



HOW WILL YOU SPEND YOUR FUTURE?

Update on Alternative Tax-Free Health Care Programs



Programs Being Discussed

- Health Care Security Accounts
- Medicare Part B Premium Payment
- Monthly Health Allowances
- Medical Purchasing Power Payment



Allowable Expenses

- Claims administrators appear to be able to administer plans with very broad categories of deductible expenditures



Health Care Security Accounts

- Applies to all employees performing service subject to DB coverage
 - Would include CB, Social Security or other alternative retirement program
- All compensation creditable to program
- 100 percent vesting



Health Care Security Accounts

- Minimum contribution rate of one percent
 - Additional contributions in one percentage point increments subject to collective bargaining
 - Contribution rates paid for classroom teachers could not be lower than rate paid by any other employee



Health Care Security Accounts

- Contributions paid by employer
- Contributions invested by CalSTRS
- Individual accounts subject to minimum interest rate set by Board prior to fiscal year
 - Authority for additional earnings credit



Health Care Security Accounts

- Account distributions
 - Upon retirement or disability
 - Upon death, allowable medical expenses to surviving dependents
 - If none, distribution to beneficiaries or estate
 - If terminated, distributions could be made beginning at age 60



Health Care Security Accounts

- Member makes irrevocable election at the time distribution begins to either
 - Draw down funds as needed
 - Once account expended, no further claims
 - Receive lifetime medical benefits at constant amount
- Option: No distributions before age 65

Health Care Security Accounts

- Example assumptions
 - Begins works at ages 25, 30, 35 or 45
 - Retires at age 61
 - No distributions until age 65
 - Lives to age 85
 - Medical inflation of 4.5 percent, 6 percent or 7.5 percent
Account crediting rate of 6 percent, 7 percent or 8 percent



Health Care Security Accounts

- Results
 - Contribution rate required to pay \$400 per month (in 2007 dollars) and account value at age 65 (in current dollars)



Health Care Security Accounts

		4.5% medical inflation			6% medical inflation			7.5% medical inflation		
		6% interest	7% interest	8% interest	6% interest	7% interest	8% interest	6% interest	7% interest	8% interest
Age 25	Required contribution rate	4.04%	3.02%	2.24%	8.21%	6.10%	4.51%	16.64%	12.29%	9.06%
	Account value at age 65	\$525,617	\$484,722	\$446,887	\$1,067,444	\$975,075	\$899,760	\$2,163,492	\$1,972,595	\$1,807,500
Age 30	Required contribution rate	5.13%	3.92%	3.00%	9.70%	7.39%	5.62%	18.33%	13.89%	10.51%
	Account value at age 65	\$421,859	\$387,965	\$359,094	\$797,668	\$731,393	\$672,702	\$1,507,346	\$1,374,702	\$1,258,024
Age 35	Required contribution rate	6.82%	5.34%	4.19%	12.02%	9.37%	7.31%	21.16%	16.42%	12.75%
	Account value at age 65	\$338,453	\$311,392	\$288,019	\$596,511	\$546,393	\$502,486	\$1,050,098	\$957,500	\$876,429
Age 45	Required contribution rate	13.81%	11.35%	9.36%	21.09%	17.26%	14.17%	32.27%	26.28%	21.47%
	Account value at age 65	\$217,997	\$200,462	\$185,443	\$332,915	\$305,117	\$280,740	\$509,396	\$464,569	\$425,370



Health Care Security Accounts

- Allowing initial distribution at retirement rather than at age 65 increases required contribution for age 30 entry, 6 percent medical inflation, 7 percent annual interest and age 61 retirement from 7.39 percent to 8.97 percent



Medicare Part B Premium Payment

- Applies to all retired members enrolled in Part B with sufficient service credit
- Benefit equal to percentage of base Part B premium (\$93.50 in 2007)
- Applies only to those enrolled in Part B (age 65)



