

Report on CalSTRS Meetings, February 7,8,9, 2007

By Pat Geyer, CRTA Liaison

Executive Summary

- 1. The percent of school districts paying retiree health benefits is decreasing.**
- 2. Retirees who have elected options 2 through 7 will have an opportunity to change to another option. If there are questions retirees can call STRS Option Change Information Center at 1-866-245-9394.**
- 3. The Committee voted to direct staff to divest in those companies doing business with the government of Sudan that fell under the STRS Geopolitical Risk Policy Standard, and to find alternative investments.**
- 4. The STRS fund is \$160 Billion.**
- 5. Beginning this month STRS will be offering Reverse Mortgages under their Home Loan Program.**
- 6. State bills (introduced) of interest to STRS. AB 36 (Niello) makes it a crime to make false statements in applying for CalSTRS benefits. AB 221 (Anderson) Prohibits CalSTRS and CalPERS from investing funds in a company with business operations in Iran. AJR 5 (Hernandez) Requests the President and Congress to repeal the GPO and WEP provisions in Social Security.**
- 7. Elections for the three active teacher members of the STRS Board will take place in November.**
- 8. John Stanton, who represents STRS in federal legislative matters, presented a report: The last Elk Hills payment needs to be appropriated; Social Security Reform and repeal of the GPO and WEP are off the agenda for this year.**
- 9. STRS will make a more detailed analysis of the Governor's proposal to reduce payments to the SBMA and guarantee 80% at the April Board meeting.**
- 10. STRS will seek legislation to permit it to offer a Roth IRA.**

Audits and Risk Management Committee

The committee heard reports on Employer Reporting, Accounting Reengineering and Data Integrity Projects. STRS is working with County Offices and School Districts to help them make accurate reports. STRS also works with the creators of the computer programs, which organize the reports. Account Reengineering allows STRS to have internal controls, which compare what the employer should send with what is actually sent. STRS will be able to get and make corrections in months rather than years. These programs compliment the district audits, which are ongoing.

Benefits and Services Committee

STRS will be offering a 457 and a Roth 403b plan in addition to the current 403b plan for active teachers. Due to changes in the law, many school districts are asking STRS to provide the deferred compensation offerings. STRS will seek legislation to be able to offer a Roth IRA for the limited purpose of accepting rollovers from the STRS Roth 403b accounts.

The Health Care Survey reviewed the changes in health benefits from 2003 to 2006. In summary full health coverage for retirees dropped from 3% to 1%. Health benefits to 65 and then no benefits increased from 36% to 39%. Health benefits to 65 and then partial payments increased from 4% to 7%. Partial health coverage to 65 and then no benefits increased from 18% to 28%. About 20% of the retirees had no health benefits payments; most of those were from small districts

The Health Benefits Task Force is also evaluating what STRS can do to help fund health care for teachers and retirees. STRS will use some of the extra money in the Health Care Fund to contribute to the PERS Health Study. Finally, the Task Force is studying the GASB requirements.

STRS has two disability programs. For teachers vested before 1992 the disability program ends at age 60 and the teacher goes on regular retirement. (The number of participants is diminishing.) Disability coverage B is for teachers after 1992. There is no age requirement; disability payments can go on as long as the person is disabled. Differences between Coverage A and Coverage B are great for the older teacher with few years of service. For example: a disabled teacher 55 with 10 years of service and a \$60,000 a year salary would receive \$700 a month under coverage A and \$2500 a month under coverage B. The average disability recipient is 55 with 10.4 years of service credit. Fortunately, the numbers of disability retirements approved have not substantially increased in the last 5 years. The two most common disabilities are muscle/skeletal problems (33%) and mental problems (21%).

Investment Committee

STRS will put out an RFP (request for proposals) for a Real Estate Consultant and an Alternative Investment Consultant. The Committee voted to direct staff to divest in those

companies doing business with the government of Sudan that fell under the STRS Geopolitical Risk Policy Standard, and to find alternative investments. (see Investment Committee report page 52 on STRS website for complete motion.)

Jack Ehnes, CEO, reported that the STRS fund is \$160 Billion.

Beginning this month STRS will be offering Reverse Mortgages under their Home Loan Program. The mortgages will be serviced by Countrywide and will be offered to STRS members with reduced fees and no upfront, out-of-pocket expenses. Pat Geyer, CRTA Liaison, presented Joe DeLuca and Michelle Cunningham of the STRS Investment staff with flowers in appreciation of their work on reverse mortgages.

Client Advisory

There are three State bills, introduced this session, of interest to STRS. AB 36 (Niello) makes it a crime to make false statements in applying for CalSTRS benefits. AB 221 (Anderson) prohibits CalSTRS and CalPERS from investing funds in a company with business operations in Iran. AJR 5 (Hernandez) requests the President and Congress to repeal the GPO and WEP provisions in Social Security.

Julie Gallego of STRS reported the following legislative proposals are being considered: Reform of service retirement disability, STRS conforming with the Federal Pension Protection Act, and simplifying the post-retirement earnings limitation.

Board Governance Committee

Elections for the Chair and Vice-Chair of the STRS Board will be in April. Elections for the three active teacher members of the STRS Board will take place in November. Nominations are due in June.

Teachers' Retirement Board

John Stanton, who represents STRS in federal legislative matters, presented a report on significant issues before Congress in 2007. (1) Executive compensation and a new role for shareholders will be examined. (2) Congress will scrutinize State and local pension plans. Health and pension obligations will be combined. (3) The last Elk Hills payment needs to be appropriated. (4) New federal pension legislation is not likely this session. (5) Social Security Reform and repeal of the GPO and WEP are off the agenda for this year. (6) Probably no action on health care.

Ed Derman, Deputy CEO, reported that the Governor's Budget proposal was to reduce the State's contribution to the SBMA from 2.5% to 2% and to guarantee 80% purchasing power. This would save the General Fund \$74 million. A more complete analysis of the proposal will be made in April.

STRS will seek legislation to permit it to offer a Roth IRA for the purpose of rolling over assets held in a STRS Roth 403b.

Retirees who have elected options 2 through 7 will have an opportunity to change to another option. Each retiree should have received a letter from STRS describing the changes and the changes in retirement payments. If there are questions retirees can call STRS Option Change Information Center at 1-866-245-9394

Or register to attend the following workshops. (Please register on line or call your County Office of Education.)

2006 - 2007 Workshops

7/1/06 - 6/30/07

Available workshops:

Option Change Workshops for CalSTRS Retirees

[Option Change Workshop for CalSTRS Retirees \(in Laguna Hills\)](#)

(2/15/07)

[Option Change Workshop for CalSTRS Retirees \(in National City\) - 1st Session](#)

(2/16/07)

[Option Change Workshop for CalSTRS Retirees \(in National City\) - 2nd Session](#)

(2/16/07)

[Option Change Workshop for CalSTRS Retirees \(in Modesto\)](#)

(2/21/07)

[Option Change Workshop for CalSTRS Retirees \(in North Hills\)](#)

(2/21/07)

[Option Change Workshop for CalSTRS Retirees \(in Chico\)](#)

(2/23/07)

[Option Change Workshop for CalSTRS Retirees \(in Arroyo Grande\)](#)

(2/26/07)

Option Change Workshop for CalSTRS Retirees (in Camarillo)*Workshop is FULL, please sign up for 3/23

(This workshop is full/closed.)

