per year contribution. The member's contribution increased to \$24 per year at the same time. Members who were first hired in 1935 or afterward contributed a total of 4 percent of salary, of which only the first \$24 was credited to the monthly benefit, with the balance credited to the member's annuity account, similar to the current DBS account.

The next significant change in program funding occurred nine years later in 1944, when the member's contribution changed from a flat dollar amount to a percentage of compensation that depended on the age and gender of the member. In addition, the state's contribution changed from a percentage of inheritance tax revenue to a pay-as-you-go payment, in which the state paid the difference between the resources available and the cost of benefits in a given year.

The contribution rate charged to members, still based on the member's age and gender, varied for 28 years, from 1944 until 1972, when it became a flat 8 percent for all members. The payment made by the state also changed in 1972, when it changed from a pay-as-you-go contribution to a flat dollar amount of \$135 million. This flat dollar amount was modified a few times throughout the 1970's, until it reached about \$400 million by 1990, and increased each year thereafter. Additional state contributions, based on a percentage of pay, were enacted in the 1980's to fund specific benefit enhancements. The employer contribution was changed in 1972 to a flat 3.2 percent of earnings, and that contribution rate increased gradually over the balance of the decade, until it reached 8 percent in 1978-79.

The next significant change in program funding occurred 12 years later, in 1990. The employer's contribution was increased from 8 percent to 8.25 percent, when the financial responsibility for funding the conversion of unused sick leave to service credit at retirement was shifted from the state to the employer. In addition, the flat dollar contribution by the state was replaced with a contribution rate equal to 4.3 percent of the member's compensation, in addition to the other contributions levied for previously authorized benefit enhancements, for a total of 4.607 percent in 1997. The 4.3 percent contribution would gradually be eliminated if and when the DB Program became fully funded, which at the time was anticipated to be in 40 years. As a result of the superior investment returns in the 1990's, however, the DB Program became fully funded in 1998. In 1998 and in 2000, the state's contribution was reduced but made permanent in legislation that also provided additional benefit enhancements to members, most of which will not apply to CalSTRS 2% at 62 members, and which were primarily intended to encourage educators to continue to work rather than retire. The 1998 legislation also provided for a limited increase in the state's contribution if there was a normal cost deficit or unfunded liability associated with the benefit program in place on July 1, 1990. Because there currently is an unfunded liability associated with the July 1, 1990, benefit program, the state's contribution has been increasing annually, and will continue to do so under current law, until it reaches its maximum statutory rate of 3.522 percent in 2015-16. For the ten years beginning in 2001, the member's contribution to the DB Program was reduced to 6 percent, with the remaining 2 percent of compensation the member contributed to CalSTRS credited to the member's DBS Program account. In 2011, the member's contribution to the DB Program was returned to the prior rate of 8 percent.

MEANS TO IMPROVE DB PROGRAM FUNDING

There are three ways to improve the funding of the DB Program. The first approach is to improve the return from investing program assets. The board regularly evaluates the allocation of program assets to maximize its return on investment while maintaining an appropriate level of risk. Although the board could increase its allocation of assets in a manner that would be expected to provide higher returns in the long-run, doing so would expose the investment portfolio to even greater volatility and risk. In addition, although the DB Program has, in the past, earned investment returns that enabled it to eliminate an unfunded liability much sooner than expected, based on the June 30, 2011, actuarial valuation, as adjusted for the impact of AB 340 and the 2011-12 investment return, it would require five consecutive years of over 17 percent annual returns, followed by 25 years of meeting the assumed investment return of 7.5 percent annually, to become fully funded in 30 years, or almost 10 percent annual returns for 30 years to achieve full funding. Given the current allocation of program assets, there is about a 15 percent chance that such returns could be realized in the future.

The second approach is to reduce program liabilities by reducing benefits. As mentioned before, the benefits provided by a public retirement plan, such as the DB Program, are contractual obligations, and California Supreme Court decision, effectively prohibit a reduction in the accrual of future benefits for existing members. Generally, DB Program benefits only can be reduced for future members, as occurred in AB 340. Moreover, as discussed earlier, the financial challenges facing the DB Program were not caused by the benefit structure, but by the extraordinarily weak financial markets since 2000. The revenues generated from contributions made by members, employers and the state are more than adequate to cover the normal costs of both the current and the new benefit formula, if actuarial assumptions are met.

In addition, AB 340 addressed the weakest aspects of the plan design, by further reducing opportunities for future members to enhance their benefits in an inadequately funded manner through late-career compensation increases. Finally, the impact of such additional reductions in benefits would likely significantly undermine the retirement security of affected members. For example, assuming there is no significant change in when future members retire, the benefit, as a percentage of final compensation, that the average retiring member will receive under CalSTRS 2% at 62 formula is likely to be under 50 percent, and, because DB Program members do not participate in Social Security, this would represent the only ongoing source of retirement income from their public education service. As discussed earlier, the benefits that will be paid to future members are comparable to the benefits paid to those receiving typical corporate pension plan benefits, when the latter's Social Security benefits are included. Any significant further reduction in benefits paid to future CalSTRS members would likely reduce the financial security of those future members to a level below retiring private sector employees.