Medicare Part B Premium Payment

- Percentage based on years of service
 - 20 years service receives 50 percent of base
 - Affects 70 percent of retiring members
 - Allowance increases five percentage points for each year of service
 - Maximum 100 percent of base at 30 years
 - Unreimbursed balance paid from retirement allowance



Medicare Part B Premium Payment

- Options
 - With 10 to 20 years service credit, receive 25 percent of base, with 2.5 percentage point increase per year to 20 years
 - Affects 90 percent of retiring members
 - Applies only to currently retired members or members within 10 years of normal retirement age



Medicare Part B Premium Payment

Plan Design	Required Increased Contribution
All members with 20+ years	1.047%
All members with 10+ years	1.161%
Currently retired members with 20+ years	0.227%
Currently retired members with 10+ years	0.252%



Monthly Health Allowances

- Base allowance of \$300 per month, graduated on years of service
 - 20 years service receives 50 percent of base
 - Allowance increases five percentage points for each year of service
 - Maximum 100 percent of base at 30 years



Monthly Health Allowances

- Allowance begins at age 65
- Allowance increased annually by lesser of
 - Medical care component of the Los Angeles-Riverside-Orange County CPI (which has increased by average of 3.3 percent annually since 1996 vs. 2.8 percent generally) or
 - Five percent
- If increase is less than five percent, unused portion available for future



Monthly Health Allowances

- Distributions could be actuarially reduced to apply to beneficiary
- Amount of unused allowance available for future use
- Options
 - With 10 to 20 years service credit, receive 25 percent of base, with 2.5 percentage point increase per year to 20 years
 - Applies only to currently retired members or members within 10 years of normal retirement age
 - Distributions begin at age 60



Monthly Health Allowances

Plan Design	Required Increased Contribution
All members with 20+ years	3.364%
All members with 10+ years	3.725%
Currently retired members with 20+ years	0.729%
Currently retired members with 10+ years	0.809%
Payments begin at age 60 with 20+ years	4.814%
Payments begin at age 60 (current retirees only)	0.978%



Medical Purchasing Power Payment

- Once purchasing power of current DB allowance is reduced below 85 percent of initial allowance, member receives health benefit allowance
 - Currently applies to those retired in 1990 or earlier, rather than 1988
 - Option: Increase percentage to 90 percent for those retired prior to 1999