(2/27/07)

Option Change Workshop for CalSTRS Retirees (in Folsom)

(2/28/07)

Option Change Workshop for CalSTRS Retirees (in Santa Maria)

(3/5/07)

Option Change Workshop for CalSTRS Retirees (in Fairfield)

(3/5/07)

Option Change Workshop for CalSTRS Retirees (in Downey)

(3/7/07)

Option Change Workshop for CalSTRS Retirees (in Santa Cruz)

(3/8/07)

Option Change Workshop for CalSTRS Retirees (in Laguna Hills)

(3/8/07)

Option Change Workshop for CalSTRS Retirees (in Auburn)

(3/12/07)

Option Change Workshop for CalSTRS Retirees (in Bakersfield)

(3/14/07)

Option Change Workshop for CalSTRS Retirees (in San Marcos) - 1st Session

(3/15/07)

Option Change Workshop for CalSTRS Retirees (in San Marcos) - 2nd Session

(3/15/07)

Option Change Workshop for CalSTRS Retirees (in Stockton)

(3/16/07)

Option Change Workshop for CalSTRS Retirees (in Santa Ana)

(3/19/07)

[Option Change Workshop for CalSTRS Retirees \(in Redding\)](#)

(3/20/07)

[Option Change Workshop for CalSTRS Retirees \(in Monterey Park\)](#)

(3/21/07)

[Option Change Workshop for CalSTRS Retirees \(in Camarillo\)](#)

(3/23/07)

[Option Change Workshop for CalSTRS Retirees \(in Foster City\)](#)

(3/23/07)

[Option Change Workshop for CalSTRS Retirees \(in Santa Rosa\)](#)

(3/26/07)

[Option Change Workshop for CalSTRS Retirees \(in Downey\)](#)

(3/29/07)

[Option Change Workshop for CalSTRS Retirees \(in Napa\)](#)

(3/29/07)

[Option Change Workshop for CalSTRS Retirees \(in Clovis\)](#)

(3/29/07)

[Option Change Workshop for CalSTRS Retirees \(in San Diego\) - 1st Session](#)

(4/3/07)

[Option Change Workshop for CalSTRS Retirees \(in Indio\)](#)

(4/3/07)

[Option Change Workshop for CalSTRS Retirees \(in San Diego\) - 2nd Session](#)

(4/3/07)

[Option Change Workshop for CalSTRS Retirees \(in Rancho Cucamonga\)](#)

(4/4/07)

[Option Change Workshop for CalSTRS Retirees \(in Riverside\)](#)

(4/5/07)

[Option Change Workshop for CalSTRS Retirees \(in San Francisco\)](#)

(4/9/07)

[Option Change Workshop for CalSTRS Retirees \(in Apple Valley\)](#)
(4/18/07)

[Option Change Workshop for CalSTRS Retirees \(in Eureka\)](#)
(4/19/07)

Report on CalSTRS Meetings, April 4,5, 2007

By Pat Geyer, CRTA Liaison

Executive Summary

- 1. STRS fund increased by 20% in the last year and now is \$164 billion. US equity grew by 15%; non-US equity grew by 27%; real estate grew by 17% and US debt (treasury bills) grew by 4%**
- 2. For the last three years alternative investments earned a 25% return, exceeding the benchmark of 14%.**
- 3. STRS reviewed the policy of excluding tobacco from investments and will seek legal counsel on changing its policy. Since divesting in tobacco stocks STRS lost some \$1 billion.**
- 4. STRS added the following legislative goals: Repeal the Social Security benefit offsets (WEP and GPO), oppose legislation that extends mandatory Social Security coverage to STRS, and seek to address health care coverage and accessibility for public school educators and retirees who do not have adequate coverage.**
- 5. AB36 (Niello) which makes it a crime to present fraudulent information for the purpose of increasing a benefit, and AJR 5 (Hernandez) which requests Congress to repeal the WEP and GPO (Social Security offsets) were supported.**
- 6. The Medicare Premium Payment Program, which pays Medicare Part A for retirees, was recommended to be extended to cover those teachers retiring by 2012.**
- 7. The most popular option change for recent and future retirees was to change to the 75% option (beneficiary gets 75% of retiree's pension). STRS will open a new counseling office in Eureka, California.**
- 8. Dana Dillon was elected Chair and Jerilyn Harris was elected Vice-Chair of the Teachers' Retirement Board. The new STRS General Counsel is Kathleen Andleman**
- 9. Finalization of the STRS proposal on prohibitions of certain campaign contributions will be at the June Board meeting.**
- 10. STRS will oppose unless amended AB 221 (Anderson), which prohibits STRS from investing in companies with business operations in Iran and in AB 461(Ashburn) which prohibits investing in any company doing business in a terrorist state.**
- 11. STRS supports SB 901 (Padilla), which exempts from earnings limitation all retired STRS members over age 60.**
- 12. Third Party Compliance Program to help school districts meet the new IRS regulations regarding 403b plans begins in summer 2007.**
- 13. 5 reverse mortgage loans are in progress and over 60 inquiries about reverse mortgages have been received since inception of the program in January.**
- 14. Future Health Benefits Task Force meetings will be April 27 and May 18.**

Audits & Risk Management Committee

Rosemary Wilke, Internal Audit Manager, reported that the internal audits of STRS departments and programs were about 50% complete. The representative from the Treasurer's office suggested that STRS cut back on some of the internal audits in order to concentrate on school district audits. There is a 25% vacancy in school district audit positions, although STRS is in the process of filling the vacancies.

The committee chose Dr. Robert Yetman, Associate Professor in the Graduate School of Management, UC Davis as Board financial expert. Dr. Yetman has a PhD in Accounting and teaches a class on corporate governance as well as classes on markets and taxes.

Investment Committee

The Investment Committee reviewed annual and semi-annual reports. Fixed Income has now 80% of the funds internally managed and 20% externally managed (Opportunistic). Externally managed funds have a higher rate of return and are of higher risk. California Investments are 12% of the STRS portfolio and 1.4% of these investments are in California underserved markets. STRS is working towards its goal of having 2% of its investments in underserved markets.

Alan Emkin, PCA, and STRS General Consultant reported that 2006 was the best all-time year for investments. The fund grew by some 20% in the last year. STRS fund was \$156 billion in December 2006 and now is \$164 billion. For the 2006 year, US equity grew by 15%; non-US equity grew by 27%; real estate grew by 17% and US debt (treasury bills) grew by 4%. STRS rated as having the best earnings of all large pension funds in 2006. Emkin stressed that such good times could not last.

Nori Gerardo Lietz, PCA, reported that real estate earned a 17% return over the last three years. She expects to see a return to a more normal 10%. The fund is about 50-50% core and tactical (more non-traditional and off-shore properties). While not out of the policy range, real estate should average about 70% core and 30% tactical. The increase in tactical has been because of large returns and the lack of good investment opportunities in core. (Real estate is over priced in the US.) STRS has not invested in sub-prime loans.

Beth Cobert, McKinsey & Company, reported that alternative investments earned a 22% return for the year ending September 2006. For the last three years alternative investments earned a 25% return, exceeding the benchmark of 14%.

The Committee reviewed the policy of excluding tobacco from STRS investments. Due to recent court cases, reports by industry supporters say the chance of bankruptcy and liability judgments are diminished, health advocates believe the reverse. STRS will retain legal counsel to make an evaluation. If such risks are minor STRS must change its policy of not investing in tobacco in order to meet its fiduciary duty of increasing return on investments. (STRS lost some \$1 billion in income by not investing in tobacco stocks.)

