



California State Teachers' Retirement System

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CalSTRS Responds to Stanford Institute for Economic Policy Research Report on California's Pensions

WEST SACRAMENTO, CA – The California State Teachers' Retirement System (CalSTRS) responded today to a report issued by the Institute for Economic Policy Research at Stanford University.

The study's findings are based on improbable scenarios and unrealistic assumptions and miss the mark.

- The study ties a risk-free discount rate approach to the funding of the plan that creates absurdly improbable scenarios. For example, the general economic conditions that would generate only 4.5% as the average long-term return of a portfolio, as the study uses, would present far greater troubles than the funding of a pension plan.
- Although the report acknowledges that 30-year investment horizons are an acceptable and accurately used forecasting method, it still bases its conclusion on the investment experience of a much shorter period of time. The report's "For and Against" on page 12 do not provide any meaningful basis to conclude that a risk-free rate should be used.
- Far more accurate and useful return assumptions can and should be used to gauge potential liabilities, as opposed to a risk-free rate of return at 4.5% which creates a significant generational inequity by artificially inflating the costs incurred now.
- Finally, the use of the Dow Jones Industrial Average as a reflection of pension funds equity returns is not analytically sound. For one, no professional investment entity would invest its equities in such a concentrated portfolio. Second, it ignores the fact that large pension funds, such as CalSTRS, invest a sizable percentage of their portfolio in real estate and private equity, which historically have higher returns than the Dow Jones.

These findings will unnecessarily detract from meaningful discussion of real issues surrounding public pension funds, like a funding plan for CalSTRS projected funding shortfall.

- CalSTRS has been working for some time to raise awareness of the current projected \$56 billion funding shortfall, the cost of waiting to address it and the ultimate risk failing to do so presents to the state's General Fund.
- It's important to understand that the risk of facing depleted assets exists approximately 30 years from now versus actually facing insolvency today. Absent any changes in

contribution rates or liabilities, current calculations show the fund will deplete its assets by the early 2040s.

- What is needed now to fund the existing and future benefits plan is an increase in contribution rates, which can be gradual and predictable over time, and fair to all parties. This methodology equally spreads share of costs and does not unnecessarily burden any one generation or overly inflate what is needed.
- CalSTRS supports a consistency in the measure of total pension liability reporting and agrees with the need for transparency in the accountability of unfunded pension liabilities.
- CalSTRS \$56 billion funding shortfall can be managed, but it will require increased contributions, which can be gradual and predictable, and fair to all. The Legislature and Governor however, must tackle the challenge of crafting a specific funding strategy since only they have the authority to do so and it's the state's General Fund at risk without one.

The CalSTRS difference

- Fair, hard-earned CalSTRS benefits reward decades of classroom service.
- Unlike most other public pension systems, CalSTRS is unique in that it already administers a comprehensive, hybrid system that includes a defined benefit plan (base retirement benefit), a cash balance plan and a defined contribution plan.
- The average CalSTRS member retiring in 2010-11:
 - Retired at age 62
 - Performed over 25 years of service
 - Earned a pension that replaces about 55 percent of salary,
 - Receives no Social Security benefits for their CalSTRS covered employment
- Employer contributions (8.25%) have not changed since 1990 and employees' (8%) since 1972.
- Contributions by the State of California to the Defined Benefit Program actually declined from 4.607 percent in 1998 to the current level of 2.541 percent.

The [California State Teachers' Retirement System](#), with a portfolio valued at \$148.2 billion as of October 31, 2011, is the largest teacher pension fund and second largest public pension fund in the United States. CalSTRS administers a hybrid retirement system, consisting of a traditional defined benefit, cash balance and defined contribution plan, as well as disability and survivor benefits. CalSTRS serves California's 852,000 public school educators and their families from the state's 1,600 school districts, county offices of education and community college districts.