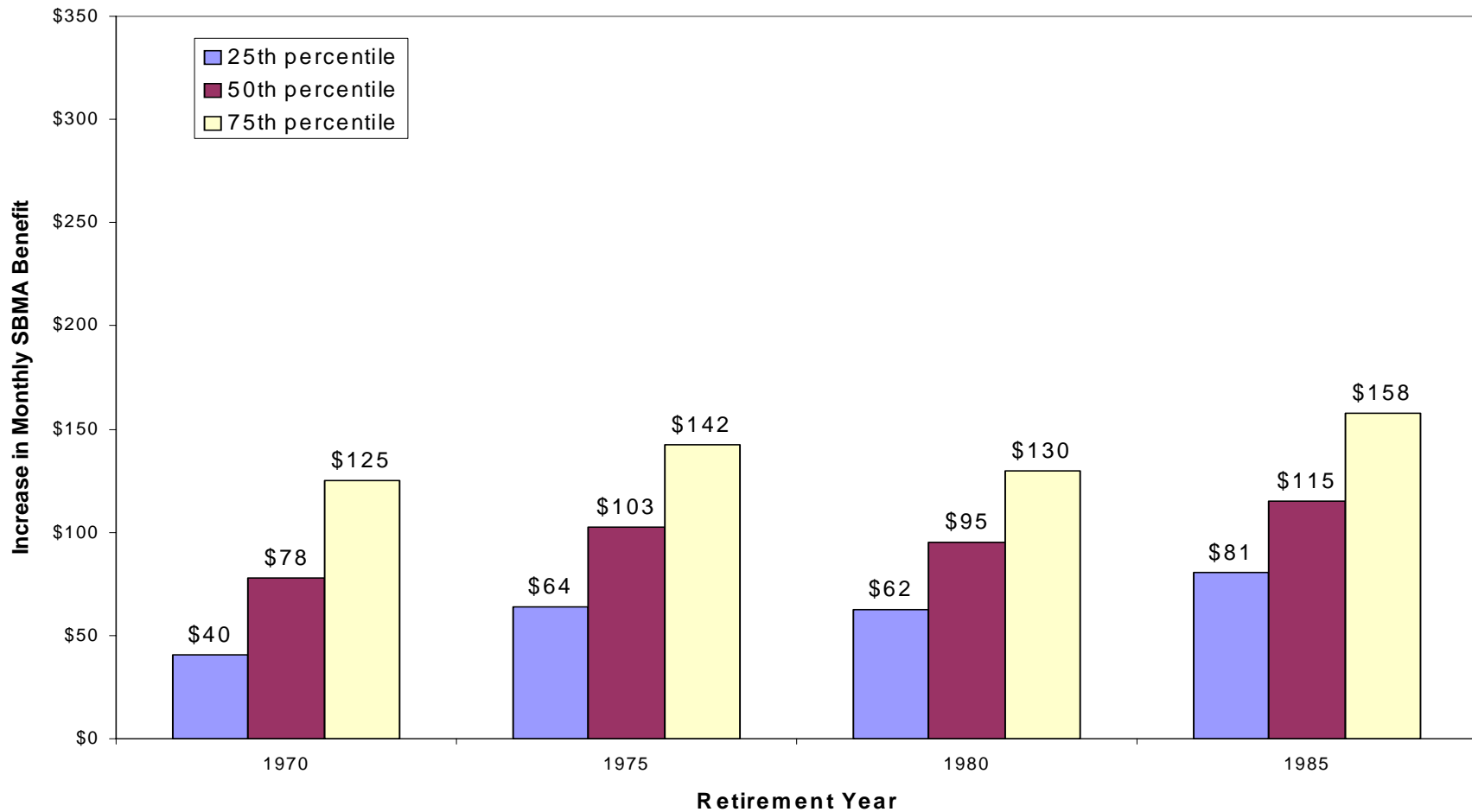


Medical Purchasing Power Payment

- Amount of allowance based on difference between 85 percent purchasing power benefit and amount eligible to receive from 80 percent purchasing power
- Benefit guaranteed only to extent funds in SBMA to pay benefit
- Health benefit allowance could be applied to any allowable medical expense

