CalSTRS Report, November 7, 8, 9, 2012

By Patricia K. Geyer, CalRTA Liaison

CalSTRSreport.com

Summary

1. The compensation formula for executive management and investment staff was changed to a modified public fund compensation group of the 10 leading public institutions (2/3), and private funds (1/3).
2. The Board Governance Committee updated the placement agent policy to be in agreement with SB398 (Chapter 704)
3. 40% of present educators are in CalSTRS 403b plans.
4. CalSTRS will seek legislation to set standards and compensation for Chief Financial Officer, and Chief Operation Officer (Chief of Staff) and to recruit for these positions from external sources
5. CalSTRS will seek legislation to provide Retirement Progress Reports electronically
6. See the Legislative Committee report for chaptered (signed into law) legislation of interest to educators.
7. Chris Ailman, CIO, reported that interest rate possible increases posed the greatest portfolio risk.
8. CalSTRS staff recommended they add airports as possible infrastructure investments.
9. Alan Emkin, PCA reported that equity poses the greatest risk; it is three times more volatile than fixed income. The CalSTRS portfolio has reasonable exposure to growth, but not enough inflation protection.
10. The estimated 2013-14 total CalSTRS budget will be 8% higher.
11. John Stanton, Washington D.C. Consultant, reported that the fiscal cliff problems must be resolved. Congress and the President need to (1) Agree on a target for tax revenue and (2) Slow entitlement growth. The re-election of Obama is good, but Congress is still divided.
12. Anthony York, California Consultant stated redistricting and changing demographics have resulted in Democrat Party rule in California.
13. The motion to keep employee and district contribution rates the same passed
14. The CalSTRS fund is $153 billion. The next CalSTRS meetings are December 6,7, and January 10.

Compensation Committee

The committee heard an assessment of comparable pay for executive management and investment staff. The present policy is to compare CalSTRS pay with other public funds (2/3) and other private funds (1/3). Chris Ailman, CIO reported that staff turnover has doubled in the last year. Half of the staff are baby boomers and will be retiring in the next few years; in addition, financial markets are expanding and "head hunters" for other groups call often. After the passage of AB340 new hires will not have the same Defined Benefit advantages as present employees. Motion made to keep the compensation formula the same. Motion failed. McLagan Group, consultant to CalSTRS, recommended changing the compensation formula to a modified public fund compensation group of the 10 leading public institutions (2/3), and private funds (1/3). Motion to approve the McLagan Group recommendation passed with Pedro Reyes (Finance representative) and Grant Boyken (Treasurer's representative) dissenting.

Audits and Risk Management Committee

The external auditor's report for the fiscal year, 2011-12 was presented by a representative of Crowe Horwath. Audit problems are (1) inaccurate data reported by districts, (2) reliance on excel and word, (3) a shortfall of $67 billion. CalSTRS can only make payments until 2046.

Other items of interest were that teacher contributions and investment returns were both down for 2011-12. A new overlay asset class, consisting of stable return, innovation and strategic overlay was created in April 2012. New GASB accounting standards include the possible requirement that school districts recognize their portion of the CalSTRS unfunded liability in school financial statements.

Board Governance Committee

The committee updated the placement agent policy to be in agreement with Senate Bill 398 which extends the definitions of "external manager" and "placement agent".

The committee discussed insider trading policy. Ian Lanoff, Groom Law Group believed that Board members should be covered by the insider trading policy. CalPERS has a much more extensive insider trading policy. The committee discussed whether CalSTRS should do likewise. Concern was expressed about having a policy which was not excessively expensive. A general policy was suggested with more specific rules for staff. Plans are for a final insider trading policy to be adopted in June.

SB439, limited CalSTRS and CalPERS Board members from accepting gifts of more than $50 from any vendor or contractor with CalSTRS or CalPERS. SB439 was vetoed by Governor Brown. Current CalSTRS policy requires Board to disclose gifts over $50 and limit gifts to $420. Discussion followed on CalSTRS gift policy: Should all CalSTRS employees and staff be under a gift policy? What is the definition of a gift? What is the cost of a more inclusive policy?

Finally the committee heard background information on an ethics policy with the goal of completing a new ethics policy at the June meeting.

Benefits and Services Committee

For active members Retirement Progress Reports are available electronically. For those active members who want a mailed copy, one will be sent in approximately eight weeks.

The 2011-12 Defined Contribution Report was presented. Participation in the CalSTRS 403b plan grew from 3800 participants in June 2007 to 6900 participants in June 2012. 403b assets grew from $168,000,000 in June 2007 to $347,000,000 in June 2012. The CalSTRS 457 plans have increased proportionately. 40% of present educators are in CalSTRS 403b plans.

The Compensation Review Unit, established in December 2011 at the recommendation of the Anti-Spiking Task Force, has reviewed 165 cases. The general issues are: reporting compensation to the DB for an extra assignment, reporting fringe benefits or retirement incentives as DB, reporting DB benefits for a position that was created only for the member at the end of his/her career.

Other items of interest are: the Bay Area Service Center will open next summer, CalSTRS website will be redesigned. Longer phone response time is due to the loss of student interns. Additional information on the Social Security Offsets is added to the CalSTRS Progress reports at the request of CalRTA.

Legislative Committee

Mary Ann Ashley, Director of Government Affairs reported that CalSTRS will seek legislation to set standards and compensation for Chief Financial Officer, and Chief Operation Officer (Chief of Staff) and to recruit for these positions from external sources CalSTRS will seek legislation to provide Retirement Progress Reports electronically unless specifically requested otherwise.

Other chaptered (approved and signed) legislation are;
AB 178 (Gorell) changed the postretirement earnings limit to ½ of the median final compensation of all recently retired members.
SB 114 (Yee) requires employment agreements for community college adjunct and adult education instructors be submitted to CalSTRS.
SB 955 (Pavley) authorizes CalSTRS and CalPERS to prioritize investing in in-state infrastructure.
SCR 105 (Negrete McLeod) encourages CalSTRS to develop and submit to the Legislature, before February 15, 2013 three options that would address CalSTRS long-term funding needs.
Of additional interest was the California Secure Choice Retirement Savings Program with features like CalSTRS' cash balance and defined benefit supplement plans but for California private sector workers who do not participate in an employer savings plan. This legislation was signed into law by Governor Brown.

Investment Committee

Chris Ailman, CIO, reported that interest rate possible increases posed the greatest portfolio risk. Private real estate was a good investment at this time (underpriced). General risks in order of importance are: fiscal cliff, Euro Zone problems, changing leadership in China, stronger storms, internet attacks, and possible Iran conflict in the spring. The assets of the CalSTRS fund are $153 billion.