One idea that has been suggested to reduce DB Program liabilities for future members is to require they participate in Social Security for their public education service, and reduce the benefits paid under the DB Program. The CalSTRS independent actuary analyzed the cost of mandating future members into Social Security. Their analysis indicated that including DB Program members into Social Security would require either (1) a substantial total increase in

costs incurred by affected members and their employers to pay the Social Security payroll tax, even after considering the reduction in their CalSTRS-related costs, or (2) further undermine the member’s overall retirement security by reducing DB Program benefits in order to reduce DB Program contributions to offset the cost of the Social Security payroll tax. In other words, the cost of providing benefits to California public educators exclusively through the DB Program is less than it would cost to provide those same benefits from a combination of a reduced DB Program and Social Security. This is primarily because CalSTRS reduces its program costs by pre-funding its benefits, that is, investing contributions received while the member is working, an attribute that does not exist in Social Security.

The final approach is to increase contributions. As stated before, contribution rates are set in statute, not by the Teachers’ Retirement Board, and, as the above history of those rates indicates, have been extraordinary stable, with the member and employer contribution rate not having been increased since 1972 and 1990, respectively, and the state’s contribution rate being lower than it was in 1997. Moreover, the percentage of compensation that is contributed toward the retirement of a DB Program member in 2012-13 is considerably below the amount contributed toward the retirement of California school or state employees covered by CalPERS, when the payments made towards Social Security are included, as indicated in the following table.

	Employee Defined Benefit	Employee Social Security	Employer Defined Benefit	Employer Social Security	State	Totals
CalSTRS	8.00%	N/A	8.25%	N/A	5.29%	21.54%
CalPERS School	7.00%	6.20%	11.42%	6.20%	N/A	30.82%
CalPERS State Misc.	8.00%	6.20%	19.65%	6.20%	N/A	40.05%

As previously noted, since 2003, when CalSTRS first started discussing the need to address the funding shortfall, CalSTRS has worked to educate stakeholder groups on the need to increase contributions to address the shortfall. As a result, organizations representing CalSTRS members have expressed a willingness to increase the contribution rate imposed on all affected parties, including members.

ADDRESSING THE DB PROGRAM SHORTFALL

Senate Concurrent Resolution 105 (Negrete McLeod), adopted in 2012, encourages CalSTRS, “in consultation with affected stakeholders, including, but not limited to, the Department of Finance and organizations representing members and school employers, to develop at least three options to address the long-term funding needs of the Defined Benefit Program in a manner that allocates any increased contributions among members of the system, school employers, and the state, consistent with the contractual rights of existing members, and submit those options to the Legislature before February 15, 2013”. CalSTRS has been meeting with stakeholders to identify a variety of approaches that could be taken by the Legislature and the Governor to address the funding of the shortfall.

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 that objective should 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?

1. Define the Financial Objective

The first issue that must be decided is the financial objective that the Legislature and the Governor desire to achieve. CalSTRS has identified four alternative objectives, and, for purposes of responding to SCR 105, CalSTRS considers these alternatives to represent the options that the Legislature encouraged CalSTRS to develop.

- Fully fund the DB Program. Both accounting standards and fiduciary responsibility would dictate that the program be fully funded; that is, to have sufficient assets on hand at a specific time to pay all liabilities that have accrued as of that date. (As of June 30, 2011, the actuarial value of assets was sufficient to fund 69 percent of the program liabilities.) Having sufficient funds on hand in the program minimizes the long-term cost of the program because CalSTRS can invest those funds to generate assets to pay liabilities that would otherwise have to be funded from increased contributions.

The increase required to fully fund the program, however, would be significant. If implemented on July 1, 2014, the total contribution rate from all sources would have to increase by the equivalent of a projected 15.1 percent of compensation to fully fund the program in 30 years. Such a change would require a projected increased initial total annual contribution at that time of about \$4.5 billion from all combined sources.

- Establish a funding target. An alternative objective is to achieve a specific funded ratio. Under this objective, the contribution rate is set such that a specific targeted funded ratio is projected to be reached by a specified date. It is often cited that a pension fund that is at least 70 or 80 percent funded is fiscally healthy. Under the federal Pension Protection Act of 2006, large private sector pension plans are considered at risk of defaulting on their liabilities if they have less than 80 percent funded ratios under standard actuarial

assumptions and less than 70 percent funded ratios under certain additional ‘worst-case’ actuarial assumptions.

Although useful as a general benchmark, the level of funding is less relevant in determining the long-term viability of a pension fund than the direction in which that funding level is headed. For example, a pension program that is currently 85 percent funded, but which, given current contribution rates, liability accruals, and economic and demographic expectations, is projected to experience continuing declines in that funding level is, in fact, in worse shape, in the long-run, than a plan that is currently 50 percent funded, but given those same considerations, is projected to be heading toward full funding.

Nonetheless, program financing could be set to target a specified funding level for a specified future date. In this specific situation, given the current trajectory of the DB Program funded ratio towards zero percent, establishing a reasonably high target would in fact substantially improve the financial viability of the program. If implemented as of July 1, 2014, the total contribution rate from all combined sources would have to increase by the equivalent of a projected 12.1 percent of compensation to fund 80 percent of program liabilities in 30 years. Such a change would require an increased projected initial total annual contribution at that time of about \$3.6 billion from all combined sources.