Legislative Committee

STRS existing legislative policy includes providing a financially sound retirement plan, expanding benefits and services subject to availability of funds, reducing plan inequities. STRS added the following legislative goals: Repeal the Social Security benefit offsets (WEP and GPO), oppose legislation that extends mandatory Social Security coverage to STRS, and seek to address

health care coverage and accessibility for public school educators and retirees who do not have adequate coverage.

Committee voted to support AB36 (Niello) which makes it a crime to present fraudulent information for the purpose of increasing a benefit, and to support AJR 5 (Hernandez) which requests Congress to repeal the WEP and GPO (Social Security offsets).

Benefits and Services Committee

The Committee voted an interest rate of 5.25% for the defined benefit, cash balance, and defined benefit supplement programs for 2007-8. It also adopted new rates for purchase of service credit. The Medicare Premium Payment Program, which pays Medicare Part A for retirees, was recommended to be extended to cover those teachers retiring by 2012.

Ed Derman, Deputy CEO, reported that very few older retirees requested a change in benefit option. The most popular option change for recent and future retirees was to change to the 75% option (beneficiary gets 75% of retiree's pension).

STRS will open a new counseling office in Eureka, California.

Teachers' Retirement Board

Dana Dillon was elected Chair and Jerilyn Harris was elected Vice-Chair of the Teachers' Retirement Board. STRS will engage in a search process for a fiduciary counsel. Ian Lanoff of the Groom Law Group will be encouraged to reapply. Jack Ehnes reported that he has served on the Board of the Council of Institutional Investors and on the Board of the National Institute on Retirement Security. The new STRS General Counsel is Kathleen Andleman.

Richard Figueroa, Governor Schwarzenegger's Health Care Advisor presented the governor's health care proposal. The proposal will promote healthy lifestyles, improve the level of current coverage, and contain health care costs.

STRS received six written comments on the STRS proposal on prohibitions on certain campaign contributions. Comments are posted on the STRS website. Finalization of the proposal will be at the June Board meeting.

Client Advisory Committee

Jennifer Baker, STRS Legislation, reported that STRS will oppose unless amended AB 221 (Anderson), which prohibits STRS from investing in companies with business operations in Iran and in AB 461 (Ashburn) which prohibits investing in any company doing business in a terrorist state. STRS will support AB1317 (Mullin) which requires the Board to set compensation of STRS executive officers. Another STRS bill, SB 901 (Padilla) exempts from earnings limitation all retired STRS members over age 60.

Ronni Vasconcellos, STRS, reported that the Third Party Compliance Program to help school meet the new IRS regulations regarding 403b plans begins in summer 2007. STRS will offer Roth 403b and 457 plans in late 2007.

Joe DeLuca reported that there were 5 reverse mortgage loans in progress and over 60 inquiries about reverse mortgages since inception of the program in January.

Future Health Benefits Task Force meetings will be April 27 and May 18.

Report on CalSTRS Meetings, May 3, 2007

By Pat Geyer, CRTA Liaison

Investment Committee

The Committee dropped Venture Economics data as a benchmark for the Alternative Investment portfolio. Venture no longer covered the same investments as CalSTRS. The Committee elected to use a customizable industry recognized benchmark (e.g. Cambridge Associates, Private Edge).

Chris Ailman, Chief Investment Officer, reported that alternative investments have had an excellent return for STRS, but they have more risk. For example, Private Equity had a 19% return for the last 10 years. STRS will continue to look for alternative investment opportunities outside the United States.

The Committee interviewed two finalists for the STRS Alternative Investment Consultant. The finalists were Ennis Knupp and Pension Consulting Alliance (PCA). The Committee selected PCA. Mike Moy and Ted Fergusson will be the PCA Alternative Investment team leaders. PCA is also the Alternative Investment consultant for PERS.

Teachers' Retirement Board

The Board heard the Investment Committee report and approved PCA as Alternative Investment Consultant. The Board approved additional funds for developing the Deferred Compensation Services (403b Compare). Once developed this investment site will use fees to pay expenses. Fiduciary Insurance renewal will come due in June – it looks like coverage and costs will remain the same.

The next STRS Committee and Board meetings will be June 6 and 7 (Wednesday and Thursday). The Client Advisory Committee will meet in the afternoon of June 6.

=

Report on CalSTRS Meetings, June 5.6, 2007

By Pat Geyer, CRTA Liaison

Executive Summary.

1. June 30 is the last date to change retirement options.
2. The Health Benefits Task Force expressed a preference for Medicare B premium payment or a monthly health allowance. A complete report will be issued later. Such changes would require legislation, possibly in 2009 or later. (See Benefits & Services report)
3. The Investment Committee directed staff to develop an infrastructure policy and plans for implementation.
4. On June 4, 2007 the STRS fund was \$171 Billion. The fund has doubled in value in the last four years, growing at an annual rate of 16.5%
5. Candidates for the elected STRS Board seats are:

K-12 (inclusive seat) – Stephen Edmunds, Sandy Keaton, Harry Keiley;

K-12 (non-administrator seat) – Don Brown, Dana Dillon, Vince Rosato, Mary Whalen;

Community Colleges seat – Carolyn Widener (declared winner).

6. STRS has gone from 86% to 87% funded. However, an additional 3.3% in contributions would be needed to reach 100% funded in 30 years.
7. The Board's policy regarding the disclosure of campaign contributions and gifts was reviewed; no action was taken.
8. Legislation relating to STRS was reviewed, including AB221, which requires STRS and PERS to divest in companies doing business with Iran. Please refer to the last two paragraphs of this report.

Legislative Committee

The Committee reviewed legislative goals for the STRS Board. It discussed current legislation, which will be summarized in the Retirement Board report.

Benefits and Services Committee

The death benefit amount of \$6,163 remains the same. Upon notice of the death of a STRS member, the beneficiary is notified of the death benefit payment. STRS has the beneficiary's social security number in order to reach the beneficiary if the address on the form is incorrect.

The call center has a new computer program which makes it possible to access a member's records in three minutes rather than 10 minutes. Calls are answered in less than 1 minute, 95% of the time. June 30 is the last date to change retirement options. A postcard reminder will be sent to all STRS members who are eligible for a benefit option change.

Ed Derman, Deputy CEO, reported that the Health Benefits Task Force is considering four options:

1. Using the SBMA to increase purchasing power protection to 85%.
2. Establishing a health security account for active teachers with contributions paid by the employer. (suggested contribution 1% of salary). The account would be available for distribution upon retirement or disability.
3. A percentage of Medicare B payment would be made from SBMA funds, starting with 25% for those with 10 years of service and going up to 100% for those with 30+ years of service.

4. A monthly health allowance would begin at age 65. Present estimates are: \$300 for 2000 or later retirees with 30+ years of service, \$400 a month for members who retired in 1999 or before with 30+ years of service. Retirees with fewer years of service would get a declining percentage like #3. The monthly health allowance would increase yearly by the lesser amount of the CPI health cost increase or 5%. Accounts for present retirees could be funded from the SBMA. Increased employer contributions would be needed to fund accounts for future retirees.

Board Governance Committee

The Committee discussed clarification to the Board's policy regarding the disclosure of campaign contributions and gifts. These restrictions will apply to the owner or general partner of a company doing business with STRS. A violation of this policy may lead to disqualification from future business with STRS for a two-year period. This policy is still under review by the Board and has not been adopted.

