



## **ANALYSIS OF THE GOVERNOR'S OCTOBER 2011 PENSION REFORM PROPOSAL**

### **SUMMARY**

The Governor has proposed a 12-point plan to implement changes to the current structure of public pension plans in California in an effort to address problems and complex issues facing California's public pension systems. The proposal includes provisions that are aimed in part at reducing the accumulation of unfunded pension and state retiree health benefit liabilities, as well as to shift the financial burden and create a more equal share in the financial risk between the employee and employer. Not all of the 12 points in the Governor's proposal affect CalSTRS and some of the provisions apply only to new employees.

Importantly, the proposal does not include a plan of action to address the long-term funding shortfall in the Defined Benefit (DB) Program, which the Teachers' Retirement Board has identified as one of its most important strategic objectives. Currently, total contributions exceed the annual normal cost of the benefit. However, CalSTRS' current funding shortfall is a result of substantial and unprecedented market losses. While the Governor's proposal could result in the normal cost surplus gradually increasing over time, this will have minimal impact in amortizing the unfunded actuarial obligation.

The provisions of the proposal have not been reviewed by the board and no specific positions have been taken by the board on the proposal. Many assumptions had to be made due to the lack of specificity and detail. As a result this analysis only provides a description of the proposal's potential impact on CalSTRS benefit programs based on those assumptions. The actuarial estimates have been provided by CalSTRS external consulting actuary, Milliman, and were based on several assumptions being made about the provisions of the Governor's proposal. How these assumptions compare to the actual specifics of the Governor's proposal could have a material effect on the estimated fiscal impact.

### **Impact on Member Benefits**

For future members who ultimately retire under the proposed hybrid, the total value of the benefits received under the proposal generally will be less than the benefits provided under current law. For example, assuming the defined contribution component earns 6.75 percent annually, the expected value of total benefits paid under the proposed hybrid for a member retiring at age 67 with 35 years of service (the targeted career under the proposal) would be about 18 percent lower than under the current DB Program. For a member who retires with an actuarial reduction at age 62 (if permitted under the proposal) with 27 years of service, reflective of the average career of a CalSTRS member, the reduction under the proposal would be almost 40 percent.

On the other hand, for those who begin teaching but terminate their employment well before retirement, the benefits received under the proposal could be greater, depending on how the defined contribution component is structured. For example, a person who quits teaching at age

40 with 10 years of service and retires with an actuarial reduction at age 65 (assuming that is permitted under the proposal), could receive a total benefit that is over 50 percent greater than under the current DB Program. This is because the defined contribution account would continue to accrue investment earnings under the proposed plan, but under the current plan, the value of the final compensation in determining the benefit remains the same, and DB Program benefits only increase in response to the deferred age of retirement. This would, however, be partially offset by continued crediting of interest in the member's DBS account under the current plan design. Moreover, this type of deferred retirement, however, is not a common situation in the DB Program.

## **FISCAL IMPACT**

Program Cost – The net effect of the proposals affecting CalSTRS benefits is estimated to reduce the normal cost of the DB Program for future members from the current 17.713 percent to 7.560 percent. This would be partially offset by the 5.8 percent normal cost of the defined contribution component of the hybrid, to achieve the proposal's replacement ratio objective, resulting in a net reduction in normal costs of 4.353 percent. Of that reduction, the employee would realize a net savings of 1.32 percent while the employer would realize a savings of 3.033 percent. Based on the current creditable payroll, that would result in an annual savings to employers (possibly including the state) of over \$800 million. However, because those savings would be realized from changes in benefits affecting employees hired in the future, those savings will be realized very slowly as new members enter the benefit program. In addition, the plan proposes to increase contributions paid by existing members by about \$250 million annually.

Administrative Costs/Savings – Without specific details, it is difficult to provide meaningful estimates of what the provisions would cost to implement. However, it is likely the costs would be significant.

## **PROGRAM BACKGROUND**

### Current CalSTRS Benefits

Currently, CalSTRS administers a hybrid retirement system consisting of the Defined Benefit (DB) Program (a traditional defined benefit plan), the Defined Benefit Supplement (DBS) Program (a cash balance plan) and Pension2 (a defined contribution 403(b)/457 program funded through voluntary employee contributions). CalSTRS members do not participate in Social Security. As a result, the benefits paid by CalSTRS are the only ongoing source of retirement income that members receive for their public education service. In addition, CalSTRS has a very limited retiree health benefit focused on members who did not qualify for premium-free Medicare Part A coverage. The provision of health benefits is negotiated at the local level, and 62 percent of members retiring now do not receive financial support from their employer for their health benefits after they reach age 65.