Infrastructure Policy review was presented by Diloshini Seneviratne. It was suggested that the Policy add airports and other large employment based infrastructure as possible investments. Prison and school investments are still not allowed. It was recommended that the maximum term of 10 years for investments be removed.

Allan Emkin, PCA continued the asset liability study with a presentation on risk exposure. Equity poses the greatest risk; it is three times more volatile than fixed income. Equity is great in a period of growth and terrible in a period of recession. U.S. equity is three times more volatile than fixed income. The CalSTRS portfolio has reasonable exposure to growth, but not enough inflation protection.

Teachers' Retirement Board

Robin Madsen, Chief Financial Officer reported that the estimated 2013-14 total CalSTRS budget will be 8% higher for a total of $12,797,465. Benefit payments increased by 8%; investment expenses increased by 8%; and the operational budget increased by 5.8%. Member and employer contributions are 2.7% lower due to fewer employees and declines in income due to furloughs.

Ed Derman, Deputy CEO stated that AB340 (Chapter 296) takes effect January 1, 2013. For new hires, it limits the amount of creditable compensation for the CalSTRS defined benefit plan to $136,440 (120% of the amount upon which Social Security payroll taxes would be paid.) At this time it is estimated to affect less than 10 members. CalSTRS recommends that it offer both a 402b and a 457b plan for employers who wish to make additional pension contributions above the $136,440 amount. CalSTRS also requests to seek legislation to authorize a 401(a) plan as a third option for employers. The Board postponed action until February.

The BusinessRenew computer project schedule has been moved back. The CARM (Corporate Accounting Resource Management) project in now projected to go live in December.

Ian Lanoff, Groom Law Group, reported that CalSTRS was looking into additional fiduciary insurance to cover (first dollar) all legal fees.

John Stanton, Washington D.C. Consultant, began his report with the statement that by 2025 all federal tax money will go to entitlements (social security, medical care) and to debt. The fiscal cliff problems must be resolved. Congress and the President need to (1) Agree on a target for tax revenue and (2) Slow entitlement growth. The re-election of Obama is good, but Congress is still divided.

On CalSTRS priorities, Stanton reported that mandatory Social Security is still "on the table". Tax reform may have implications for pension pre-tax contributions. Possibly 403b and 457 plans may be consolidated. There is still $15 million in Elk Hills money to collect. There is a federal level move to have the same rules for all retirement plans. Health care implementation will be slow.

Anthony York, California Consultant stated redistricting and changing demographics have resulted in Democrat Party rule in California. Latinos were 8% of the population in 1994; they now are 22%. Registration was 22% Democrat and 49% Republican in 1994. Now registration is 46% Democrat and 30% Republican in California. There may be initiative reform, but likely no new taxes in California. However, local taxes do pass because the public likes local control.

Ed Derman, Deputy CEO reviewed the possible contribution rates for new members. There is a slight cost savings for new hires, but the difference is very small. In addition, the contribution rates are set by statue (member contribution rates of 8% and employer contribution rates of 8.25%). There is some confusion about what AB340 (Public Employees' Pension Reform Act) and present statue require. CalSTRS staff plans to see legislation clarifying the issue next session. Nevertheless, staff recommends that the CalSTRS Board vote to leave the employee and employer rates the same for 2012-13 year. Much discussion followed with new Board members Lawson and Rosentsteil asking many questions and suggesting the decision be postponed. Jennifer Baker, CTA legislative advocate spoke forcefully about the need for a decision now so that districts could meet their 2013 payroll. The motion to keep employee and district contribution rates the same passed.

Client Advisory Committee

Staff reviewed state and federal legislation of interest. The Los Angeles USD pension contribution errors are close to being completely resolved. Jennifer Baker, CTA advocated suggested that client organizations work to help active members avoid problems of spiking. The next CalSTRS meetings are December 6,7 and January 10.

CalSTRS Report, September 6,7, 2012

By Patricia K. Geyer, CalRTA Liaison
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Summary

1. **CalSTRS will increase the audit staff from 11 to 15. CalSTRS has a 2-year audit cycle for high-risk districts**
2. **AB340 ; the public employees' pension reform act is passed and signed. New normal retirement age 62 with the 2% factor. Maximum factor of 2.4% at age 65. Cap on salary that counts toward pension, $132,000 adjusted by CPI. Three years final compensation to determine benefit. Only for new employees. (See Client Advisory section)**
3. **Loss of student interns which amount to about 100 part-time workers and the 1 day-a-month furloughs will make it difficult to meet benefit and service objectives in 2012-13.**
4. **A new CalSTRS service center is planned for San Jose/Santa Clara.**
5. **CalSTRS investment strategy is defensive. The CalSTRS fund is $152.5 billion up from $150 billion in July.**
6. **Alan Emkin, PCA, suggests considering a different CalSTRS diversification by changing the risk exposure; Present diversification is 85% Relative Return (stocks, etc-subject to growth), 9% real return (commodities-reduce inflation risk) and 6% Absolute return (treasuries-reduce major market risk).**

Audits and Risk Management Committee

The Committee heard an update on the corrective action to the Auditor's report on internal controls. The Board agreed that CalSTRS should look into under payments and over payments. Los Angeles USD computer program is now working and the data is correct. However, one remaining problem is late contributions. If a member retires; CalSTRS may begin paying the retirement check before the district sends in the last pension salary contribution as scheduled. This may show up as a late contribution.

CalSTRS underpaid 15,784 benefits in 2011-12. Underpayments increased by 2,8% primarily due to the Los Angeles USD reporting. The CalSTRS quality assurance team reviews all periodic payments in excess of $10,000 with focus on new and initial payments. The increase in furlough days will make accurate reporting of benefits problematic.

The Controller John Chung's Office presented their Review of Pension Spiking. Findings noted were: (1) Lack of significant audit management, (2) ineffective use of staff and contractors, (3) large number of unfinished audits, (4) only 2% of the schools were audited. (5) 40% of the audits had issues of possible spiking. 40% of the districts audited showed lack of internal controls to justify administrative pay increases.

Dr. Yetman, ARM Committee Financial Expert remarked that it is not economically feasible to audit all school districts. However, increase the audits that would pay. Audit and appeal staff needs increasing. Spiking will never be stopped; the incentives for spiking need to be stopped.

Jack Ehnes, CEO stated that CalSTRS will increase the audit staff from 11 to 15. CalSTRS has a 2-year audit cycle for high-risk districts. The passage of AB 340 is a good start in reducing spiking. However, AB 340 only applies to new hires. The Controller's Office suggested providing more information to districts. Peggy Plett, Deputy CEO said there were special reviews of retirees with salaries over $100,000 and with special payments over $5000. Committee Chair Rosenstiel recommended that CalSTRS increase the audit footprint and increase the audit budget.