- Increase contributions to *avoid* full depletion of assets. Although full funding of the DB Program is the optimal goal, it isn’t necessary to achieve that level of funding in order for the program to have long-term financial viability. A third, more modest outcome would be to set contribution rates such that, given actuarial assumptions, there will always be projected to be sufficient assets in the fund to pay benefits that are payable in that year, even if the DB Program never becomes fully funded. Because this objective is more modest than full funding, the cost of avoiding a depletion of assets requires lower increases in contributions. If increased as of July 1, 2014, the total contribution rate from all combined sources would have to increase by the equivalent of a projected 9.5 percent of compensation to avoid depleting the program assets. Such an increase would require a projected total increased initial annual contribution at that time of about \$2.9 billion from all combined sources.
- Increase contributions to *delay* full depletion of assets. Finally, contribution rates could be increased to delay when the DB Program fully depletes its assets. This outcome requires the smallest short-term increases in contribution rates, but also accomplishes the least in addressing the long-term funding needs of the DB Program. As a result, it is the least desirable, and ultimately the most expensive alternative identified. Under this outcome, the DB Program would ultimately deplete its assets, given its actuarial assumptions, but that depletion would be delayed for a period of time. A five percentage point increase in the contribution rate beginning in 2014 would, for example, delay the projected date in which program assets were depleted to 2058. The projected initial annual cost of such an increase would be \$1.5 billion. Such an approach would not “solve” the problem; the Legislature would almost certainly have to make further changes at a future date to provide long-term viability to the program.

2. Determine the Period of Time to Achieve Objective

The required contribution rate increases cited above assume that, where applicable, the financial objective is achieved within 30 years, a time frame that is consistent with governmental pension accounting standards. In addition, the faster the objective is achieved, the less it costs to achieve that objective in the long run, because CalSTRS has assets to invest earlier.

There is no legal requirement, however, that an objective be achieved within any specific timeframe. Lengthening the number of years available to achieve the objective will reduce the required increased contribution, because the unfunded liability is being paid off over more years. This is analogous to a home mortgage. A homeowner with a 30 year mortgage will have lower individual mortgage payments than a second homeowner with a 15 year mortgage, because the first homeowner is paying off the mortgage over twice as long a period of time, and less of the mortgage principal is being paid off in any single payment. However, because interest continues to accrue on the mortgage, the first homeowner will end up paying more in total than the second homeowner.

Extending the period  that a specific objective in funding the DB Program is achieved would have a similar impact. Fully funding the DB Program over 30 years, beginning in 2014, requires a projected increased contribution rate of 15.1 percent, whereas a 75 year amortization period only requires a projected increased contribution rate of about 9.7 percent, and the projected initial annual cost would be reduced from \$4.5 billion to \$2.9 billion, a reduction of \$1.6 billion. In the first instance, however, a projected total of \$121 billion (adjusted for inflation) in increased contributions would be paid, while the longer amortization period, even though the annual payment is less, would require a projected total payment of \$254 billion. Similarly, achieving an 80 percent funded ratio in 30 years would require a projected increase in contribution rates of 12.1 percent, beginning in 2014. Reaching that level over 75 years would reduce the required projected increase in the contribution rate to 9.3 percent, reducing the projected initial annual cost by \$864 million, although the total projected increased contributions would increase from \$97 billion to \$243 billion.

There is, however, a risk associated with substantially lengthening the period of time the shortfall is addressed because if investment markets underperform the assumptions, the funding shortfall becomes more difficult to address. On the other hand, any increase in program resources improves the funding situation as compared to current law.

3. Determine When Contribution Rate Increases Begin

A third issue is when contribution rates begin to increase. As indicated earlier, fully funding the DB Program over 30 years beginning in 2014 would require a projected contribution rate increase of 15.1 percentage points. The projected fiscal year 2014-15 cost of that increase would be \$4.5 billion. If legislation was enacted in 2013 to impose such a contribution rate, the parties responsible for paying that increase would have less than a year to accommodate that increase in their spending plans. Each one percentage point increase in contributions paid by employers in 2014 is projected to increase their costs by \$300 million, while a similar increase in the state

contribution rate would cost the General Fund about \$279 million. A one percentage point increase in the member's contribution rate would cost the average member about \$700 per year.

Just as the period of time over which an objective is achieved can be extended, the implementation of a contribution rate can be deferred. This would allow time for adjustments to be made to spending plans to accommodate the increased cost. Because the unfunded liability would continue to increase as implementation of a contribution rate increase is deferred, the contribution rate required to achieve that objective also would increase. As a result, a trade-off is being created between short-term avoidance of increased costs and long-term increased costs. For example, delaying an increased contribution to fully fund the program in 30 years from 2014 until 2016 would increase the projected required contribution rate increase by about one percentage point. There would be a similar projected impact of a two-year delay in a program to increase the funded ratio to 80 percent in 30 years.

4. Establish the Speed of Contribution Rate Increases

The estimates above are based on contribution rates being increased all at one time. Just as an immediate increase in contributions would strain the budget, so too would increasing the contribution rates to the new level in one step. It has always been CalSTRS expectation that any increases in contribution rates would be gradual, in order to allow absorption of those increases in spending plans. A gradual increase in contribution rates, however, has the same type of impact as a deferred implementation of the increase. Although the increased cost per year will be less if the increases occur gradually, the total cost will be higher, as will the total increased contribution rate required to achieve an objective. For example, fully funding the DB Program in 30 years requires an increased projected contribution rate of 15.1 percentage points. Imposing that increased contribution rate in three percentage point annual increments requires the contribution rate to increase by a projected total of 17.2 percentage points. Increasing the funded ratio to 80 percent in 30 years requires a projected 12.1 percentage point increase in contributions; increasing the contribution rates in three percentage point annual increments would increase the total required projected increase to 13.3 percentage points. Although the increased costs of achieving either objective would occur more gradually over time if the increases are implemented incrementally, the ultimate cost of achieving either objective would be higher if contribution rates are increased incrementally.