Defined Benefit Program. The DB Program pays monthly retirement benefits to eligible educators based on years of service, age of retirement and final compensation. Final compensation is based on the highest 12 consecutive months if the member has at least 25 years of service, and generally the highest three consecutive years otherwise. The retirement benefit is

equal to two percent of final compensation per year of service for those retiring at age 60, increasing to 2.4 percent at age 63. Members retiring with 30 or more years of service may receive an increase of up to 0.2 percent in that percentage of final compensation. Members can retire at age 55, with at least five years of service, or as early as age 50 with at least 30 years of service, but the percentage of final compensation paid at earlier ages of retirement is decreased. The average retirement age is 62 and the average retiring member has performed 27 years of service. The average benefit paid to a member retiring in 2009-10 was approximately 60 percent of the member's final salary. The DB Program also pays disability benefits and survivor benefits.

Defined Benefit Supplement Program. The DBS Program supplements the benefits paid under the DB Program at the time that DB benefits are paid. The DBS benefit is equal to the account balance at the time of retirement, disability or death. Contributions that are credited to DBS are paid by the member and employer on compensation for service in excess of the full-time assignment, such as for summer school or after-school activities, compensation paid for a limited period of time, such as compensation paid to those who agree to retire at the end of the school year, or certain compensation that CalSTRS determines is not creditable to the DB Program. Contributions are credited with a minimum amount of interest, based on 30 year Treasury bill rates, but additional interest can be credited by the board if there are sufficient excess funds after meeting long-term program liabilities. Benefits can be paid either as a lump sum, a monthly annuity or a combination of both. Over 50 percent of members are credited with additional contributions to the DBS Program each year.

(The Cash Balance (CB) Benefit Program is a retirement program for eligible part-time employees who perform creditable service on a part-time basis and do not otherwise qualify for the DB Program. It has an identical plan design as DBS, but with different employee and employer contribution rate. It is optional for employers to offer the CB Benefit Program.)

Pension2. Pension2 is a CalSTRS program that offers school employees an opportunity to further supplement their retirement with additional investments on a pre-tax basis, pursuant to either Section 403(b) or 457 of the Internal Revenue Code. Pension2 offers 22 different investment options in low-cost mutual funds or variable annuities, and sets up portfolios of these core selections that reflect different target retirement dates and risk profiles. Individual employers elect whether to offer Pension2 to their employees.

#### Vested Rights of CalSTRS Members.

A “public employee’s pension constitutes an element of compensation . . .” and the right to the pension is contractual and “accrues upon acceptance of employment.” (*Betts v. Board of Administration* (1978) 21 Cal.3d 859, 863.) Once the inducement is accepted, the pension promises become “obligations which are protected by the contract clause of the Constitution.” (*Kern v. City of Long Beach* (1947) 29 Cal.2d 848, 853.) Therefore, the state “may not deny or impair the contingent liability any more that it can refuse to make the salary payments which are immediately due.” (*Id.* at p. 855; see also *United Firefighters of Los Angeles City v. City of Los Angeles* (1989) 210 Cal.App.3d 1095 [law that capped annual cost of living increases was an unlawful impairment for employees who worked before the cap was established].)

A public employee has a “vested right not merely to preservation of benefits already earned pro rata, but also, by continuing to work until retirement eligibility, to earn the benefits, or their substantial equivalent, promised during . . . prior service.” (*Pasadena Police Officers Ass’n v. City of Pasadena* (1983) 147 Cal.App.3d 695, 703.) Improvement to pension benefits during the tenure of employment also become “vested rights of the employees when conferred.” (*Betts v. Board of Administration, supra*, 21 Cal.3d 859, 867.)

There is a narrow exception to the constitutional prohibition against the impairment of contracts. Both the California and United States Supreme Courts have held that “a substantial impairment may be constitutional if it is ‘reasonable and necessary to serve an important public interest.’” (*Valdes v. Cory* (1983) 139 Cal.App.3d 773, 790.) Courts apply a four-prong test when applying this limited exception: (1) the enactment must serve to protect “basic interests of society”; (2) there must be an “emergency justification for the enactment”; (3) the enactment must be “appropriate for the emergency”; and (4) the enactment must be “designed as a temporary measure, during which time the vested contract rights are not lost but merely deferred for a brief period, interest running during the temporary deferment.” (*Id.* at pp. 790-791.)