Investment Committee

The Committee heard a panel presentation on investments in infrastructure. Infrastructure includes highways, airports, hospitals, schools, etc. Infrastructure investment is long-term, monopolistic, and does not follow the market. The long-term aspect goes with the long-term outlook of a pension fund. Infrastructure investment is common in Australia and Europe. It is just "catching on" in the U.S. About 40% is government owned and 60% is private. The Investment Committee directed staff to develop an infrastructure policy and plans for implementation.

The Committee heard a risk management update. STRS will contract for an evaluation of the external quantitative risk of the STRS portfolio.

The real estate investment policy was reviewed. REITS are a growing investment market both in the U.S. and overseas. REITS in real estate are a blending of real estate and stock investments. In fact, some are held as part of the index funds in the STRS stock portfolio. The lines defining the various asset classes are blurring. Assets may be part of several classes.

The Committee also heard reports on the cash management policy, the credit enhancement policy, the alternative investments policy and the global equity policy. The Committee removed geographic restrictions on these policies. Location should not restrict STRS from investing in an asset that meets all STRS investment criteria.

Chris Ailman, Chief Investment Officer, reported that as of June 4, 2007 the STRS fund was \$171 Billion. At the low point of the last decline the fund, October 9, 2002, the STRS fund was \$85 Billion. The STRS fund has doubled in value in the last four years, growing at an annual rate of 16.5%

In addition to its regular duties, the Investment Committee will also look at Corporate Governance, Internal vs External managers, and Divestment during the next year. The need to return to three-day STRS meetings was discussed.

Client Advisory Committee

The deadline for filing to run for the three, elected STRS Board seats has passed. The candidates are:

K-12 (inclusive seat) – Stephen Edmunds, Sandy Keaton, Harry Keiley;
K-12 (non-administrator seat) – Don Brown, Dana Dillon, Vince Rosato, Mary Whalen;
Community Colleges – Carolyn Widener. Since there was only one Community College candidate, Carolyn Widener has been declared the winner. Election will be in the fall. (There is no retiree elected Board member since Governor Schwarzenegger refused to allow that position in order to maintain his right to select a majority of STRS Board members.)

The State Legislation report will be included in the Retirement Board minutes.

Virginia Johnson, STRS staff, reported that a complete report on the STRS health care proposals will be posted on the CalSTRS website.

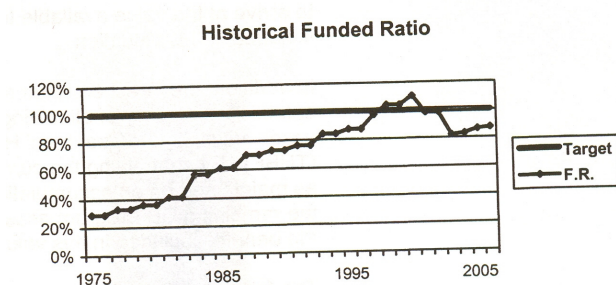
Pat Geyer, CRTA liaison with STRS, asked if all beneficiaries were notified of the death benefit payment upon the death of a STRS member. Peggy Plett, Deputy CEO, assured Pat that all were notified. Pat Geyer also asked about STRS publicizing information on client organizations for retirees. Such information is located in the back of the Retirement Guide given to all new retirees. It was suggested that information on retiree organizations also be placed on the CalSTRS website.

Teachers' Retirement Board

The Board heard a presentation from representatives of the National Coalition on Health Care. The Coalition recommends mandatory coverage for every American.

Rick Reed, STRS Actuary, reported on the actuarial obligation of the STRS fund as of July 1, 2006. Milliman Consultants prepared the study. (The July 2007 evaluation will not be completed until next year.) The unfunded obligation has decreased from \$20,311 billion to \$19,635 billion. The decrease was due to increased investment returns and fewer salary increases. STRS has gone from 86% to 87% funded. However, the fund does not amortize.

The current rate of contributions to the STRS fund is 6% from members, 8.25% from employers, and 2.017% from the State. (Another 2% from members goes into the Defined Benefit Supplement – a separate account.) An additional 3.3% in contributions would be needed.



Both the Cash Balance Fund (Community College members contribute) and the Defined Benefit Supplement Fund (2% of members contribution) are over funded. Extra interest on earnings of 1.18% for the Cash Balance and 2.5% of the SBS accounts will be credited to these accounts during this year.

STRS Board selected TIAA-CREF to manage the 403b, 457 and Roth403b accounts that teachers invest in through STRS.

The STRS Board reviewed the campaign contribution and gift policy discussed in the Board Governance Committee. Board suggested that the limit on contributions would be \$5000. Since these proposed regulations would apply to STRS Board members and to the elected officials who have appointed them, Treasurer, Bill Lockyer, expressed concern about the regulations and observed that legislation might be needed. There will be further review of the policy.

Legislation was discussed in several committees and the client advisory; the combined discussion follows. The following legislation has been approved by the Assembly and is in the Senate: AB 1432 (Soto) allows the purchase of foreign teaching service credit, AB 1316 (Bass) permits a member to receive service retirement while waiting for approval of a disability retirement, AB 757 STRS housekeeping bill, AB 789 (Mullin) a repayment plan for the SBMA \$500 million owed by the State. SB 901 (Padilla) passed the Senate and is in the Assembly; it extends the current exemptions on post-retirement earnings limit until June 30, 2009.

AB 221 (Anderson) prohibits CalSTRS and PERS from investing in a company with business operations in Iran until U.S. sanctions are removed. The bill has targeted some 20 companies, which include all the major foreign oil companies such as Shell and PetroBrasil. STRS would have to sell at least \$1.4 billion in assets; some of which are among the most profitable assets in the STRS portfolio. Furthermore, STRS has a comprehensive investment policy and is concerned about the legislature mandating investment requirements that could be in conflict with STRS Board members' fiduciary responsibilities. However, AB 221 is moving through the legislature in spite of PERS and STRS opposition.

(for questions or future copies of the STRS Report, contact PatGeyer@AOL.com)

Report on CalSTRS Meetings, July 12, 13, 2007

By Pat Geyer, CRTA Liaison

Executive Summary

1. STRS will need to transition to a new “START” program in 2010-2015.
2. Challenges are the 29% vacancy rate in the Audit Department and the need to look at the additional audit risk factors of Charter Schools.
3. STRS is neutral on AB789 (Mullin). Given the State of California’s poor record of payment, STRS is concerned that a repayment plan for SBMA money will not be completed.
4. The Richman Initiative is at the Legislative Analysis’s office. Next the initiative will go to the Attorney General before circulation for signatures.
5. The STRS deferred compensation program is set to begin in November 2007. STRS retirees will be eligible to transfer their 403b accounts to STRS for management.
6. STRS Board voted to support the concept of the California Aspire, Achieve, Lead, Pipeline Project.
7. Long-term allocation targets are 40% U.S. Equity, 20% Non-U.S. Equity, 9% Alternative Investments, 11% Real Estate, 20% Fixed Income and 0% Cash.
8. Goals for the Investment Portfolio are: Grow from \$175 Billion to \$250 Billion in the next five years
9. STRS fund increased \$26 Billion in 2006-7. Best performers were Emerging Markets up 45%, Developing Markets up 26%, Europe up 32% and United Kingdom up 27%. As of July 13 the STRS fund is \$175 Billion.