Between the timing of the contribution rate increase and the number of years over which that increase takes place, the rate of speed of the increase in contribution rates can have a more substantial impact on the effectiveness of a contribution rate increase than would the commencement of the increase, if the contribution rates are increased significantly. For example, if the total contribution rate from all combined sources were to increase by the equivalent of 15.1 percent of earnings in 2014, the DB Program is projected to be fully funded in 2044. If that increase were delayed by two years until 2016, the projected funded ratio in 2044 would be reduced to about 89 percent, and the full funding of the program is projected to be delayed by five years, until 2049. On the other hand, if total contributions were increased by one percentage point each year beginning in 2014, until the total rate had increased by a total of 15 percentage points, the projected funded ratio in 2050 would be 73 percent. If the contribution rate increased by the same 15 percentage points, in increments of only $\frac{1}{2}$ percentage points each year beginning

in 2014, the projected 2050 funded ratio would be 41 percent, and a $\frac{1}{4}$ percentage point annual increase in the contribution rate would result in a projected 2050 funded ratio of 7 percent. If, however, the total contribution rate increase is relatively small, the timing of when those increases begin is more significant than how quickly they increase.

There is, in addition, a limit on how small the annual increment in the contribution rate can be and still have a meaningful impact on funding the DB Program. The smaller the annual increase, the less time that CalSTRS has to invest the additional funds, and the larger the total increase in the contribution rate would need to be to achieve a particular objective. Moreover, there may not be sufficient number of years for the contribution rate to reach its ultimate total. For example, if the annual increase in the contribution rate imposed were to be limited to $\frac{1}{4}$ percent annually for 30 years, the rate would only be able increase by 7.5 percentage points, to 15.75 percent, and the DB Program would be projected to deplete its assets in 2053. If the annual increment were $\frac{1}{2}$ percentage point, increased contributions would be invested sooner, and the total contribution could increase by 15 percentage points within the same period of time. Under that approach, DB Program would be projected to be 53 percent funded in 75 years.

Although a moderately delayed implementation of a program to address the funding shortfall may have a more limited impact on the effectiveness of the program, an earlier enactment of the program through legislation, even with delayed implementation, could materially affect the finances of school employers. The Governmental Accounting Standards Board (GASB) is an independent organization that sets accounting and financial reporting standards for state and local governments. Under recently approved GASB standards, public employers who are responsible for funding pension liabilities are required to disclose those liabilities within their financial statements. (These standards, however, do not affect how a pension fund is actually financed.) These financial statements may affect the interest rate that the employer pays when it has to issue debt to, for example, construct or improve its infrastructure, such as schools, in the case of a school employer, as well as the perceived impact of pensions on their finances.

One component of that disclosure is how the liability is calculated if projected assets are insufficient to pay projected liabilities. For those liabilities in which projected assets are sufficient, the liabilities are determined based on the assumed investment return, or 7.5 percent in the case of the DB Program. If the assets are insufficient to pay all liabilities, then the liabilities for which there are no projected assets are calculated based on the 20-year general obligation municipal bond index rate, which is currently about 3.5 percent. This will significantly increase the liability of employers on their financial statements, which could affect other aspects of their financial program.

The new standards first apply to financial statements issued for the 2014–15 fiscal year. The liabilities disclosed in that initial statement will be based on the valuation of assets and liabilities as of June 30, 2014. If legislation is enacted in this legislative session that materially affects the funding of the DB Program, even if the enacted changes aren't implemented until a future year, the June 30, 2014, valuation will reflect those projected additional resources available to fund the program liabilities. Depending on the magnitude of those increases, the liabilities reflected in those initial statements would, to at least a greater extent, be calculated based on the assumed investment return rather than the municipal bond rate, significantly reducing the employer's

liabilities on their financial statements, and increasing their ability to issue bonds for other parts of their programs. In order to fully avoid reflecting a lower discount rate in projecting liabilities, however, that legislation must increase contributions in the future that avoid a projected point in which program assets are entirely depleted, in accordance with GASB standards. Consequently, achieving this objective would necessarily preclude funding approaches that only marginally increase contribution rates. If the legislation is enacted in 2015 or later, however, the initial financial statements will reflect a larger liability based on the municipal bond rate.

The figures above project the impact of changing either an alternative objective, an alternative time period, an alternative starting point or an alternative rate of contribution increases. The exhibits below illustrate the implications of varying more than one of these considerations. The first set of examples illustrate the impact of fully funding the DB Program over either 30 or 75 years, beginning in either 2014-15 or 2016-17, and with contributions increasing at the rate of either three percentage points per year or 1.5 percentage points per year. The second set of examples illustrates the impact of targeting an 80 percent funded ratio, with the same variations in the different issues. The examples also illustrate how the ratio of program assets to program liabilities is projected to change over time under each specific example.

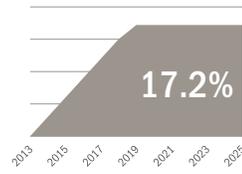
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Contribution Increases for Specific Targets

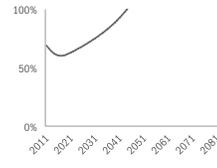
All scenarios based on the June 30, 2011, Actuarial Valuation, adjusted per Chapter 296, Statutes of 2012, and 2011-12 investment return.