Vested pension rights may be modified on a limited basis to the disadvantage of current employees, if that change is accompanied by “comparable new advantages” to the employees affected by the change. (*International Ass’n of Firefighters v. City of San Diego* (1983) 34 Cal.3d 292, 300-301.) The adjustment must have a “material relation to the theory of a pension system and its successful operation.” (*Id.* at p. 301.) While the courts have recognized that “changes made to effect economies and save the employer money do ‘bear some material relation to the theory of a pension system and its successful operation,’” such a reason by itself is not “sufficient justification for change.” (*Claypool v. Wilson* (1992) 4 Cal.App.4th 646, 666.) “The comparative analysis of disadvantages and compensating advantages must focus on the particular employee whose own vested pension rights are involved.” (*Betts v. Board of Administration, supra*, 21 Cal.3d 859, 864.) “[T]he offsetting improvement must also ‘relate generally to the benefit that has been diminished.’” (*Id.* at pp. 864-865.)

To determine if there is a comparable new advantage requires first, a determination that the right being modified is vested. For example, if member contributions are fixed at a particular percentage level, then the impacted employees have a vested right to that contribution level. (*Pasadena Police Officers Ass’n v. City of Pasadena, supra*, 147 Cal.App.3d 695, 702-03 [“where the employee’s contribution rate is a fixed element of the pension system, the rate may not be increased unless the employee receives comparable new advantages for the increased contribution.”].) Filling funding shortfalls by itself may not be a sufficient basis upon which to modify contribution rates. (See, e.g., *Ass’n of Blue Collar Workers v. Wills* (1986) 187 Cal.App.3d 780 [city unlawfully impaired employees contractual rights by amending its Municipal Code to require additional contributions from the employees to cover the unfunded liabilities of cost-of-living benefits].)

Second, the modification must have a “material relation to the theory of a pension system and its successful operation.” (*Claypool v. Wilson, supra*, 4 Cal.App.4th 646, 665.) “[C]hanges made to effect economies and save the employer money do ‘bear some material relation to the theory of a pension system and its successful operation.’” (*Id.* at p. 666.)

Finally, when vested rights have been impaired and the change has a “material relation to the theory of a pension system and its successful operation,” the impacted or disadvantaged employees must receive a “comparable new advantage.” This analysis focuses specifically on what has been taken from and provided to the impacted employees. (*Betts v. Board of Administration, supra*, 21 Cal.3d 859, 864.) “The comparative analysis of disadvantages and compensating advantages must focus on the particular employee whose own vested pension rights are involved.” (*Id.*) This could lead to different analyses for different employees based on their length of service. (See, e.g., *Pasadena Police Officers Ass’n v. City of Pasadena, supra*, 147 Cal.App.3d 695 [analyzing rights of different members by date of hire].)

## **ANALYSIS OF INDIVIDUAL PROVISIONS**

### **1. Equal Sharing of Pension Costs: All Employees and Employers**

All of CalSTRS contribution rates are set by statute. The normal cost of benefits for CalSTRS members is shared between the member (employee), schools (employers) and the state (plan sponsor). As of June 30, 2010, the normal cost of the DB Program is 17.713 percent. Currently, CalSTRS members contribute 8 percent of their creditable compensation toward their benefit, which equates to approximately 45 percent of the normal cost. The proposal states that the “annual normal pension costs should be shared equally by employees and employers” and that employee contribution rates would be “at least 50 percent of the annual cost of their pension benefits”. Staff interprets this proposal to require that the member pay at least 50 percent of the normal cost of the DB Program. This would require that member contributions be increased to approximately 8.86 percent. The Governor’s proposal does not specify how the remaining costs would be divided between the employer and the state. In addition, it isn’t clear whether the contribution rate would change automatically when an actuarial valuation is adopted by the board, or if the current practice of specifying contribution rates in statutes would continue. Finally, the proposal does not address how contributions to amortize the unfunded liability of the DB Program would be allocated among members, employers and the state.

Moreover, increasing the contributions paid by existing members to equal 50 percent of the normal costs could constitute an impairment of contract unless the affected member is provided something of comparable value in return. Although the Governor’s plan discusses phasing in the increase in response to collective bargaining agreements, the contributions paid by and benefits paid to CalSTRS members are not subject to collective bargaining, but are instead set by statute.

