



California State Teachers'  
Retirement System  
Post Office Box 15275  
Sacramento, CA 95851-0275

916.414.2200 Tel  
www.calstrs.com

October 25, 2011

California State Assembly  
California State Senate  
State Capitol  
Sacramento, CA 95814

Dear Honorable Assembly Members & Senators,

This letter seeks to clarify issues and address concerns regarding the effect new accounting rules set by the Governmental Accounting Standards Board (GASB) may have on how the California State Teachers' Retirement System's (CalSTRS) pension fund liabilities are reported. GASB's proposed rules are receiving a fair amount of attention and CalSTRS is concerned this may sidetrack or misinform efforts to address key issues associated with adopting a solution to our funding shortfall.

CalSTRS uses a 7.75 percent annual rate of return to forecast earnings and discount future obligations. Based on that assumption, the June 30, 2010 snapshot of the CalSTRS fund's assets and liabilities showed a \$56 billion shortfall.

GASB proposes a very different approach that will not change the actual amount of the shortfall, but will significantly increase its amount on paper. The GASB proposal uses a 'blended' discount rate that considers a long-term rate of return on plan assets and a high-quality, non-taxable municipal bond index rate, which reflects a pension fund's long-term investment strategy, as well as the eventual need to borrow funds to pay pension benefits after net assets have been fully depleted.

Using this new blended discount rate may cause plans with outstanding unfunded liabilities, like CalSTRS, to appear to have an increased liability. However, although the liability may be reported on a financial balance sheet as a new, significantly higher amount, the actual current shortfall of \$56 billion projected by CalSTRS would not change as a result of any action taken by GASB.

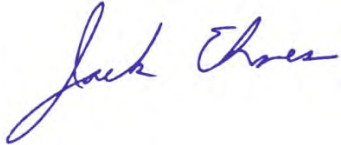
As issues around public pensions are discussed and considered, the most important change CalSTRS needs is a plan to address its long-term funding shortfall, which only the Legislature and Governor have the authority to implement. CalSTRS would like to take this opportunity to ask that you give special consideration to a long-term funding strategy to protect our teachers' retirements as pension reform plans are crafted.

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Given the significant costs associated with waiting to adopt a long-term funding strategy for CalSTRS, the importance of taking action now cannot be overstated. It is the respectful position of CalSTRS that the state must act to adopt a responsible funding strategy that upholds the State's constitutional promise to teachers and protects the General Fund.

Please contact me with any questions or concerns you may have.

Sincerely,

A handwritten signature in blue ink that reads "Jack Ehnes". The signature is written in a cursive style with a large, sweeping initial "J".

Jack Ehnes  
Chief Executive Officer