Once full funding is reached, the increased contribution rates can be eliminated.

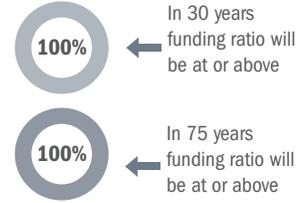
Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
Example	100%	30 years	3%	2014-15



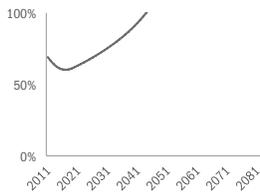
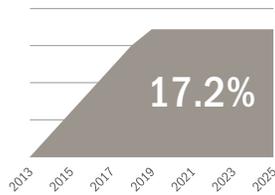
Contribution rate increase, as a percent of payroll
The total additional contribution needed to meet the target funded ratio over the specified timeframe. Contribution rate will be slightly higher if allocated among members and the state.



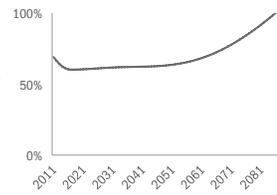
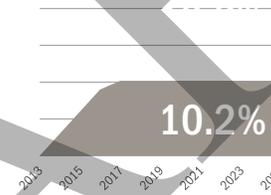
Resulting funded ratio
Note that in each scenario, the funded ratio is expected to decline before increasing to the target funded ratio.



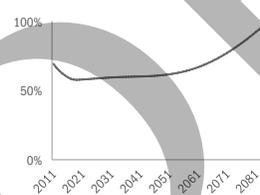
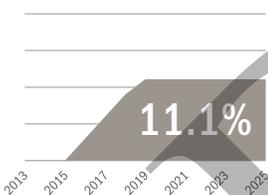
Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
1	100%	30 years	3%	2014-15



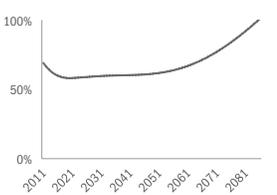
Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
2	100%	75 years	3%	2014-15



Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
3	100%	75 years	3%	2016-17



Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
4	100%	75 years	1.5%	2014-15

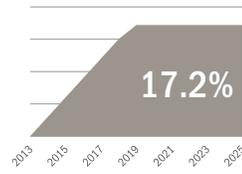


Contribution Increases for Specific Targets

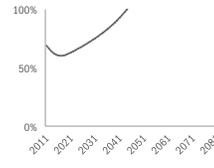
All scenarios based on the June 30, 2011, Actuarial Valuation, adjusted per Chapter 296, Statutes of 2012, and 2011-12 investment return.

Once full funding is reached, the increased contribution rates can be eliminated.

Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
Example	100%	30 years	3%	2014-15



Contribution rate increase, as a percent of payroll
The total additional contribution needed to meet the target funded ratio over the specified timeframe. Contribution rate will be slightly higher if allocated among members and the state.



Resulting funded ratio
Note that in each scenario, the funded ratio is expected to decline before increasing to the target funded ratio.

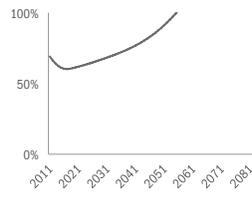


In 30 years funding ratio will be at or above

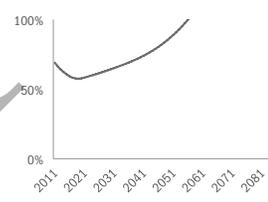
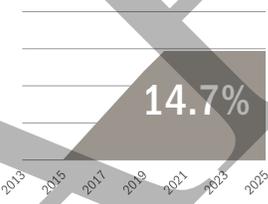


In 75 years funding ratio will be at or above

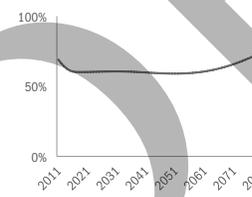
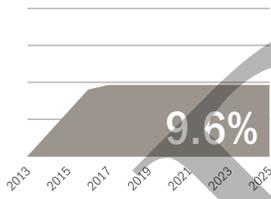
Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
5	80%	30 years	3%	2014-15



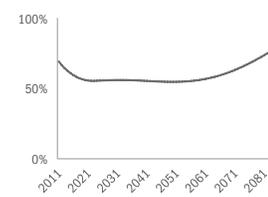
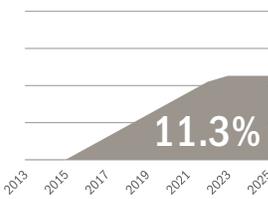
Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
6	80%	30 years	3%	2016-17



Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
7	80%	75 years	3%	2014-15



Scenario	Target Funding	Timeframe	Annual Rate Increase	Start Date
8	80%	75 years	1.5%	2016-17



The four scenarios that illustrate contribution rate increases to achieve an 80 percent funded ratio demonstrate the impact of earlier rate increases compared to rapid accelerations of contribution rates. The difference between Scenario 5 and Scenario 6 is that the contribution rates in Scenario 5 begin in 2014-15, while the increases in Scenario 6 begin in 2016-17. Because of that two year delay, the projected total required increase in contribution rates is 1.3 percentage points more in Scenario 6. On the other hand, the difference between Scenario 7 and Scenario 8 is that in Scenario 7, contribution rates increase by three percentage points per year, compared to the 1.5 percentage point annual increase in Scenario 8. Because contribution rates increase more rapidly under Scenario 7, the projected total increase in contribution rates required in Scenario 7 is 1.6 percentage points less than is required in Scenario 8. In addition, as a comparison of the projections in Scenario 3 and Scenario 4 indicate, a more rapid annual increase in contribution rates (as assumed in Scenario 3) can offset the effect of a delayed implementation.