### **2. “Hybrid” Risk-Sharing Pension Plan: New Employees**

As discussed earlier, CalSTRS administers a hybrid system consisting of the DB Program, DBS Program and Pension2. The Governor proposes mandatory participation by new employees in a different hybrid plan, consisting of a defined benefit and defined contribution component that would be professionally managed, which, combined with Social Security, would provide an annual retirement benefit that replaces 75 percent of an employee’s salary after 35 years of service. For those employees who do not participate in Social Security, such as CalSTRS members, the goal would be for the defined benefit to account for two-

thirds of the targeted benefit or a 50 percent replacement ratio, with the DC component providing the remaining benefit.

The proposal also requires the Department of Finance (DOF) to do a study and subsequently design hybrid plans for safety and non-safety employees, respectively, as well as design a cap on the defined benefit portion of the plan. It is not clear whether DOF would be designing a hybrid model unique to each pension system based on the needs of that system and the demographics of the members or if there would be one model developed for safety employees and one model designed for all other public employees. The Governor does not specify the timeframe in which the DOF is to complete the study or when the hybrid plan would be implemented. Additionally, though the proposal also requires the DOF to design a cap on the defined benefit portion of the hybrid plan, it does not provide any detail on how such a cap would be implemented.

The proposal does not provide much detail into how the defined contribution plan would be administered, other than the funds would be professionally managed, and whether the member and/or employer would be required to make any minimum or maximum level of contribution. In any case, the reduction in the contributions to the smaller DB Program would affect the cash flow of assets in that program, which could increase the liquidity requirements of the DB Program to pay current benefits. To the extent that increased liquidity needs of the DB Program increase the allocation of assets to lower-yielding investments, the rate of return on DB Program assets would decline, increasing the cost of the DB Program. There is, however, insufficient detail in the proposal to quantify the magnitude of that potential impact.

Also, while the hybrid plan generally will provide a lower level of benefits for new employees who ultimately retire than that which is currently provided, depending on how the defined contribution component is structured, the proposal could benefit those employees who terminate CalSTRS-covered employment long before normal retirement age by providing a larger defined contribution benefit or lump sum benefit than otherwise would be realized under the existing plan.

### **3. Increase Retirement Ages: New Employees**

For CalSTRS, the normal retirement age is 60, and the maximum age benefit factor is 2.40 which is generally reached at age 63 and over. Similarly, there is also a reduction in benefits for members who retire prior to age 60.

The Governor proposes to increase the retirement age for all new CalSTRS members to age 67 to qualify for full retirement benefits, the same “full retirement age” requirement as set for Social Security for those born in 1960 or after. It isn’t clear whether age 67 would be the new normal retirement age, or the age in which the highest age factor would be paid. Additionally, the proposal is not specific whether members could retire before age 67, what the minimum retirement age would be and by how much benefits would be reduced for members choosing to retire prior to age 67. Assuming that age 67 represents the age in which the highest age factor would be paid, and based on the proposal’s target that a person with 35 years of service receive a DB Program benefit equal to 50 percent of salary, the age factor at

age 67 would be 1.43 percent of final compensation per year of service, compared to the current 2.4 percent age factor, a reduction of almost 40 percent in the DB Program benefit. This would be partially offset by the benefit provided by the defined contribution component of the hybrid, but the magnitude of the offset would depend on the level of contributions to the defined contribution component, which is unspecified, and the success of the investments in that component and earnings on contributions over time, which is not guaranteed.

The proposal suggests that increasing the retirement age will result in public employees working longer. Currently, the average CalSTRS member, who is female, retires at age 62, which is consistent with the average retirement age for women in the private sector workforce. As a result, it isn't clear whether CalSTRS members will work longer under this proposal. To the extent they do, there could be higher costs for increased disability benefits, payable by CalSTRS, and active employee health care costs, payable by school employers, which would offset at least some of the savings of members retiring with a lower DB Program benefit. Additionally, the proposal does not appear to change or address existing provisions regarding disability retirements. Currently, CalSTRS members can receive a disability retirement benefit that equates to 50 percent of their highest salary, which will be a higher benefit than would be received for most members receiving a service retirement benefit from the DB Program under the proposal. Increasing the retirement age to 67 and reducing the DB component of the benefit may therefore lead to a greater tendency for members to seek a disability retirement benefit.