Client Advisory Committee

September 6, 2012, recorded by Paula Weiss

1 .Mary Anne Ashley reported on legislation. Bills left alive are:

a) **AB340** (referred to as PEPRA) is the public employees' pension reform act and is on the governor's desk; expected to be signed.
b) **AB178**; deals with post-retirement limitations, has been signed and is incorporated into pension reform. It allows for easier reinstatement and re-retirement. Anyone interested in reinstatement should consult a CalSTRS counselor and run the numbers. There are consequences regarding options and beneficiary elections (must remain unchanged for one year after reinstatement). May trigger another 180 day "sit

out." Also sets new earnings limitations. Some rare exemptions under emergency conditions; may be affected by receipt of retirement incentives. (See below).

c) AB1101; would allow for the election of a retired teacher to the CalSTRS Board.
d) AB2663 - technical housekeeping
e) SB114; deals with community college part time service credit
f) SB955; on the governor's desk, allows CalSTRS/PERS to make prudent investments in in-state infrastructure
g) SCR105; encourages CalSTRS to develop and submit to the legislature before February 15 three options to address CalSTRS long-term funding needs.
h)

2. Deputy CEO, Ed Derman presented a preliminary analysis of pension reform. A more complete analysis will be available in a few weeks.

- Takes effect on January 1, 2013; mostly impacts new hires.
- AB340 is not designed for CalSTRS and is ambiguous. There will need to be additional legislation to clarify language and intent and to make it workable.
- Changes for future members (except as indicated):

    - New normal retirement age 62 with the 2% factor
    - Maximum factor of 2.4% at age 65
    - New minimum age to retire, 55 with a factor of 1.16%; 50 with 30 years ends
    - Career factor ends (30 year higher factor).
    - Cap on salary that counts toward pension, $132,000 adjusted by CPI. This would be a line in the sand to end spiking.
    - Salary would be more narrowly defined. No DBS benefit for overtime, summer school or coaching.
    - Employers could offer a 401(k) for income above the cap.
    - Eliminate replacement benefits program; new members with very high incomes.
    - Three years final compensation to determine benefit
    - Starting January 1, 2013 all new retirees, future and current members, would be required to sever employment in a CalSTRS position for 180 days after their retirement. During the first 180 days after retirement, the earnings limitation is $ 0!

        - After 180 days, earning limits would be 50% of average final compensation, around $40,000 this year. This number is determined annually and could be adjusted down because of lower salaries. Retirees need to pay attention to this number because if they exceed it, they would lose their pension benefits dollar for dollar.
    - If you are newly retired and past 60 you can work up to December 31, 2012. If you are still within the 180 day sit out period after January 1, 2013, you will need to sit out until the 180 day period expires.
    - A work related felony would result in loss of pension benefit from the date the incident occurred. They would get their contribution back without interest.
    - No retroactive benefit enhancements allowed
    - No pension holidays
    - A requirement for new hires and existing members to pay 50% of normal costs; presently that is thought to remain at 8% of salary.
    - Elimination of "airtime;" anyone who wishes to purchase airtime must have their application on file prior to January 1, 2013. Contact a CalSTRS counselor.
    - You could still purchase service credit for previously credible service such as out of state teaching. Check with a CalSTRS counselor.
    - Three items affecting existing and future members: airtime, 180 days separation, and felony
    - Savings: about $23 billion over 30 years; the unfunded liability would be reduced by about $5 billion.
    - Future members are those who have <u>never</u> worked in a CalSTRS position prior to January 1, 2013.

3. Government Accounting Standard Board (GASB): Phillip Burkholder
- Changes implemented 2013-2014; for employers, 2014-2015
- CalSTRS will help school districts
- If legislation is passed next year, it could decrease the impact of GASB's changes.

4. Ed Derman presented a more detailed and technical discussion of AB178, the new earning limits legislation. See above discussion and contact a CalSTRS counselor for additional information if needed.

5. Should the number of days in the school year be reduced to 160 days (or another number), 160 days would constitute a full year's service credit. However, earnings toward pensions would be reduced proportionately.

Benefits and Services Committee

Peggy Plett, Deputy CEO reported on the service objectives for the 2012-13 year. CalSTRS has lost the student interns, which amount to about 100 part-time workers. That loss and the 1 day-a-month furloughs will make it difficult to meet service objectives. If the school year is reduced below 160 days next year this may impact the salaries and years accumulated for retirement. The member satisfaction goal is “high level of satisfaction”.

The CalSTRS website will be redesigned and made more interactive to appeal to the younger teachers. A new CalSTRS service center is planned for San Jose/Santa Clara. Plans are to move the annual retirment programs report from October to September because employers are able to send the information to CalSTRS by mid-August.

Teachers’ Retirement Board

CalSTRS will appoint Nick Collier of Milliman to the California Actuarial Advisory Panel through December 2012. After that Rick Reed, CalSTRS Actuary will assume the position. Peggy Plett, Benefits and Services reported that more members are applying for disability because of possible lay offs.

Robin Madsen, Chief Financial Officer reported that the proposed 2013-14 operational budget is $175, 126, 000. This includes $1.6 million for the start-up of the Orange County member service center, and $1.2 million for maintenance of new technology and other improvements. Member contributions and employer contributions are down because of layoffs.

Ed Derman, Deputy CEO reported on pension reform and AB 340. Please refer to Client Advisory Report for details. The Corporate Data Resource Management (CARM) computer project is behind schedule. Completion may be extended from October to November or December 2012.

Investment Committee

There were two public speakers. Jason King asked CalSTRS to work to reduce AIDS drug costs. A representative from SEIU reported that the Houston labor dispute was successfully resolved – wages were increased by $1.00 an hour and there us a union-only agreement.

Chris Ailman CIO reported that Spain is the big concern in Europe. Interest costs in Spain are up to 6.8%; still low compared to Greece at 22%. The U.S. economy is slowly improving. Yearly housing prices are up 9%, but California lags the nation. Major upcoming events are: November 6-Presidential election, November 22-Black Friday beginning of Christmas shopping, and January 3-US fiscal cliff; the debt ceiling trigger. CalSTRS investment strategy is defensive. The CalSTRS fund is $152.5 billion.
Alan Emkin, PCA(Pension Consulting Alliance) presented his semi-annual report. CalSTRS fund has earned an average 6% return for the last 10 years underperforming the benchmark by 1.5%. Interest rates are the biggest risk, because interest rates and equities are historically linked. For the last 20 years US equities earned 8.3% and US bonds earned 6.5%. Volatility remains because of more leverage and more trading.
The Townsend Group presented the semi-annual real estate report. CalSTRS real estate portfolio is up 9.3% compared to the total CalSTRS return of 3.7%. Mike Moi, PCA reported little change in the private equity portfolio during the last six months. Distressed property will present a buying opportunity.