5. Decide How Contribution Rate Increases Get Allocated

Once the total amount by which contribution rates need to be increased is determined, the Legislature must determine how to allocate those increases among members, employers and the state. Although there are no contractual impediments to increasing the contribution rates paid by future members, employers and the state, the ability to increase the contributions paid by current members is limited by the contractual nature of that contribution rate. Under California law, benefits earned by DB Program members, including benefits earned from future service by those members, cannot be reduced, and contributions paid by CalSTRS members cannot be increased once they are hired to perform service subject to coverage in the DB Program, unless the members receive a corresponding, offsetting advantage. The only means by which the contribution rate can be increased is to provide the member with an increased benefit of comparable value. Generally, the cost of the increased benefit would offset any revenue associated with the increased contribution, negating any value of the higher contribution in addressing the funding shortfall.

One instance in which the contribution paid by current members could be increased without requiring an offsetting increase in liabilities is the annual 2 percent benefit adjustment. This benefit is not contractually guaranteed because the Legislature explicitly reserved the right to reduce or eliminate the 2 percent annual benefit adjustment. As a result, the Legislature could reduce liabilities for existing members by making changes to the adjustment. However, because the statute requires the adjustment be paid, subject to the enactment of future legislation to modify it, the actuarial valuation of the DB Program reflects the cost of providing the adjustment. If legislation was enacted that eliminated that explicit legislative reservation, such that the 2 percent benefit adjustment was guaranteed in the same manner as the other DB Program benefits, there may be a legal basis to increase the contributions paid by current members because they would receive a comparable advantage from the benefit now being guaranteed. Nonetheless, because the cost of providing the benefit adjustment is already reflected in the financing of the DB Program, there would be no additional cost to the program. Based upon legal analysis by outside counsel a guarantee of the 2 percent improvement factor would likely be determined to be a comparable advantage compared to a similar increase in contributions. (This analysis was based on a prior investment return assumption of 7.75 percent

annually; given the current assumption of 7.5 percent, the maximum increase in contributions is now slightly higher.)

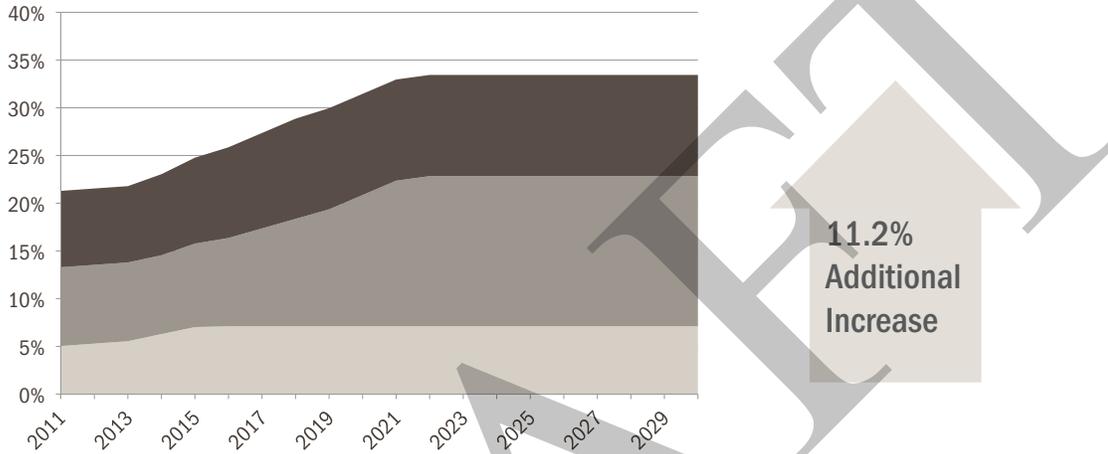
In addition, although there is no legal impediment to an increase in employer contributions, such increases could ultimately require the state to provide more funding to K-12 and community college education under Proposition 98. Both the Legislative Counsel and the Attorney General were asked in 2006 whether an increase in the statutorily-required employer contribution to the DB Program would result in an increase in the state's obligation to schools under Proposition 98. The Attorney General concluded it did not, but the Legislative Counsel opined that if the increased contribution was to fund the benefit program in effect in 1986–87, the state's obligation under Proposition 98 would increase to offset that amount. Some stakeholder groups might believe the state's obligations would increase under any circumstances of an increased employer contribution. Resolution of that legal issue should be attempted in order for the Legislature and the Governor to understand the true impacts of changes in contribution rate increases.

A specific increase in the contribution rate will have a slightly greater impact if paid by the employer rather than the member or the state. This is because for members who terminate their employment and refund their contributions, those contributions are not available to fund benefits in the DB Program. In contrast, the employer's contribution for that member remains in the program, and is available to fund benefits paid to the remaining members of the DB Program. In addition, the contribution paid by the state is based on the compensation paid to members two years before the contribution is paid by the state, whereas the employer contribution is made on the current payroll. To the extent that total compensation increases annually, therefore, the amount of money contributed by the state from a specific increase in the rate will be less than the amount paid by an employer for that same percentage increase in the contribution rate. The difference in the dollar amount contributed by the state from the same percentage increase in the rate paid by the employer, however, is currently 6.6 percent, while the difference in the net dollar amount contributed by members from the same percentage increase in the rate paid by the employer is about 3 percent.