#### **4. Require Three-Year Final Compensation to Stop Spiking: New Employees**

Under current law, final compensation is based on the average annual full-time salary rate (or "compensation earnable") over a one or three-year consecutive period, depending on the number of years of service while an active member. Generally, for members that have at least 25 years of service credit, final compensation is based on the highest compensation earnable over a 12 consecutive month period and for those members that have less than 25 years of service credit, final compensation is based on the average compensation earnable over a consecutive three-year period. In 2009-10, 55 percent of retirees had 25 or more years of service credit, earning one year final compensation. Additionally, CalSTRS can use a member's highest three years of average compensation earnable regardless of consecutiveness when the member's salary as an active member was reduced due to a reduction in school funds. For a member who works less than full time or is receiving a disability benefit, CalSTRS uses the member's earnings rather than earnable as final compensation.

If a CalSTRS member is also a member of certain other California public retirement systems, CalSTRS can base the member's final compensation on the highest one-year or three-year consecutive earnable salary in either system.

The Governor proposes to mandate three-year final compensation for all new members, regardless of their length of service. Without having specific language but presuming final compensation as currently defined by CalSTRS would be based on a 36-month average, the value of benefits earned would be reduced for new hires who work more than 25 years.

**5. Calculate Benefits Based on Regular, Recurring Pay to Stop Spiking: New Employees**

The Teachers' Retirement Law delineates what is, and is not, creditable compensation. Final compensation is based on different forms of compensation, including salary, auto and housing allowances and performance bonuses. Existing law requires that compensation for creditable service that exceeds one year in a school year (overtime) or is paid a limited number of times be credited to the DBS Program and not counted toward final compensation. Other types of compensation, such as compensation for unused accumulated leave, are not creditable compensation under the existing framework and do not count toward any CalSTRS retirement benefit.

The Governor's plan would limit the compensation that is creditable to the DB Program to be the "normal rate of base pay, excluding special bonuses, unplanned overtime, payouts for unused vacation or sick leave, or other pay perks". This appears to exclude performance bonuses, which are not the normal rate of base pay, but it isn't clear whether it would exclude allowances which are regular, recurring forms of compensation. In addition, it's not clear whether this excluded compensation would be included as the base for contribution calculations for other plans, such as the defined contribution component of the proposed hybrid.

**6. Limit Post-Retirement Employment: All Employees**

Retired DB Program members are subject to an annual limit on post-retirement earnings for compensation earned from CalSTRS-covered service. The limit is \$0 for the first six months of retirement if the member is under age 60, and is currently \$31,020 for other retired members. This latter limit is adjusted yearly based on the percentage increase in the average annual salary rate of CalSTRS members. Neither employers nor members pay contributions on post-retirement earnings for the compensation earned from creditable service after retirement. Retired members who exceed the earnings limitation have their monthly benefits reduced for each dollar of compensation earned in excess of the limit. There are various statutory exemptions to the limit for those over age 60, or have been retired for at least six months, which expire June 30, 2012.

The Governor proposes to limit employees who retire from public service to working 960 hours or 120 days per year for a public employer, as well as, prohibit all retired employees who serve on public boards and commissions from earning any retirement benefits for that service. The Governor's proposal does not provide any apparent exemptions to post-retirement employment. This proposal could increase the amount of post-retirement employment a retired member could perform compared to the current law. This provision also, however, raises two administrative issues for CalSTRS. First, CalSTRS' employers report member compensation and do not report specific member data on the amount of time that a member works. Second, it appears the proposed limitation would to apply to employment with any public employer, including employers whose employees are not covered by CalSTRS. Since employers do not report such information, CalSTRS has no visibility of a CalSTRS retired member's employment with non-CalSTRS employers, such as state agencies or cities, counties or special districts.

To comply with this provision, all public employers would need to change reporting practices. CalSTRS and other public employers would need to make presumably costly programming and reporting changes to their systems to report the time earned by the retired CalSTRS member for a public employer.

There would be no actuarial impact resulting from this provision as post-retirement employment and earnings are not assumed in the valuation and as such would not affect estimates of program costs.

**7. Felons Forfeit Pension Benefits: All Employees**

Existing law requires that any elected public officer who takes public office or is reelected to public office on or after January 1, 2006, who is convicted of any specified felony arising directly out of his or her official duties, forfeits all rights and benefits in any public retirement system in which he or she is a member. It also enumerates which felony convictions would trigger forfeiture and provides a safe harbor provision that would void the forfeiture if the governing body of the public officer's employer authorized the officer to receive his retirement benefits.