Chris Ailman, CFO, and Alan Emkin, PCA presented the 2012 Asset Liability Study on investment objectives and philosophy. CalSTRS identified long-term absolute return as the priority as far back as 2001. However, since absolute return was easily made in the 80's and 90's the focus was on beating the benchmark or relative return. The decade of the 00's changed all that. Presently the CalSTRS portfolio still depends on the economy – up in good times and the opposite in bad times. Foreign investment firms have moved to an emphasis on absolute return by investing in infrastructure, oil wells, etc, which have a predictable income stream. Alan Emkin, PCA, suggests considering a different diversification from the present 85% Relative Return (stocks, etc-subject to growth), 9% real return (commodities, reduce inflation risk) and 6% Absolute return (treasuries, reduce major market risk). Emkin recommends considering a better balance between risk and return. The discussion will continue at future meetings.

CalSTRS Report, July 12, 2012

By Patricia K. Geyer, CalRTA Liaison
CalSTRSreport.com

Executive Summary

1. **AB 178 (Gorell) has passed the legislature. It changes the postretirement earnings limit to ½ the median final compensation of all recently retired members ($40,000)**
2. **The 2012-13 CalSTRS operating budget is $167,504,000 of which salaries are the largest part. Costs will be lower because the Corporate Accounting and Resource Management (CARM) computer program will be finishing. A new expense is the funding of a Bay Area Member Service Center**
3. **Investment returns for 2009-10 were 12.2% and for 2010-11 were 23.1%. Investment returns for 2011-12 were 1.84%. The average for the last 3 years was 12.04%**
4. **For teachers, the significant impact of Governor Brown's Pension Proposal is (1) Mandatory Hybrid Risk Sharing Plan which would reduce the Defined Benefit component from 2% to 1.4% of pay per year of service at age 67, (2) Increase of the retirement age to 67.**
5. **The CalSTRS fund is $150 billion as of July 1, 2012.**
6. **CalSTRS will celebrate its 100th year birthday this year**.

Legislative Committee

Mary Ann Ashley, Government Affairs reported on three bills of interest to CalSTRS. AB 178 (Gorell) has passed the legislature. It changes the postretirement earnings limit to ½ the median final compensation of all recently retired members. That raises the amount from $31,020 to $40,000. It extends the limited-term appointment exemption for one year; an exemption rarely applied.

AB2260 (Hagman) is dead. It repeals provisions of the Corporations Code related to foreign corporations. CalSTRS had an oppose position.

SB 114 (Yee) requires collective bargaining or employment agreements for community college adjunct and adult education instructors be submitted to

CalSTRS. This bill provides additional information to improve the accuracy of reporting to CalSTRS. CalSTRS supports SB 114.

Other legislation of interest to CalSTRS is:
AB 1054 (Skinner) State Lands Leases,
AB 1101 (Eng) election of a retired member to CalSTRS Board,
AB 1735 (Wieckowski) authorize CalSTRS Board to establish compensation and recruit externally Chief Financial and Chief Operating officers,
AB 1819 (Ammiano) require charter school employees be covered by CalSTRS and CalPERS.

The Legislature returns August 6 to August 31. Action on pension issues is a possibility. CalSTRS is also watching the bankruptcy proceedings of cities and other local governments.

Compensation Committee

The Committee approved a temporary mechanism to minimize the potential loss of total compensation when an employee moves from an asset class position to Deputy CIO. The committee changed from a 5-point to a 3-point rating scale for the CEO and CIO. It also approved the addition of a mid-year performance assessment of the CEO and CIO. Finally it increased the evaluation weight of long range planning from 35 to 40% and reduced the personal performance rating from 35 to 30% for CEO.

Teachers' Retirement Board

The Board approved the Board and Committee work plans for the 2012-13 fiscal year. At the November meeting John Stanton will report on federal legislation and discuss the election results. The Investment Committee will conduct an asset-liability study.

The 2012-13 CalSTRS operating budget is $167,504,000 of which salaries are the largest part. Costs will be lower because the Corporate Accounting and Resource Management (CARM) computer program will be finishing. A new expense is the funding of a Bay Area Member Service Center. County Offices of Education are phasing out their CalSTRS information program. CalSTRS information and counseling will be on-line or at area Service Centers. All CalSTRS members will be issued a login ID and password within a day or two of their employment. CalSTRS members can go on-line to see wages and employer contributions to CalSTRS, COLA increases for retirees, and notification of CalSTRS events such as on-line counseling. Employers will have a customized system so that part of their regular payroll run will be submission of wage and contribution data for each CalSTRS employee.

Jack Ehnes, CEO presented the CalSTRS Business Plan. Investment returns for 2009-10 were 12.2% and for 2010-11 were 23.1%. However, investment returns for 2011-12 are 1.84%. 2011-12 is the first time in 15 years when all asset classes have under performed their benchmarks. However, the average return for the last 3 years was 12.04%

The #1 Business Plan goal is for CalSTRS to become fully funded. CalSTRS continues to educate legislators, members, and the public to help achieve this goal. Dana Dillon stressed the importance of educating teacher organizations. Other important goals are to educate staff and stakeholders about CalSTRS other long-term goals of sustainability, environment, and corporate governance. A discussion followed with Pedro Reyes representing the Department of Finance and with Paul Rosenstiel, Governor Brown's appointee.

Jack Ehnes and Ed Derman discussed Governor Brown's 12 Point Pension Proposal. Of significant impact are (1) Mandatory Hybrid Risk Sharing Plan which would reduce the Defined Benefit component from 2% to 1.4% of pay per year of service at age 67, (2) Increasing the retirement age to 67.

CalSTRS will celebrate its 100th year birthday this year.

Investment Committee

Chris Ailman, CalSTRS CIO reported that the financial world has not changed in the last few months. The new focus is Spain, which has suffered from a housing crisis. This fiscal year the stock traders made money while investors neither lost nor made money. CalSTRS under performed by 43 basis points because it had no investment in tobacco. The 30 year bonds had a 38% return in value because the decline in interest rates pushed up the value. This is the first time in 15 years when all asset classes under performed their benchmarks. The biggest risk is a possible increase in interest rates.

The challenges are: low interest rates, slow U.S. growth, all the world looking alike, and making a return of 7.5%.

Members of the SEIU janitors' union from Houston made a presentation. They asked CalSTRS to contact the property manager of one of their properties and ask that the property manager urge his subcontractor to settle with the union. CalSTRS owns only 2% of the real estate market in Houston and the SEIU janitors' strike is not at one of CalSTRS properties. However, CalSTRS will contact their property manager.