Appeals Committee

The committee reviewed the proposed decisions for four cases. The committee adopted the Administrative Law Judge decisions in all cases.

Audits and Risk Management Committee

The committee heard three audit reports. Chris Ford, CFO, reported on the Accounting Reengineering Project. This project has been working to improve START (the data program which records all employee records). Reporting errors have been corrected. All refunds have been made; 32 employers who owed money have paid; 7 employers still have to pay. The START program is working better, but START is inflexible and is not integrated with investments, or administrative services or the general ledger. This requires that data must be transferred manually, which produces errors. STRS will need to transition to a new “START” program in 2010-2015.

Peggy Plett, Deputy CEO, Benefits & Services, reported that the Data Integrity Project has resolved most of the data problems with START. However, some problems remain which require manual adjustments.

Rosemary Wilke, Manager of Internal Audits, reported on the Continuous Auditing Results. The major source of errors is inaccurate or untimely reporting from employers. Employer reporting has continually improved due to education and work with employers

and employees. There were no reporting errors in this last quarter so things are getting better.

Challenges are the 29% vacancy rate in the Audit Department. State auditor salaries are low so all State agencies have audit shortages. A second challenge is to look at Charter Schools. There are 620 charter schools; 176 are separate schools while the remainder are embedded in school districts. Charter schools need a separate risk assessment since their risk factors are somewhat different.

Teachers' Retirement Board

Ed Derman, Deputy CEO, reported on legislation. AB221 (Anderson) is still moving. It prohibits CalSTRS and CalPERS from investing in any company with business operations in Iran. STRS is neutral on AB789 (Mullin). Given the State of California's poor record of payment, STRS is concerned that a repayment plan for SBMA money owed will not be completed. SB11 (Midgen) broadens the definition of domestic partners, STRS supports SB11 if it is amended to cover additional costs

The Richman Initiative is at the Legislative Analysis's office. Next the initiative will go to the Attorney General before circulation for signatures. The Richman Initiative, if passed, will apply to all new government hires after July 1, 2009. It will increase the retirement age to 67, lower the retirement factor from 2% to 1.5% at age 67, final compensation will be the highest 5 years of pay, retiree must be a full-time worker, employee is eligible for health benefits if he/she works in the job at least 10 years. A ¾ vote of the Legislature or of the employer can increase benefits.

The Board heard a review of the 2007-8 business plans of the various STRS departments.

The STRS Board selected Omni Group to administer the deferred compensation (403b) programs for school employers who want assistance. Omni services would include: obtaining participant information, developing the IRS-required document, providing an enrollment kit to eligible employees, and other services. The STRS deferred compensation program is set to begin in November 2007. STRS retirees will be eligible to transfer their 403b accounts to STRS for management. Fees will be low and members may invest in a number of funds including STRS real estate, global equity and emerging markets sectors.

STRS Board voted to support the concept of the California Aspire, Achieve, Lead, Pipeline Project. The project seeks to encourage more diversity in leadership and work force through education. CalPERS and the California Public Utilities Commission are founding partners. Pat Geyer, CRTA liaison, reminded the Board of their fiduciary duty, and urged the Board to support but not to divert resources to the Project. STRS may need to develop a policy in this area.

Investment Committee

The Committee reviewed the investment policy and management plan. The allocation to Real Estate (7% to 11%) and Alternative Investments (6% to 9%) was to increase over

the next 5 years. Both allocations have increased more than planned. Real Estate allocation is now 9% and Alternative Investments 8%. However, it may become more difficult to find investment opportunities in these sectors. Real Estate is overpriced in the United States, although there are opportunities in Europe and Asia. Real Estate debt could present an investment opportunity. Private Equity could also have fewer investment opportunities, especially if interest rates continue to increase. Again, there are more private equity opportunities in emerging markets such as India and China.

Long-term allocation targets are 40% U.S. Equity, 20% Non-U.S. Equity, 9% Alternative Investments, 11% Real Estate, 20% Fixed Income and 0% Cash.

Goals for the Investment Portfolio are: Grow from \$175 Billion to \$250 Billion in the next five years, Keep expenses to 70% of what other similar funds spend, Consider branch offices in foreign cities such as London or Tokyo, Challenges to the Investment Portfolio are weak investments and government regulations.

Chris Ailman, Chief Investment Officer reported the fund at \$170 billion as of June 30, 2007, an increase of \$26 Billion in 2006-7. Best performers were Emerging Markets up 45%, Developing Markets up 26%, Europe up 32% and United Kingdom up 27%. Next Looking to the future, Chris Ailman presented potential “stress points”.

High economic stress if event occurs: China-Taiwan Conflict, Air Strike on Iran, U.S. Recession, Avian Flu Epidemic.

Medium economic stress if event occurs: Pakistan collapse, Global Protectionism, Terrorist attacks, Oil Price increases, collapse of Iraq.

Report on CalSTRS Meeting, August 2, 2007

By Pat Geyer, CRTA Liaison

Compensation Committee

The Committee met to update the Compensation Policy. The last update was in the fall of 2006. The following is a summary of the updates: (1) Provide a 5% pay incentive for investment managers who achieve certification as Chartered Financial Analyst or similar educational challenge. (2) The relocation policy is incorporated in the Compensation Policy document. (3) The fund codes for Global Equity and Fixed Income are updated.

Chris Ailman reported the following saying:

“Greedy pigs get slaughtered”

“Shy sheep get sheared”

Report on CalSTRS Meeting, August 2, 2007

By Pat Geyer, CRTA Liaison

Compensation Committee

The Committee met to update the Compensation Policy. The last update was in the fall of 2006. The following is a summary of the updates: (1) Provide a 5% pay incentive for investment managers who achieve certification as Chartered Financial Analyst or similar educational challenge. (2) The relocation policy is incorporated in the Compensation Policy document. (3) The fund codes for Global Equity and Fixed Income are updated.

AB 1317 (Mullin), which gives the STRS Board more flexibility to set compensation for executive officers and general counsel, will be heard at the legislative session following the budget.

Client Advisory Committee

How about asking each of the retiree organizations to write a 15 or 30 word summary describing their organization to be put in the Retirement Guide and also to be included in the CalSTRS website with the addresses. Do we need to include emails for the organizations?

How about having a specific section on the CalSTRS website for the Retired Educator. It could have information and links to other sections.

Sorry but with the mortgage crisis, I felt it important to be at the Investment Committee.
Pat Geyer, CRTA Liaison with STRS

Report on CalSTRS Meeting, September 5, 6, 2007

By Pat Geyer, CRTA Liaison

Executive Summary

- 1.** AB 221 (Anderson) is passing the legislature. It prohibits CalSTRS and CalPERS from investing in a company with business operations in Iran.
- 2.** Court has ruled in favor of the \$500 million payment to the SBMA fund. The payment is scheduled for October 1. The amount of interest to be paid is still in dispute.
- 3.** CalSTRS earned 21% on its investments for 06-07, but that will not happen again.
- 4.** CalSTRS real estate gained 26% in the last year and 25% over the last three years. CalSTRS has not invested in subprime mortgages. However, all real estate prices will be influenced by the subprime meltdown
- 5.** Alternative investments earned 30% beating the industry benchmark of 23%. Going forward, there is uncertainty about the extent of debt financing which will influence the buyout markets.
- 6.** A new analysis of the legal and financial risks facing the tobacco industry could show a favorable investment atmosphere for international tobacco companies.
- 7.** Ailman reported that the CalSTRS fund now stands at \$169 billion.
- 8.** The sub-prime debt has linked the developed world together because these mortgages were divided up, packaged, and sold as collateralized loan obligations (CLO) and collateralized debt obligations (CDO). The buyers are hedge funds and the European and oil-rich nations.
- 9.** Looking forward, capital markets more likely will produce a 8% return with 3% inflation. (Alan Emkin, PCA)
- 10.** A draft report of the Health Benefits Task Force is tentatively planned for the November meeting.
- 11.** The Richman initiative, restricting public employee retirement plans is in circulation.
- 12.** CalSTRS board voted to limit campaign contributions by individuals and firms to the Governor and other public officials that have influence over STRS investment decisions. The limits are \$1000. (Aggregate \$5000).