Under this current law, only a small number of CalSTRS members are affected, which includes the 52 County Superintendents of Schools elected to office by the county voters and a small number of elected school board trustees whose districts offer the Cash Balance Benefit Program. To date, there have been no CalSTRS members who have had to forfeit their retirement benefits pursuant to this law.

The Governor proposes to additionally require any public official or employee who is convicted of a felony arising out of his or her official duties to forfeit pension and related benefits. Presumably this provision would apply to all public school teachers and administrators who are members of CalSTRS.

It is anticipated that the overall impact to CalSTRS and the CalSTRS population affected by this provision would be small and therefore not result in any major administrative cost to the system. There may be some savings realized by reducing the benefits payable to members required to forfeit their benefits pursuant to the provision, but given the limited likelihood of such convictions, the savings is expected to be very minor.

**8. Prohibit Retroactive Pension Increases: All Employees**

In the past, when CalSTRS pension benefits were improved, the improvement applied to service that was performed in the past, as well as future service. These improvements included:

- One-year final compensation for those with 25 years or more of credited service.
- Increased age factor for those who work past age 60.
- Career factor for those with 30 years or more of credited service.
- Longevity bonus for those with 30 years or more of credited service by December 31, 2010.

The Governor's plan would prohibit benefit enhancements for work already performed. It isn't clear whether this limitation would apply to enhancements that are not directly related to the number of years of service, such as flat dollar increases in the benefits, without regard to length of service. Nonetheless, any impact of prohibiting retroactive application of a benefit enhancement would depend on the enactment of future enhancements.

**9. Prohibit Pension Holidays: All Employees and Employers**

CalSTRS contributions are fixed in statute. As a result, only the Legislature and the Governor can increase or reduce contribution rates through legislation. The member contribution rate has been set at 8 percent since 1972 and the employer contribution rate has been set at 8.25 percent since 1990. However, the state's contribution rate has declined, through various legislative actions, from 4.607 percent in 1998 to the current 2.541 percent. Consequently, the amount contributed to the DB Program has been less than the amount necessary to fully fund the DB Program since 2002. The proposal prohibits the suspension of contributions necessary to fund "annual pension costs". The term "annual pension costs" is not defined, so it isn't clear whether this proposal would require the Annual Required Contribution be paid in future years.

**10. Prohibit Purchases of Service Credit: All Employees**

Vested CalSTRS members are permitted to purchase up to five years of nonqualified service, defined as any credit for which a member did not perform creditable service subject to coverage by the plan. Purchases of nonqualified service credit do not count towards qualifying for any benefit enhancements, such as the 25-year threshold for one-year final compensation or the career factor. However, it can be used to qualify for the 30 year service credit requirement for retirement between ages 50 and 55. Generally, CalSTRS initiates approximately 700 to 800 purchases of non-qualified service credit annually. In addition, a member may purchase additional service credit for time spent on approved leave or for prior service in another state.

The member pays the entire cost, based on the actuarial assumptions adopted by the board and an analysis of actual prior purchases. To the extent that actual economic and demographic experience differs from the board's assumptions, the amount paid to purchase service credit may be greater or less than the increased benefit resulting from the purchased service.

The Governor's proposal prohibits the purchase of nonqualified service, but does not appear to prohibit the purchase of other service credit. In the long run, if economic and demographic assumptions hold, particularly those in regards to investments, it is not expected that the differences between the amount contributed, with earnings, and the increased benefit cost would be substantial, and therefore it is not expected that there would be a material cost or savings resulting from this provision. There would however be a reduction in workload.

## **11. Increase Pension Board Independence and Expertise**

The 12-member Teachers' Retirement Board is made up of:

- Three member-elected positions representing current educators.
- One retired CalSTRS member appointed by the Governor and confirmed by the Senate.
- Three public representatives appointed by the Governor and confirmed by the Senate.
- One school board representative appointed by the Governor and confirmed by the Senate.
- Four board members who serve in an ex-officio capacity by virtue of their office: Director of Finance, State Controller, State Superintendent of Public Instruction and State Treasurer (Education Code § 22200).

The Governor proposes to modify the makeup of the CalPERS board, but does not propose any specific changes to the CalSTRS board.

## **12. Reduce Retiree Health Care Costs: New State Employees**

CalSTRS does not provide health benefits to its members. Generally, CalSTRS retired members do not receive employer-paid health care benefits after age 65. Each member's specific situation depends on his or her district and bargaining agreements. Therefore, this provision would not have an impact to CalSTRS members.