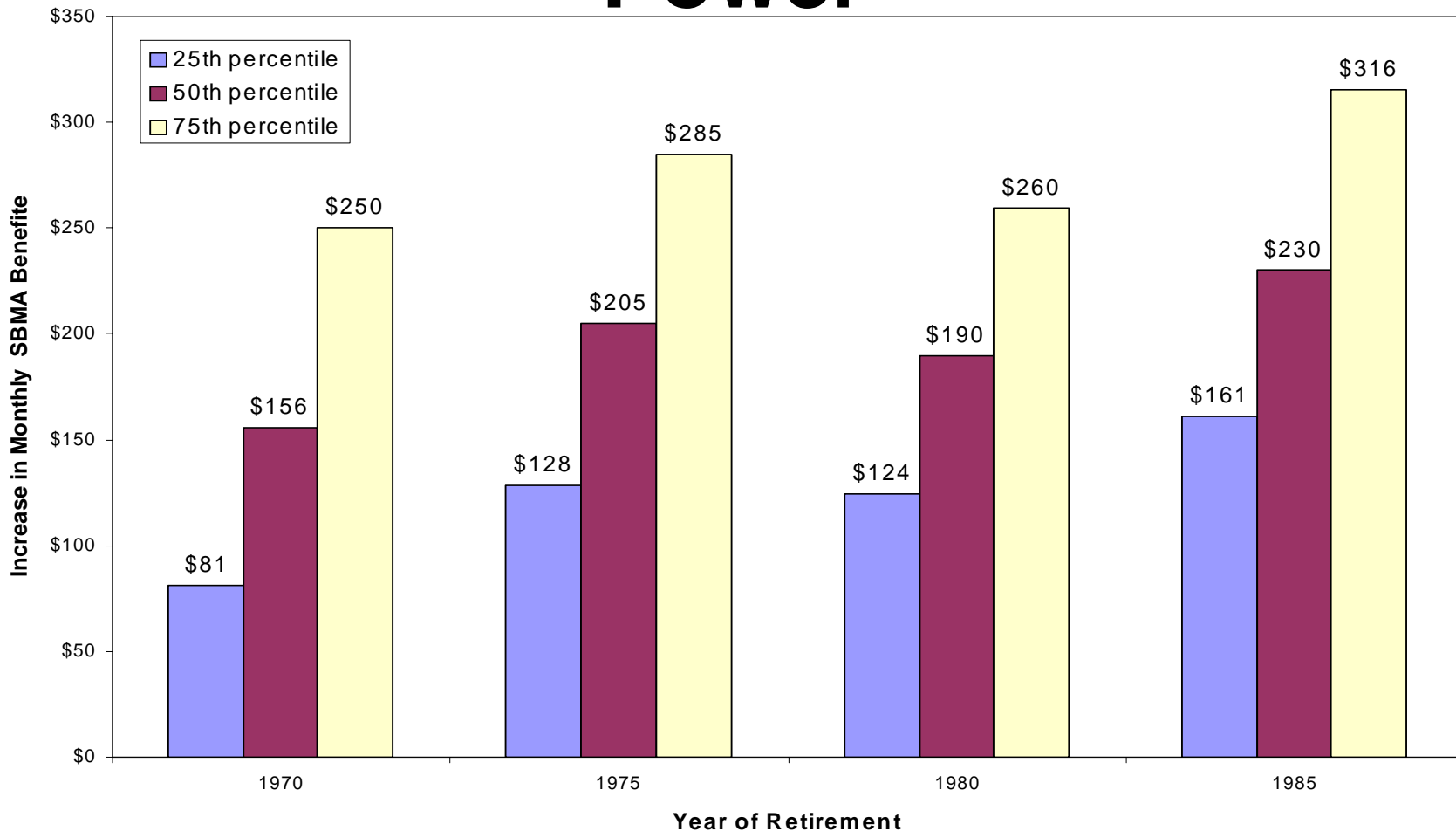


Impact of 85 Percent Purchasing Power





Impact of 90 Percent Purchasing Power



Summary of Projected Effects

Health Care Security Accounts

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	Account value at age 65	\$217,997	\$200,462	\$185,443	\$332,915	\$305,117	\$280,740	\$509,396	\$464,569	\$425,370



Summary of Projected Effects

Plan Design	Medicare Part B (\$93.50 in 2007)	\$300 Monthly Health Allowances
All members with 20+ years (70% of retiring members)	1.047%	3.364%
All members with 10+ years (90% of retiring members)	1.161%	3.725%
Currently retired members with 20+ years	0.227%	0.729%
Currently retired members with 10+ years	0.252%	0.809%



Decision Points

- Current and Future Active Members
 - Type of benefit
 - Health Care Security Accounts
 - Medicare Part B
 - Monthly Health Allowance
 - Medical Purchasing Power
 - Eligibility for last three benefits
 - All active members or only current ones within specified years of normal retirement age



Decision Points

- Current Retired Members
 - Type of benefit
 - Medicare Part B
 - Monthly Health Allowance
 - Medical Purchasing Power
 - Higher purchasing power percentage for those retired prior to 1999
 - Eligibility
 - Age at initial payment
 - Minimum service requirement

California State Teachers' Retirement System

CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

*Securing the financial future
and sustaining the trust of California's educators.*