

December 4, 2002

Report on STRS Committee meetings from Pat Geyer
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Subcommittee on Corporate Governance

I did not attend this committee, but from the agenda, STRS is continuing to request that companies STRS invests in follow good governance. STRS is also taking a more active role in voting their proxies.

Health Benefits Committee

1. STRS is continuing to pay Medicare Part A premiums for retirees who need it. The cost is less than anticipated. However, over 200 school districts have not held Medicare elections. This means that teachers hired before 1986 do not have deductions from their paychecks for Medicare. Only a few teachers are affected and districts don't want the cost of an election and fear additional costs. STRS continues to encourage the elections.
2. There was a panel on Health Insurance for active and retired teachers. Jim Knapp from Elk Grove District and Lois Shive from San Diego Area Schools presented. All agreed that health care premiums were increasing at rates of 15 to 18% a year. Controller Connell stated that with a STRS predicted rate of return of 6-7% there would be no money for health care benefits. Additional health care benefits would have to be financed by employee-employer increased contributions.
3. STRS Board member Jay Schenirer (Sacramento USD) stated that he believed that health care premiums would continue to increase at rates above 10% for the next 5 years. Sacramento USD will have to reduce their health care benefits for both actives and retirees. (When I talked to Schenirer privately, he suggested that the retirees of SCUSD should organize to protect their benefits)

Investment Committee

1. The Investment Committee accepted the STRS staff recommendations of projected rates of return. They are 9.25% for stocks; 5.75% for bonds; 4.5% for cash, 7.5% for real estate and 2.5% for inflation. 2002 will be the third year that the market has had negative returns. Three years of negative returns have not happened since 1939-41 (the end of the Great Depression).
2. CIO Christopher Ailman reported that the value of the STRS fund had increased from \$89 Billion to \$94 Billion. STRS fund was now back to its 1997 value. STRS has also purchased some of the California Power bonds for its investment portfolio.

Benefits and Services Committee

1. It was reported that the levels of service were very much improved.
2. A presentation was made by Financial Engines, which is a program to help STRS members with financial planning. It is part of the 403B investment program.

STRS Board Meeting, December 5, 2002
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CEO Jack Ehnes presented the new STRS Organization. The departments are as follows:

- Public Affairs – Ed Derman
- Enterprise and Technology – Bill Hobbs
- Benefits and Services – Peggy Platt
- Investment – Christopher Ailman
- Counsel and Audits – Christopher Waddell
- Facilities – (no name given)
- Administration – Jack Ehnes

Presently STRS has 123 vacant positions out of 612. The hiring freeze has made it difficult to fill all positions.

Ed Derman reported on 3 bills that STRS will be introducing in the next legislative session. They are

1. A Bill to detail the organization of the election of the 3 STRS Board members
2. A bill to offer the cash balance program to classified school district employees
3. A bill to exempt CalSTRS from restrictions if no budget is passed.

Ed Derman also reported that there is no hope of any changes to Social Security before 2004. It is possible that there may be increased Medicare drug benefits this session.

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