The committee approved the Securities Lending Program Policy Revision and the Global Equity Investment Policy Revision. Changes were primarily cosmetic with no change in authority, delegation or strategy. The committee approved delegating to staff the authority to invest in private equity separately managed accounts. The committee approved the 2012-13 Investment Business Plan. The goal is "4.0 Straight A's"

Achieve 7.5% return and/or outperform our benchmark
Advance our people for internal management & innovation
Aspire to be cost efficient and tight operational internal controls
Assess and mitigate the risk and threats to meeting our goals.

CalSTRS Report, June 4,5,6, 2012

By Patricia K. Geyer, CalRTA Liaison
CalSTRSreport.com

Executive Summary

1. The Deputy Chief Investment Officer is an open CalSTRS position
2. The Benefits & Services Committee voted to leave the death benefit amounts the same at $6,163. The Committee voted to increase the factor which districts pay for employee unused sick leave from 0.282 to 0.301.
3. Thirteen CalSTRS employees received the Virtuoso Recognition Award
4. CalSTRS donated its surplus computers to West Sacramento families with children in grades 4-8 and provided laptops for West Sacramento graduating seniors
5. The CARM implementation is due November 2012. CARM removes manual processes and improves the internal controls used to produce CalSTRS financial statements.
6. See the Client Advisory Committee report for legislation affecting CalSTRS.
7. GASB tentative decisions: school districts will be required to show CalSTRS unfunded liability on their balance sheets. (If a district contributes 5% of CalSTRS yearly contributions that district will show 5% of CalSTRS liability on district balance sheets.
8. As of May 31, 2012 the CalSTRS fund is $147 billion
9. The July CalSTRS meeting is scheduled for July 12-13.

Audits and Risk Management Committee

Chris Ford, Chief of Staff introduced the risk oversight discussion. The two questions for discussion were: What are the primary risks? And who, at the Board level, should provide oversight? The list of risks was presented. The major categories are (1) Pension Funding Risk, (2) Financial Reporting Risk. (3) Operational Risks i.e. data, etc, (4) Pension Reform Risk, (5) Confidentiality of Information risk.

Mary Ann Campbell-Smith, Director of Audit Services reported that, based on the risk assessment, the 2012-13 year investment audits will be (1) Innovation and Risk, and (2) Fixed Income. The 2012-13 operational audits will be (1) Information Security, (2) Adequacy of Internal Controls.

Audit Services during 2012-14 will conduct audits of 12 Community Colleges with a focus on the reporting of adjunct (part time or temporary) faculty. This is in addition to the regular audit schedule.

Compensation Committee

The Committee voted to put more emphasis on active management results for the Global Equity Director. Active management requires the most judgment and the most significant opportunity for excess returns.

The Committee voted to move from a 5-point to a 7-point rating scale for designated executive management and investment staff. The Deputy Chief Investment Officer is an open position. The Committee approved the implementation of up to 30% increase in base pay to compensate an internal candidate who takes on the increased responsibilities of the new Deputy Chief Investment Officer position.

A discussion followed about what companies to compare CalSTRS with on executive pay. The present policy is to compare CalSTRS pay with similar government agencies (2/3) and with similar public companies (1/3). The issue will be revisited in April 2013.

Board Governance Committee

The Committee heard a second reading of the proposed Ethics Policy. The Board Ethics Policy will require further discussion; the Employee Ethics Policy is consistent with present policy and will be implemented in 2013. Gift Policy and Insider Trading Policy are scheduled for discussion at 2012-13 Board Governance Committee meetings.

Benefits and Services Committee

The Committee voted to leave the death benefits the same: Coverage A (active and retired members) is $6163; Coverage B (survivor benefit program) is $24652. The Committee voted to increase the factor which districts pay for employee unused sick leave from 0.282 to 0.301.

The Committee heard the report on The Part-Time Community College Task Force. The Task Force found the benefit accrual of part-time Community College CalSTRS members was inconsistent and inaccurate. Proposals are: (1) more targeted and risk-based audits, (2) Enhanced training and communication, (3) technical amendments to current law.

Teachers' Retirement Board

Committee Chairs for 2012-13 are Dana Dillon – Board Chair, Sharon Hendricks – Benefits and Services Chair, Harry Keiley – Compensation and Investment Committees Chair, Michael Lawson – Board Governance, Paul Rosenstiel – Audits & Risk Management, Tom Torlakson – Appeals.

The Board voted to renew the Alliant fiduciary liability insurance policy for the fiscal year of 2012-13.

Jack Ehnes, presented the CEO Report. The next CalSTRS meeting is scheduled for July 12-13. Thirteen CalSTRS employees received the Virtuoso Recognition Award. CalSTRS donated its surplus computers to West Sacramento families with children in grades 4-8 and provided laptops for West Sacramento graduating seniors. Next Jack commented on the Dan Diego and San Jose ballot measures that restrict pension benefits. In addition, Governor Brown's proposal of a 5% pay cut and a 4-day workweek of 9 hours each day would be a disaster for CalSTRS. It would not help the State budget because CalSTRS is a separate entity.

The Board heard a report on the BusinessRenew Project. The CARM implementation is due November 2012. CARM removes manual processes and improves the internal controls used to produce CalSTRS financial statements. The total BusinessRenew Project extends to 2019.

Brain Bartow presented the annual Bagley-Keene Open Meeting training. The Open Meeting Act requires (1) Notice, (2) Transparency, and (3) Access. A discussion about CalSTRS by any three members of the CalSTRS Board is considered a meeting as is a phone call or an email to three or more CalSTRS Board members. Board members were urged to be aware of Bagley-Keene Open Meeting rules and to refrain from discussing CalSTRS business under circumstances that might be considered a meeting.

Client Advisory Committee

Mary Ann Ashley presented an update. The following legislation is moving through committees. The final decisions on legislation will occur after the State Budget is passed in June. The following is legislation of interest to CalSTRS.

AB1054 (Skinner) requires lessees of State Lands to pay rents during the reclamation process. (This increases CalSTRS income from State Lands.) Support

AB 1819 (Ammiano) requires charter school employees to be in CalSTRS and CalPERS as long as it does not affect CalSTRS and CalPERS tax-qualified status. Neutral, recommend amendments

AB1949 (Cedillo) authorizes school districts to limit the number of 403b vendors to four or more through a competitive bidding process. Support, recommended amendments

SB 955 (Pavley) encourages CalSTRS and CalPERS to invest in in-state infrastructure projects over out-of-state projects if consistent with fiduciary responsibility. Neutral

SB 1368 (Anderson) prohibits the salary of a state officer or employee from exceeding the salary of the Governor. Oppose

SJR 21 (Kehoe) urges the federal government to allow all retirees to use funds from retirement plans to pay for medical and long–term care premiums. Support

Legislation of interest to CalSTRS retired members on which CalSTRS has no position is **AB 1101 (Eng)** which requires that a CalSTRS retired member be elected to the CalSTRS Board by CalSTRS retired members and participants of the program.