Audits and Risk Management Committee

During the last fiscal year, CalSTRS has completed 38 audits of school districts out of a total of 1200 districts. The two most common errors were (1) failing to report or incorrectly reporting various types of compensation and (2) reporting member earnings as non-member earnings. As a result of the audits, school districts were required to pay an additional \$662,000 to CalSTRS. CalSTRS continues to educate districts on correct reporting and reports are improving.

Karen Scott, Director of Audit Services, presented the Charter School Risk Assessment. Presently there are 700 active charter schools and 587 offer CalSTRS as a retirement option. Charter schools most at risk are (1) those whose charter is revoked, (2) have more the 1000 students, (3) offer independent study only, or (4) have a filed complaint or bankruptcy. 12 charter schools fall into the high-risk category; six are in Los Angeles County, three are in San Bernardino County. Gavin Payne, representative from the Superintendent of Public Instruction, said that testing fraud was also an indication of high charter school risk. Charter schools have less than 10% of the California students. CalSTRS continues to work with and to audit charter schools.

Dr. Yetman, CalSTRS financial expert, presented his work plan.

Legislative Committee

All of the bills sponsored by CalSTRS are either passed or moving through the legislature. AB 221 (Anderson) is passing the legislature. It prohibits CalSTRS and CalPERS from investing in a company with business operations in Iran. Both pension funds would need to be indemnified (or repaid) for losses in order for such funds to divest. CRTA policy is to oppose such legislation unless STRS is fiscally protected against any investment loss that might occur because of the divestiture. It was announced that the Court has ruled in favor of the \$500 million payment to the SBMA fund. The payment is scheduled for October 1. The amount of interest to be paid is still under dispute.

The committee approved the following additions to CalSTRS legislative policy. (1) Improve the opportunity of members to save using pre-tax accounts. (2) Attempt to secure monies owed by the state or federal government. (3) Seek to repeal Social Security offsets (WEP and GPO). (4) Expand access to health care that does not impose an undue burden on employers or imprudently reduce current benefits. STRS also opposes mandatory Social Security without an increase in funding.

Investment Committee

Staff presented a survey on attitudes to diversity in the investment management industry. The fixed income performance report for 06-07 outperformed the benchmarks.

Alan Emkin, Pension Consulting Alliance and STRS General Consultant gave the semi-annual performance report. Over the last 10 years CalSTRS outperformed its benchmarks and also outperformed other similar funds. CalSTRS earned 21% on its

investments for 06-07, but that will not happen again. The goal of 8% return may be difficult to reach next year.

Nori Gerardo Lietz, PCA, presented the semi-annual real estate report for the period ending March 07. CalSTRS real estate gained 26% in the last year and 25% over the last three years. CalSTRS has not invested in subprime mortgages. However, all real estate prices will be influenced by the subprime meltdown. Leveraged Public REITS (real estate investment trusts) are down 25%. Private REITS will correct 10-15% this year. However there will be some buying opportunities for discounted mortgages.

Mike Moi, PCA, reported that the alternative investments earned 30% beating the industry benchmark of 23%. One quarter of the investments are international; they did best. Going forward, there is uncertainty about the extent of debt financing which will influence the buyout markets.

Chris Ailman, Chief Investment Officer, reported that a new analysis of the legal and financial risks facing the tobacco industry could show a favorable investment atmosphere for international tobacco companies. The review could be ready in November. Pat Geyer, CRTA, urged the Board to reconsider the ban. "We've lost \$1 billion with this decision. For retirees, the change would be a benefit." Gail Simpson, Council for Responsible Public Investment said, "Tobacco is a health problem. We would be very disappointed if CalSTRS reversed its position."

Ailman reported that the CalSTRS fund now stands at \$169 billion. U.S., Europe, and Asian developed markets are following each other. The only diversity is in emerging markets, which are commodity and export driven. However, if the developed world goes into recession the emerging markets will follow. The sub-prime debt has linked the developed world together because these mortgages were divided up, packaged, and sold as collateralized loan obligations (CLO) and collateralized debt obligations (CDO). The buyers are hedge funds and the European and oil-rich nations. Now a year's growth has disappeared. Ailman predicts that the Federal Reserve will drop rates. Treasury Bills may drop from 4.5% interest to 2.5% interest. California, Nevada, Texas, and Illinois are the problem areas. These states already have a 3-5% decline in Real Estate. If foreclosures influence Main Street then Wall Street will follow. Lower tax revenues will impact state and federal governments. It has been a "gut grinding, portfolio rattling, mind-boggling month." (Barrons)

Client Advisory Committee

(Pat Geyer elected to attend the Investment Committee. Jennifer Baker (STRS) gave Pat this report.)

There was an update of State Legislation, deferred compensation, and the Health Benefits Task Force. A draft report of the Health Benefits Task Force is tentatively planned for the November meeting.

Loretta Toggenburger, UTLA, presented Pat Geyer's request for each retiree organization to write a 15 or 30 word summary describing their organization to be put in the Retirement Guide and also, to be included in the CalSTRS website. There will be an informal advisory committee to give input on the Retired Educator section for the redesigned CalSTRS website. (Chad Christman, Web Content Editor will be in charge.)

Benefits and Services Committee

Member inquiries have increased 5.8% in the last fiscal year. Online messages and requests for appointments with benefit counselors are the growth areas.

The Committee elected to keep the death benefit of \$6,163 the same due to unfunded actuarial obligation of STRS.

CalSTRS will work with selected county offices to expand services and allow members to submit applications at those offices. The offices are San Francisco, Fresno, San Diego, Humboldt, Los Angeles.

Teachers' Retirement Board

A panel discussed economic assumptions. Alan Emkin, (PCA), began by looking at the last 25 years. In 1982 inflation was 16%; now it is 3%. The Dow Jones Index was 800; now it is 1400. During the last 20 years CalSTRS has averaged a return of 10%. Looking forward, capital markets more likely will produce an 8% return with 3% inflation.

Flick Forna (AON Consultants) predicted that inflation would remain low at 2.5 to 3.5%. Wages would increase 1% a year above inflation. Gregory Rose (economist) predicted that the trade deficit will self correct because of exchange rate corrections. It will be more difficult to correct the U.S. government deficit. Health care inflation over the next 5 years will be 8 to 10%. Health care will average 3 to 6% over 10 years.

Rick Reed, CalSTRS Actuary, reported that the Milliman study concluded under current projections the SBMA fund would continue to grow through 2036.

Ed Derman, Deputy CEO, reported that the Richman initiative restricting public retirement plans is in circulation.