The examples below provide examples of how contributions increased under two of the scenarios illustrated earlier (Scenario 4 and Scenario 8) could be allocated among current and future members, employers and the state, in a manner that reflects the legal constrictions imposed on member contributions. Although the approach ultimately adopted in legislation to address the funding shortfall will likely differ from any of these examples, these examples illustrate the implications of these approaches on individual stakeholders.

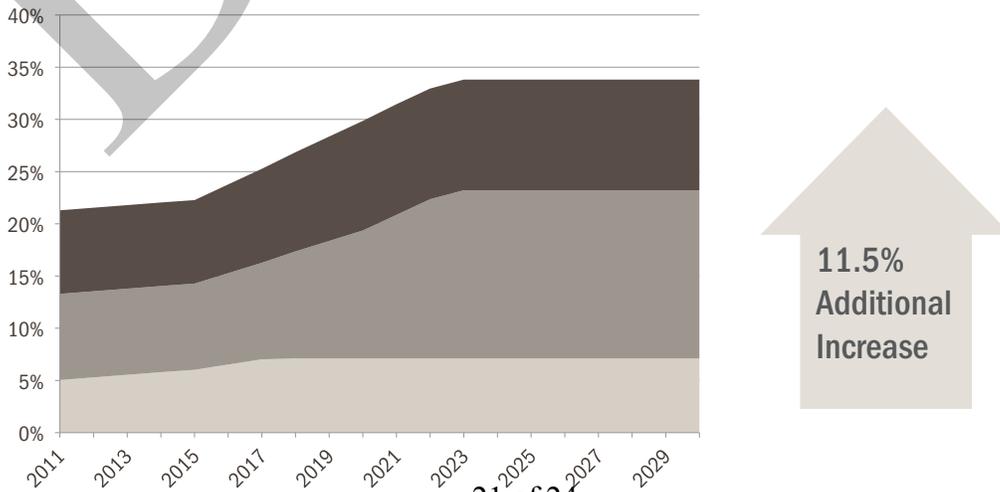
Scenario	Target Funding	Timeframe	Start Date
4	100%	75 years	2014-15

	Annual rate of increase	Total additional contribution	Existing contribution rate	Total contribution rate
Members	0.5%	2.6%	8%	10.6%
Employers	Initially 0.5%, increasing to 1% in 2016-17, increasing to 1.5% in 2019-20	7.48%	8.25%	15.73%
State	0.5	1.085%	3.522% and 2.5% for SBMA	7.107%



Scenario	Target Funding	Timeframe	Start Date
8	80%	75 years	2016-17

	Annual rate of increase	Total additional contribution	Existing contribution rate	Total contribution rate
Members	0.5%	2.6%	8%	10.6%
Employers	0.5%, increasing to 1% in 2018-19, increasing to 1.5% in 2021-22	7.86%	8.25%	16.11%
State	0.5	1.085%	3.522% and 2.5% for SBMA	7.107%