Phillip Burkholder, CalSTRS presented and update on GASB tentative decisions. The school districts will be required to show CalSTRS unfunded liability on their balance sheets. (If a district contributes 5% of CalSTRS yearly contributions that district will show 5% of CalSTRS liability on district balance sheets.) Liability does not have to be shown at the 30-year bond rate. However, it is possible that liability that exists after CalSTRS is predicted to run out of funds may have to be shown at the 30-year bond rate. These rules will be implemented for the 2014-15 fiscal year.

Final GASB standards will be issued at the end of June 2012.

Investment Committee

Chris Ailman, CIO presented the investment report. 2% growth has been the lowest of the last four recessions. Expect continued low growth because job creation has been disappointing. U.S. interest rates are at a 200 year low of 1.45%. The United Kingdom interest rate of 1.53% is a 300-year low. Bernanke promises to keep interest rates low until 2014. Expect interest rate risk. Europe is the key; watch Greece, Italy and Spain and their banking systems. There has been a move into cash because there has been a risk in equities. "Buy and Hold" did not work in the 2000's.

As of May 31, 3012 the CalSTRS fund is $147 billion. The fiscal year return is 1.5%. However, the 3-year CalSTRS return is 11.1% annually.

The next three Investment Committee meetings will discuss asset allocation.

The Committee heard a presentation to add separately managed accounts to the private equity portfolio. These accounts will be managed for one investor, for example CalSTRS, rather than many investors in order to obtain better terms. CalSTRS will seek final approval of separately managed accounts at the July CalSTRS meeting.

The Committee reviewed the Global Equity Portfolio structure. CalSTRS plans to increase the internally managed portfolio and to develop a Non-US developing manager program. The 2011 Annual Report on the Securities Lending Program was presented.

Anne Sheehan, Investment Director reviewed the 2011-12 Corporate Governance Engagement Plan. The CalSTRS staff worked with 113 companies with emphasis on majority voting. The majority vote proposals were either adopted(34) or withdrawn(47) without going to vote. Other issues were Board diversity and sustainability.

CalSTRS Report, April 11,12,13, 2012

By Patricia K. Geyer, CalRTA Liaison
www://CalSTRSreport.com

Executive Summary

1. **Due to not all earnings being recognized each year, the funded ratio has declined from 71% in 2010 to 69% in 2011. However, additional revenue needed has declined from 14.2% in 2010 to 12.9% in 2011 due to a strong investment return of 23.1% for the fiscal year ending in 2011.**
2. **Support AB 1054 (Skinner), which requires the lessee of State Lands to continue to pay rent during the time period at which the lessee restores the lease premises**
3. **Oppose SB 1368 (Anderson) which would limit state officer or employee salary to the amount of the annual salary received by the Governor**
4. **Support with amendments AB 1949 (Cedillo) which would limit the number of 403(b) product vendors available to school employees.**
5. **All post-retirement earnings limit exemptions will end June 30, 2012. Earnings limits from the California public school system earnings are $31,020 for DB retired members.**
6. **The Cash Balance (CB) and the Defined Benefit Supplement (DBS) accounts went from being 86% funded in 2010 to being 103% funded in 2011 due to additional investment returns and lower interest rates paid.**
7. **Milliman expects sufficient funds to pay 85% purchasing power through 2089, and recommends that the SBMA continue to pay 85% purchasing power allowances.**
8. **The Board approved the CalSTRS Strategic Plan. Goals are (1) Ensure a financially sound retirement system, (2) Responsibly manage risk to the organization, (3) Enhance services to members and customers, (4) Improve work environment and internal efficiency.**
9. **CalSTRS regular interest rates are now 7.5% down from 7.75%. Defined Benefit Program credited interest rate is .5% down from .75%. Cash Balance and Defined Benefit Supplement programs rates are 3.75% down from 4.25%. Employer contribution rates are 10.29% up from 9.71%.**

10. **CalSTRS investment earned 7.9% beating the 7.5% benchmark. However, relative return (7.9%) over the last three years did not exceed the benchmark (9.6%) because of the write-down of real estate. Non-US Equity also showed a 14% loss due to the problems in Europe.**
11. **An Overlay Asset Class is proposed which will include investments that do not fit in one of the existing categories**
12. **The next CalSTRS meetings are scheduled for May 3 and 4. The emphasis will be on Board education. There will be a brief Legislation Committee meeting on May 4. The normal Board schedule will return June 4-6 with a full slate of committees.**
13. **The CalSTRS fund is $152 billion.**

Compensation Committee

The Committee approved a revision to section 700C of the Board Policy Manual-Compensation Policies and Procedures. The change would allow pro-rata awards to individuals who are promoted from Investment officer to a higher position in the same investment class after January 1 in the investment year.
A Deputy Chief Investment Officer position (CIO) is presently vacant and will need to be filled.

Legislative Committee

Mary Ann Ashley presented the update on State and Federal legislation. The Committee voted to support AB 1054 (Skinner), which requires the lessee of State Lands to continue to pay rent during the time period at which the lessee restores the lease premises. This proposal would increase income from State Lands to CalSTRS.

The Committee discussed AB 1949 (Cedillo) which would limit the number of 403(b) product vendors available to school employees with the purpose of offering the highest quality, lowest price products. After a lengthy discussion, the Committee voted to support with clarifying amendments.

The Committee voted to oppose SB 1368 (Anderson) which would limit state officer or employee salary to the amount of the annual salary received by the Governor. This would restrict CalSTRS ability to attract qualified employees.

Before taking a position on other legislation, the committee decided to wait to see which bills have a possibility of being passed.

Client Advisory Committee

Ed Derman, Deputy CEO reported that all post-retirement earnings limit exemptions will end June 30, 2012. Earnings limits from the California public school system earnings are $31,020 for DB retired members and $27,000 for Disability retired members.

AB1735, (Wieckowski) authorizes the CalSTRS Board to set conditions and compensation for the Chief Financial Officer and the Chief Operating Officer. This is a CalSTRS sponsored bill.

GASB pension accounting draft updates are proceeding. GASB is proposing the 20-year bond rate for assets if the entity has an unfunded obligation. This would seriously restrict investment options. GASB standards are not required but are recommended. Staff has asked the GASB committee to delay proposals for one year.