CalSTRS board voted to limit campaign contributions by individuals and firms to the Governor and other public officials that have influence over STRS investment decisions. The limits are \$1000. (Aggregate \$5000). The proposed regulation now goes to the state Office of Administrative Law for review and could become effective in two months.

Jack Ehnes, CEO, gave a progress report on the construction of the new CalSTRS building in West Sacramento. It will be completed in 2009.26

In addition to the regular November meeting the CalSTRS Investment Committee will meet December 6. It will be the final meeting for Gary Lynes, long-time CalSTRS Board member.

Report on CalSTRS Meeting, November 1,2, 2007

By Pat Geyer, CRTA Liaison

Executive Summary

- 1. All STRS financial statements met the GASB (Government Accounting Standards Board) requirements**
- 2. Staff presented the results of STRS proxy voting (see Investments)**
- 3. State Lands continues to earn a very poor return on the \$65 million in liquid assets to be used for support of public education.**
- 4. The Investment Committee voted to become a signatory to the United Nations Principles for Responsible Investment**
- 5. The Green Initiative Task Force reported that all asset classes were considering global sustainability issues when making investments.**
- 6. Investment Committee asked that fiduciary duty be emphasized in investment policy. STRS does not suggest specific investments to managers; it only makes policy.**
- 7. STRS originally invested in 3 companies doing business in Sudan. Now it is invested in only one**
- 8. The next Health Benefits Task Force meeting is December 14**
- 9. The next Client Advisory Committee meeting will be on Wednesday, February 6.**
- 10. The Investment Committee meets December 6. The next STRS Board Meeting is February 6,7,8.**
- 11. Ed Derman, Deputy CEO, discussed two potential inequities in the STRS disability program (see Benefits & Services)**
- 12. The California Supreme Court is reviewing the Department of Finance petition regarding the payment of interest on the SBMA \$500 million. The ruling is expected before the end of the year.**
- 13. July 2009 is the move-in date for the new STRS headquarters building in West Sacramento.**
- 14. The STRS fund stands at \$178.8 billion, a 5.3% increase since June 30, 2007**

Audits and Risk Management Committee

The Committee heard an overview of the financial statement from Chris Ford, Chief Financial Officer. The committee accepted the Macias Gini & O'Connell independent auditors report. All STRS financial statements met the GASB (Government Accounting Standards Board) requirements. Dr. Yetman, STRS Board financial expert, agreed with the findings.

In an effort to improve employer reporting, STRS has provided a secure employer web site, and has created reports to be used for measuring improvements, Challenges are: (1) no standard model for reporting, (2) complex reporting rules, (3) lack of needed employer information, (4) Charter Schools, and (5) the unique Community College requirements.

Legislative Committee

The Committee discussed two bills. AB 865, Davis, required all phone calls to be answered by a live customer service representative within ten rings. STRS already provides this service. SB 879, Calderon, permits retirees who received the “Golden Handshake” (payment to retire) to return to serve as substitute teachers without losing the payment as current law requires. STRS has a watch position on SB 879. The bill would increase a district’s ability to hire substitutes, but it could allow members to retire with the Golden Handshake and return to “full-time” work without penalty.

There was some discussion of proposed legislation to limit STRS investments in companies doing business with terrorist states. Such limitations, in their most strict form, may require STRS to divest up to 90% of its investments. The Committee heard a presentation on the STRS Investment Policy revision. Committee asked that fiduciary duty be emphasized. STRS does not suggest specific investments to managers; it only makes policy.

Investment Committee

Staff presented the results of STRS proxy voting. Two trends were discussed. Beginning in 1999 STRS staff voted in favor of ratifying all auditors. From 2002-2004 STRS staff voted against more auditors that it approved. However, in the 2007 season STRS staff approved 90% of the auditors, a result of the Sarbanes-Oxley regulations. Another trend is the decreasing number of executive compensation proposals. This is in response to the growing unrest over excessive executive compensation. Other STRS positions are: general support of shareholder proposals (76% for, 24% against); split votes on election of directors (43% for, 34% split vote, 23% against); votes against compensation plans (36% for, 64% against); and votes in favor of mergers (84% for, 16% against).

The Committee heard the yearly report from the State Lands Commission. The Commission has continually reduced costs. However, State Lands continues to earn a very poor return on the \$65 million in liquid assets. The Legislative Analyst again recommends that the liquid assets be transferred to STRS, but the Legislature took no action. The Federal Government gifted, in 1853, these State Lands for support of education. At this point STRS can only advise the Commission on investments.

The Committee voted to become a signatory to the United Nations Principles for Responsible Investment, while noting that STRS policies will always take precedence over UN Principles.

The Green Initiative Task Force reported that all asset classes were considering global sustainability issues when making investments. A list of Green Investments was presented, and the committee heard a live video presentation by Al Gore.

Investment Committee asked that fiduciary duty be emphasized in revised investment policy. Next the Committee reviewed the proxy voting guidelines and heard the semi-annual report on diversity of ideas and people in the management of investments. Under alternative investments the Committee increased the amounts that officers might trade daily. It increased the target and range for Alternative Investments. Committee has planned for Alternative Investments area to grow, and it is reaching its growth target sooner.

Chris Ailman, Chief Investment Officer, reported that STRS originally invested in 3 companies doing business in Sudan. Now it is invested in only one. The manager has found no alternative to that last investment. Proposals to divest in Iran are more of a problem. Iran has the second largest gas reserves in the world. All major gas/oil companies have business with Iran. Alan Emkin, STRS Advisor, expressed concern about limiting investments because it limits diversity.

California's Central Valley is very exposed to sub-prime loans. STRS loans to teachers are good, no problems with foreclosures. STRS is considering replacing Countrywide as the STRS loan provider.

Chris Ailman reported that the STRS fund is now \$177.8 billion a 5% increase from June 30, 2007. Emerging markets, led by China, did the best, up 27%. There is a possibility of a bubble here.

Client Advisory Committee

Jane Kreidler, STRS, reported that the Medicare Part A Health Benefit Fund had 112 new recipients this year. The total is 6225 retirees who have STRS paying Medicare Part A.

Employers have a new STRS web page listing training programs. On the employer secure site employers can check County and STRS data. In the future, school districts will have the ability to check and correct data before sending it to STRS.

The next Health Benefits Task Force meeting is December 14. The Task Force will review responses to their report. The final report, if completed, will be presented to the STRS Board at the February meeting.

At the open forum, Pat Geyer, CRTA Liaison, turned in a paragraph description of CRTA for possible inclusion in the STRS Retirement Guide publication. Pat also suggested that the STRS web home page provide an active member and a retired member link, rather than just one link for all members since retired members have different needs and requirements than actives.

Loretta Toggenberger, UTLA-Retired reported that some members questioned the need for STRS to built a new building.

The next Client Advisory Committee meeting will be from 2 to 4 p.m. on Wednesday, February 6.

Benefits and Services Committee

The Voluntary Investment Program (403b) has grown to \$170 million – more investments, increased earnings, and less withdrawn. TIAA-CREFF will provide the services for the 403b plans, both traditional and Roth, and the 457b plan. The Roth 403b plan will begin next year.

Ed Derman, Deputy CEO, discussed two potential inequities in the STRS disability program. (1) A member can purchase a minimum of previously withdrawn contributions and interest and receive a disability benefit based on a few years of service. (2) A member who enters the teaching profession late in his/her career, earns a minimum amount of service credit and receives a disability benefit substantially higher than he/she would receive for just service retirement. Staff suggested a new program that would provide disability payments until age 65 when the member would begin receiving a service retirement. Such a change would result in an estimated \$824 million savings to the fund over 30 years. The Board did not take any action on disability issues.