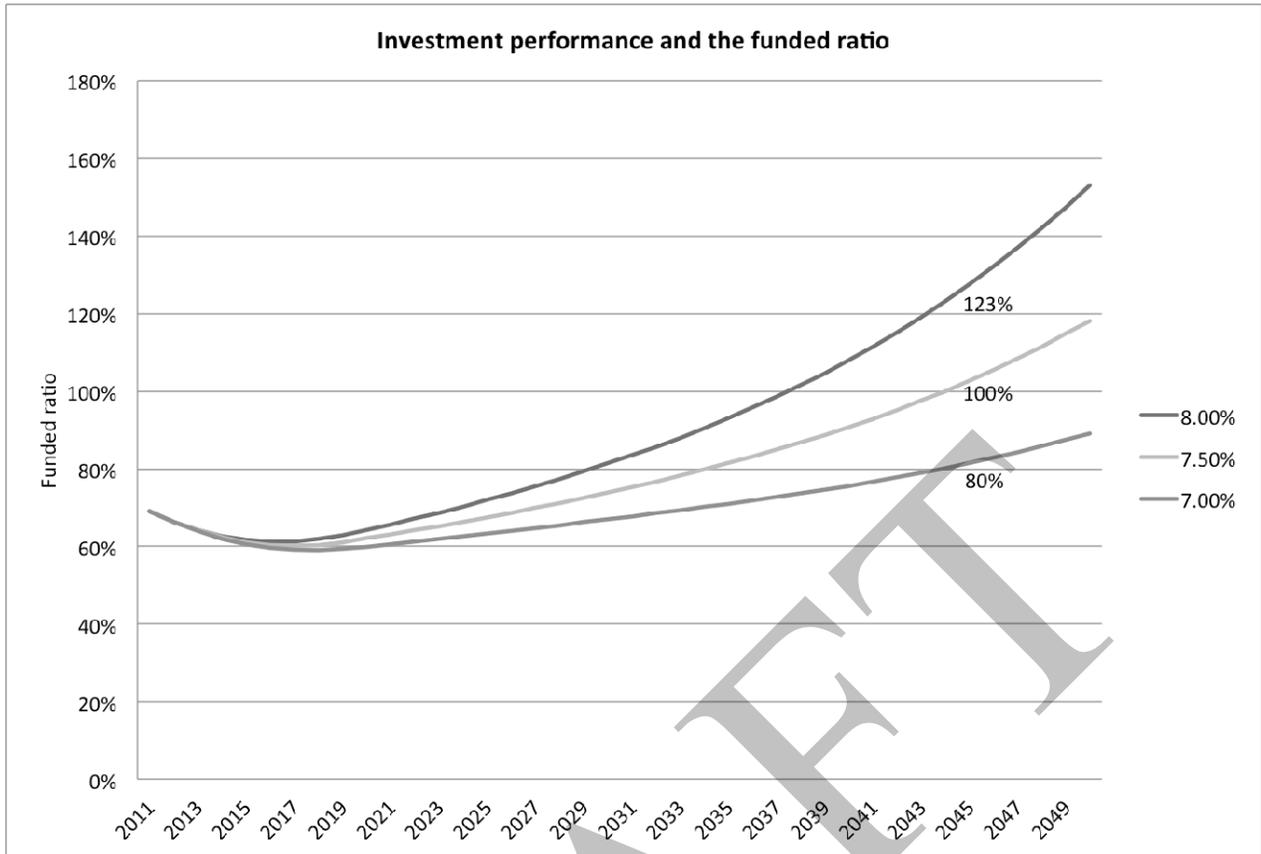


These examples illustrate that, depending on how much of the increased contribution is allocated to members and the state, the total increase in required contributions will be higher than the increases indicated for those scenarios on page 21 because, as discussed earlier, a one percentage point increase in the member or the state contribution rate generates less in contributions than a one percentage point increase in the employer contributions rate. In addition, it is likely that the employer rate will increase by more percentage points per year in later years as member or state contribution rates reach whatever maximum contribution rate is enacted in the legislation that increases contribution rates. Finally, because of the two-year delay in implementing the increase under Scenario 8, a larger total contribution rate is required in Scenario 8, even though it results in a lower funded ratio than Scenario 4.

6. Establish a Date to Re-evaluate DB Program Funding

The outcomes shown above assume that CalSTRS meets all the economic and demographic assumptions underlying the actuarial valuation of the DB Program, in particular, that CalSTRS earns 7.5 percent annually from investing program assets. It is expected that in any one year, the rate of return on the portfolio will either be higher or lower than the assumed rate. As a result, over the long-term, such as 75 years, there is a high probability that implementation of any of these scenarios will either result in (1) too little funding being provided to prevent the complete depletion of program assets, although at a later date than the currently projected 2046, or (2) too much funding, resulting in the accumulation of program assets over 75 years that exceed 110 percent of program liabilities. In fact, in any of these scenarios, or in any other scenario in which CalSTRS undertook a preliminary analysis, the probability of too little or too much funding being provided during the next 75 years exceeded 85 percent, although different scenarios resulted in different probabilities of too little funding being generated. To the extent that the desired outcome is a substantially greater level of funding, there is a higher probability that assets could ultimately significantly exceed liabilities; conversely, if the desired outcome is more modest, there is a greater probability that assets will be insufficient to pay future liabilities.

One means of illustrating this sensitivity is by comparing projected funded ratios over time based on different investment assumptions. The graphic below shows how the projected funded ratio under Scenario one would change if contributions rates were increased by the amount needed to fully fund the DB Program in 30 years beginning in 2014, based on a 7.5 percent investment return. It compares those funded ratios to the projected ratios over time that would be achieved if investment returns were seven percent or eight percent annually.



This uncertainty of investment returns, and its impact on the ultimate success of a funding program, indicates that the Legislature, in enacting a funding program during the 2013-14 Regular Session as intended by SCR 105, should expect to re-evaluate the need for additional changes in program funding sometime in the next ten to 15 years, either to address a situation in which investments continue to generate returns below expectations, in which case further increases in contribution rates would be required, or investment returns exceed expectations, in which case some of the enacted increases in contributions could be reversed. This reevaluation could be in the form of direction that either (1) the Governor sponsor legislation at a specific future date that modifies future contribution rates to maintain an appropriate level of long-term funding or (2) the 2013-14 legislation enact specific future adjustments to the contribution rate program in response to specified funding conditions at a future date.

CONCLUSIONS

The weak financial markets of the past decade, together with the fact that contribution rates were not adjusted in response to the low returns, have undermined the long-term funding of the Defined Benefit Program, which can only be effectively addressed by increasing the contributions paid by a combination of members, employers and the state. Implementation of that funding program requires the enactment of legislation by the Legislature that is approved by the Governor. Although such a program will have a significant impact on those stakeholders responsible for paying the higher contributions, those impacts can be mitigated by increasing those contributions in a gradual manner that is sensitive to the budgetary needs of the

stakeholders. This report identifies the decisions the Legislature and Governor must consider in order to address the long term funding shortfall in the CalSTRS DB Program.

Although increases in contributions can be deferred and gradually implemented, the sooner these increases become effective, the less costly it ultimately will be to those who pay the higher contributions, and the less impact that a pension funding shortfall will have on school employer abilities to implement their own financial program. In addition, it is extremely likely that any fixed contribution program in the long run will result in excessive or inadequate resources to fund the benefits, if the funding program is never adjusted. Consequently, the Legislature will need to establish a mechanism in the funding legislation that facilitates the adjustments needed to maintain an appropriately funded benefit program.

CalSTRS stands ready to assist the Legislature and the Governor as requested to help them enact a solution to provide long-term viability in this important component of a public educator's retirement security.

DRAFT