Board Governance Committee

The committee voted to merge the Board Governance Committee into the Investment Committee. The committee heard a report on the proposed CalSTRS ethics policy. The policy still needs revision. The committee heard a proposal to seek legislation to allow committee chairs, vice-chairs, and committee members be appointed for more than one year. The committee discussed whether to seek legislation or to continue the present policy.

Teachers' Retirement Board

Dana Dillon was elected Chair, and Harry Keiley was elected Vice-Chair of the Retirement Board. Board members were asked to submit their requests to serve on the various CalSTRS committees for the 2012-13 fiscal year.

Rick Reed, CalSTRS presented the actuarial valuation of the CalSTRS programs as of June 30, 2011. The Milliman study reported that the additional revenue needed had declined from 14.2% in 2010 to 12.9% in 2011 due to a strong investment return of 23.1% for the fiscal year ending in 2011. In addition there was a decline in the total earned salaries, and an increase in the Supplemental Contributions from .524% to .774% (Elder Full Funding law) from the State. Even with all these changes, and due to not all earnings being recognized each year, the funded ratio has declined from 71% in 2010 to 69% in 2011.

The good news is that the CB, DBS, and SBMA accounts are doing well. The Cash Balance (CB) and the Defined Benefit Supplement (DBS) accounts went from being 88% and 86% funded in 2010 to being 104% and 103% funded in 2011 due to additional investment returns and lower interest rates paid. In order to give additional funds to these accounts the funded ratio must be over 110%.

24.8% of the retired CalSTRS members will be receiving a purchasing power allowance (SBMA) as of December 2011. SBMA payments will be made to those members retired on or before 1991. SBMA payments increase benefits to 85% of purchasing power. Based on the actuarial assumptions, Milliman expects sufficient funds to pay 85% purchasing power through 2089.

The Board adopted the Policy on Ex Parte Communications (Private communications between a board member and any other person concerning a benefit determination or audit finding). Such communications are prohibited. The Board approved the hiring of an additional portfolio manager in the Corporate Governance Asset Class.

The Board heard a discussion about the purchase of Fiduciary Liability Insurance. Alliant is the present broker. One proposal was insurance up to $50 million with a $5 million deductible. Counsel wants an opinion on buying 100% coverage. It was mentioned that the Ed. Code covers trustees up to $25 million. More research is needed. The present insurance needs to be renewed by June 1, so a decision must be made.

The Board approved the CalSTRS Strategic Plan. Goals are (1) Ensure a financially sound retirement system, (2) Responsibly manage risk to the organization, (3) Enhance services to members and customers, (4) Improve the work environment and internal efficiency. A discussion followed on including A.2, Secure enactment of legislation that provides long term funding for the DB program. The Strategic Plan was approved as presented with Finance (Pedro Reyes), and appointees Michael Lawson, and Paul Rosenstiel dissenting.

Peggy Plett, Deputy CEO Services, reported on the Compensation Review (Anti-Spiking) Unit. Work is being done and cases are being reviewed.

Grant Thornton reported on the Business Renew Projects. The Corporate Accounting Resource Management Project is behind schedule and could cause problems with the other projects. The Pension Administration Solution Project will be discussed in June. The Data Preparation project is advertising for a vender.

The Board heard a review of the Fair Political Practices Commission's gift regulations. The current gift limit is $450 in any calendar year. Gifts of $50. or more are required to be disclosed.

Ian Lanoff, Groom Law Group presented the annual fiduciary training materials.

The Board approved the following interest, contribution, and credit rates. Regular interest rates are now 7.5% down from 7.75%. Defined Benefit Program credited interest rate is .5% down from .75%. Cash Balance and Defined Benefit Supplement programs rates are 3.75% down from 4.25%. Employer contribution rates are 10.29% up from 9.71%.

The next CalSTRS meetings are scheduled for May 3 and 4. The emphasis will be on Board education. There will be a brief Legislation Committee meeting on May 4. The normal Board schedule will return June 4-6 with a full slate of committees.

Investment Committee

Chris Ailman presented the CIO report. Private real estate is priced favorable due to low interest rates. However, with real interest rates near zero, interest rates can only head up.

The CalSTRS fund is $152 billion.

The Committee heard the Credit Enhancement Annual Report. The program has not experienced any losses. It underwrites investment grade and average credit (AA-/Aa3). Outstanding commitments are $1.9 billion. Fee income for the calendar year was $13.6 million. 43% are in municipal bonds and

24% are in water bonds. The amount invested in Credit Enhancement is down, but fees are up in the last year.

Alan Emkin, PCA presented his semi-annual report. The good news is that CalSTRS investment earned 7.9% beating the 7.5% benchmark. However, relative return (7.9%) over the last three years did not exceed the benchmark (9.6%) because of the write-down of real estate. Non-US Equity also showed a 14% loss due to the problems in Europe. All other returns were positive.

Interest rates are the big future risk because interest can only go up. Real Estate and Private Equity are still expensive. However, the economy is looking up. Apple stock increase is the dominant factor in stock market growth; should CalSTRS hedge against Apple stock growth? By not investing in tobacco stocks CalSTRS portfolio was down .4%.

Future challenges are Greece, Italy, European banks, the US deficit, the US election, jobs, China's slowing growth and the possibility of an earthquake along the Seattle and San Andreas faults.

Micolyn Magee of the Townsend Group presented the Real Estate report for the third quarter of 2011. The Real Estate Portfolio declined 6.3% in value from March to September 2011, going from $19 billion to $18.2 billion.

Mike Moy, PCA reported that the Private Equity portfolio was down –6.8% this last quarter, but was up 10% for the year. It has done better that the CalSTRS customized benchmark. Private Equity investments made from 2005-2008 have hurt the portfolio.

The Global Equity Investment Policy changes, which reflect additional internal management, were approved. Debra Smith presented the mid-year report on investment costs.

Chris Ailman, CIO presented the investment plan revision. Presently there are six asset classes: Global Equity, Fixed Income, Cash, Real Estate, Private Equity and Inflation Sensitive. An Overlay Asset Class is proposed which will include investments that do not fit in one of the existing categories. Overlay will include (1) Innovation-Global Macro and Micro Finance; (2) Overlay-Risk Strategies and Foreign Currency, and (3) Stable Return-Member Home Loan, and Credit Enhancement.

Chris Ailman reported that CalSTRS costs are down and well below its peers. In fact, it costs CalSTRS 17% less to manage investments than another of the largest pension funds in the United States.