STRS could provide a tax-free, service connected disability benefit to STRS members. However, staff does not recommend such a change at this time because of the public perception of enhancing benefits when STRS is not fully funded.

Ed Derman also presented possibilities for a phased-in retirement program. This is where participants work part-time and receive part of their retirement also. However, the Federal Government will only allow a phased-in program that begins at 60. This issue will continue to be studied.

The STRS annual member satisfaction survey reported that members were satisfied with CalSTRS service.

Ed Derman, Deputy CEO, reported that 7% of the recipients of SBMA (Supplemental Benefit funds) receive more in SBMA than in their retirement checks. The educator receiving the highest percentage, retired in 1972 and receives \$10,000 a year in retirement checks and \$20,000 a year in purchasing power replacement (SBMA).

Teachers' Retirement Board

The Washington monthly report stated that legislation to tighten Iran sanctions is progressing. Still waiting for the last Elk Hills payment of some \$20 million.

Jack Ehnes, CEO, reported that the Office of Administrative Law has approved the STRS rules on campaign contributions. The California Supreme Court is reviewing the Department of Finance petition regarding the payment of interest on the SBMA \$500 million. The ruling is expected before the end of the year.

The Board heard from a panel on demographic assumptions. Dean Vogel, Vice-President of CTA reported that new college graduates did not expect to have one single career. Expect more turn over in teachers. Of the 22% (CTA thinks this is closer to 50%) of the new teachers who leave after 4 years of teaching, most leave for reasons of resources, poor teaching environment, and little role in program NOT for financial reasons. Priorities for teachers are Health Care and paying the cost of Education.

Mr. Darren Addington, Commission on Teacher Credentialing, reported on the Calpads and Caltides, long-term research programs. They have no specific data to report at this time.

Jennifer Baker, STRS legislation, reported that no formal meetings with legislators were held regarding the \$19 billion STRS unfunded actuarial obligation. STRS staff is in the process of setting meetings with constituent groups. Two issues for consideration are (1) seeking legislative authority for STRS Board to increase contribution rates, and (2) assessing the fiscal impact that increased contribution rates would have on Prop 98 and education funding in general.

Chris Ford, CFO, presented the operational budget for 2008-9. Challenges are filling all staff positions with qualified employees, more work than is possible to do. Board approved the budget.

The new STRS headquarters building in West Sacramento is progressing as expected. The move-in date is July 2009.

The STRS fund stands at \$178.8 billion, a 5.3% increase since June 30, 2007

Report on CalSTRS Meetings, December 6, 2007

Report on Health Benefits Task Force, December 14

By Pat Geyer, CRTA Liaison

Executive Summary

- 1. Los Angeles School District has accounting problems that minimally affect the STRS fund.**
- 2. There was an update of the California Teachers Study on breast cancer rates.**
- 3. The Townsend Group was selected as Real Estate Investment Consultants.**
- 4. New asset allocation targets are: U.S. Equity-41%, Non-U.S. Equity-21%, Fixed Income-21%, Private Equity-8%, Real Estate-10%, and Cash-0%.**
- 5. Health Benefits Task Force changed the proposed Health Benefit Accounts to \$400 per month for pre 1999 retirees and \$100 per month for retirees of 1999 and later. This proposed change will go out to the client organizations for input and discussion.**
- 6. Carolyn Widener, Dana Dillon, and Harry Keiley were elected to represent active teachers on the STRS Board.**

Teachers' Retirement Board

Jack Ehnes, Chief Executive Officer, reported there will be a conference on Sustainability and the Environment on June 24,25,26, 2008, followed by visits to STRS and PERS. Los Angeles School District still has accounting problems. This affects the STRS fund and State General Fund contributions. There are problems for LA members who retired this last year; their retirement checks may be in error. LA members make up 15% of active STRS teacher members. The accounting errors minimally impact the total STRS fund, but the errors may affect the actuarial evaluation next June.

Rich Pinder, Program Manager of the California Teachers Study gave an update on the program. The purpose of the study is to document breast cancer rates of California teachers. The study began in the fall of 1995 and is set to end in 1015. There are 133,000 participants and over 5000 DNA samples have been collected. They are looking for genetic traits that might signal a tendency for breast cancer. The Study is seeking additional funding to expand to include teachers hired after 1995.

Investment Committee

The committee interviewed the two finalists for the position of Real Estate Investment Consultant. The Committee selected the Townsend Group. The other finalist was Callan Associates.

Christopher Ailman, Chief Investment Officer, reported on STRS asset allocation. The Board's goal is to move real estate from 9% of assets to 11% and to move private equity from 7% of assets to 9%. Since real estate now stands at 10.3% and private equity at 8.4% is was voted to move the asset allocations toward their long-term targets. U.S.

equity will be reduced from 42% to 41%. U.S. equity now stands at 38.4%, which is within the range of asset allocation. All other assets are within their allocation range.

STRS has reduced their exposure to the U.S. equity market; they plan to return to the market next year. STRS still has an income of 2.9% for this fiscal year to date. As of October 31 STRS had a fiscal income of 5%.

Health Benefits Task Force

The task force agreed to proceed by consensus for a final report. The draft report was discussed by sections. Minor changes were made to the draft report. A major change to the draft report was to seek legislation to provide a health allowance account of \$400 per month for those who retired before 1999 with 30 or more years of service. (Retirees with lesser years of service would receive a lesser amount.) A health allowance account of \$100 per month would be provided for those who retire in 1999 or later. The health allowance accounts would be paid out of the SBMA fund. Legislation would be sought to increase employer contributions by approximately 1.9% to pay for the \$100 health allowance accounts, with the goal of increasing contributions in the future in order to meet the goal of a \$300 monthly health account for all present and future educators who retired in 1999 or later. This proposed change will go out to the client organizations for input and discussion. Any health allowances would need legislative approval.

The next meeting of the Health Benefits Task Force will be at the end of February. (date to be decided) The goal is to have an agreed upon proposal for the STRS Board at the March meeting.

STRS announced the results of the active educators election of the three STRS Board members. Carolyn Widener, representing Community Colleges, Dana Dillon; representing K-12 (non-administrator) and Harry Keiley, representing K-12 (inclusive). Keiley, from Santa Monica-Malibu School District will replace Gary Lynes who has retired. Carolyn Widener and Dana Dillon were both reelected.

Teachers' Retirement Board Meeting Calendar and Tentative Committee Meeting Schedule

Fiscal Year 2007-2008

July 12, 2007

Audits and Risk Mgmt. Committee Meeting

January 10, 2008

Investment Committee Meeting
(Tentative)

July 13, 2007

Board / Investment Committee Meeting

February 7-8, 2008

Board and Committee Meetings

August 2, 2007

Investment Committee Meeting
(Tentative)

March 6, 2008

Investment Committee Meeting
(Tentative)

September 5-7, 2007

Board and Committee Meetings

April 2-3, 2008

Board and Committee Meetings

October 4-5, 2007

Annual Board Meeting Offsite

May 1, 2008

Investment Committee Meeting
(Tentative)

November 1-2, 2007

Board and Committee Meetings

June 4-5, 2008

Board and Committee Meetings