CalSTRS Report, February 1,2,3, 2012

By Patricia K Geyer, CalRTA Liaison
www://CalSTRSreport.com

Executive Summary

1. **Sharon Hendricks, Paul Rosentiel, and Michael Lawson are new CalSTRS Board members.**
2. **Errors in reporting by employers are down from 5% to 1%, a good sign since there will be penalties and interest assessed on reporting errors after July 1, 2012**.
3. **CalSTRS will sponsor legislation to allow CalSTRS Board to set compensation for the Chief Financial Officer and the Chief Operating Officer.**
4. **The Board voted to decrease the investment return assumption from 7.75% to 7.5%.**
5. **The formal June 30, 2011 actuarial evaluation will be presented by Rick Reed, CalSTRS actuary and Nick Collier, Milliman at the April Board meeting**
6. **CalSTRS discussed the need to provide information on ways to increase contributions to the fund. Six possible funding proposals were presented to the Board.**
7. **Link to video on private companies buying individual's pension payments.** http://www.pbs.org/wnet/need-to-know/economy/neither-a-borrower-nor-a-lender/11095/
8. **Federal and state legislation requires that members who retire before age 60 must wait six months before returning to work or forfeit benefits. In addition, all earning limit exemptions will expire June 30, 2012. Post retirement earnings limit is $31,020.**
9. **The CalSTRS fund is $150 billion.**
10. **The CalSTRS Board will meet February 29 and March 1 at the Glendale Member Service Center for strategic planning and evaluation. The next regular CalSTRS Board meeting will be April 11-13.**

Audits & Risk Management Committee

The CalSTRS Board has three new members. Sharon Hendricks replaces Carolyn Widener as the elected active teacher member representing community colleges; Paul Rosentiel, the financial expert, and Michael Lawson are Governor Brown's appointees.

The annual underpayments and overpayments have decreased in number. However, the value of the overpayments increased in value because of the data-cleansing project and employer benefit date corrections. There were some errors due to incorrect reporting of furlough days. Errors in reporting by employers are down from 5% to 1%, a good sign since there will be penalties and interest assessed on errors after July 1, 2012.

Mary Ann Campbell-Smith, the newly appointed Chief Auditor was introduced. Robert Carlin is the Ethics and Compliance Program manager. The office of Ethics and Compliance is responsible for ensuring compliance with government programs and the CalSTRS policy manual with emphasis on disclosure of campaign contributions, recusal requirements, placement agent relationships and payments, and prohibition of insider trading.

The committee heard a data security overview and approved the revised Audit Services Charter. Dr Yetman, CalSTRS Financial Expert, expressed frustration that the school districts still have problems with audits. CalSTRS responded that many of the audit problems were errors committed before the recent training and on-line help.

Legislative Committee

John Stanton, Washington D.C. Consultant reported on federal legislation. Congress The Federal government will want to further regulate public pension plans. The Nunes Bill is one example, wanting further regulation and no federal bailout of public plans. The Joint Economic Committee Report is even more critical of public pension plans. The Federal Reserve is beginning to look at State and local finances with a focus on systemic risk and risk to the economy. Finally, Congress is still gridlocked. Expect no big action. CalSTRS is still seeking the last $15 million from the Elk Hills sale.

Mary Anne Ashley, CalSTRS Legislation reported that CalSTRS wants to sponsor legislation to allow CalSTRS Board to set compensation for the Chief Financial Officer and the Chief Operating Officer. Committee approved. No major legislation to report at this time. The deadline for bill introduction is the end of February.

Teachers' Retirement Board

The Board voted to decrease the investment return assumption from 7.75% to 7.5%. The Cash Balance return will be reduced from 7.25% to 7%. Under existing law, the State's contribution to the DB program will increase by ¼% beginning in October, equal to $67 million. Nick Collier of Milliman recommended a reduction in the wage growth assumption from 4% to 3.75% due to a drop in inflation (wages are 1% more than inflation). (Over the last 20 years teachers' salaries increased .3% more than inflation while all other workers increased .7% more than inflation.) Capital market returns have been trending lower for the last five years. There has been a slight increase in life expectancy for teachers. The formal June 30, 2011 investment evaluation will be presented by Rick Reed, CalSTRS actuary and Nick Collier, Milliman at the April Board meeting.

Alan Emkin, PCA commented on the Milliman presentation. Treasury bills have had a real return 0f 0% or less in the last 20 years. The drop in bond returns has been the largest change.

The Board made additional revisions to the penalties and interest regulations for educator employers in order to conform to Senate Bill 349. These revisions will be submitted to the Office of Administrative Law (OAL) for final approval. The major change is the elimination of the $500 penalty for late employer reports.

The Board approved employer reimbursement for newly elected CalSTRS Board member, Sharon Hendricks' time away from work for CalSTRS business.

CalSTRS discussed the need to provide information on possible ways to increase contributions to the fund. Six possible alternatives were presented to the Board. For example one alternative suggested that CalSTRS members increase contributions by 2%; Districts increase contributions by 6% and the State, under Elder Full Funding law, increase contributions by 1.4%. The offsetting benefit for increased member contributions would be guaranteeing the 2% annual benefit adjustment (COLA). None of these proposed changes guarantee full funding, but they will help. All suggested increased contributions would be put in place over the next four to six years.

The Board heard an update of the Business Renew Project which will update computer programs for accounting, pension administration, customer service and information management. Although the Project is a month behind schedule; it still is proposed to go live on November 1, 2012.

The Board viewed a disturbing PBS video on the practice of private companies, which provide lump sums of cash to pension recipients in exchange for a number of years of their pension payments. This video is well worth sharing with CalSTRS members. The link is http://www.pbs.org/wnet/need-to-know/economy/neither-a-borrower-nor-a-lender/11095/

Client Advisory Committee

The Committee reviewed materials covered in the other committees. In addition, CalSTRS staff asked members to remind retirees that Federal legislation requires that members who retire before age 60 must wait six months before returning to work or forfeit earnings. In addition, all earning limit exemptions will expire June 30, 2012. Post retirement earnings limit is $31,020.

Mary Anne Ashley will be representing CalSTRS on legislation.

Investment Committee

Chris Ailman, CFO presented the economic update. This is a balance sheet recession not an income recession. Watch Greece; its debt is due and it can't pay. Europe will muddle through. The market is back to the June 30 high; non-U.S. equity has been the worst performer. The major economic concern is China. Expect another three years of below average returns. The CalSTRS fund is $150 billion.

Committee received that annual report on the CalSTRS home loan program. Delinquencies remain very low. The committee heard policy revision reports on Global Equity, Currency Management, Investment Policy and Management for Risk Strategies, and Private Equity Investment. It also heard the Green Initiative Task Force Annual Report.

Michelle Cunningham is the new Deputy CIO, and Glen Hosokawa is Director of Fixed Income.