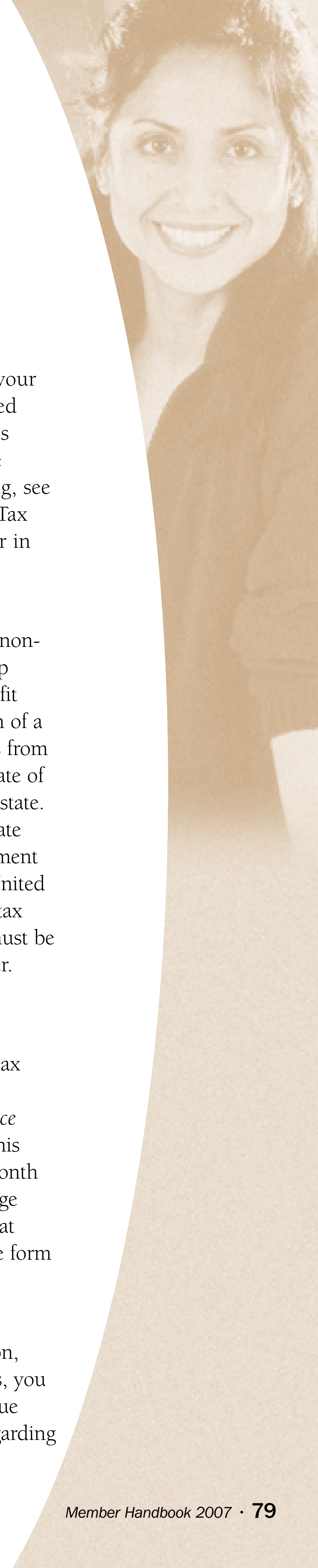
10. Tax Information and Legal Matters



Income Tax Withholding

Federal and California statutes require income tax withholding on distributions from pension plans, annuities and deferred compensation plans. Income tax will be withheld from the taxable portion of your benefit unless you take action not to have taxes withheld. To not have income tax withheld, you must file an *Income Tax Withholding Preference Certificate* with CalSTRS. You can do this on the retirement application in *Your Retirement Guide*, or you can download the certificate at www.CalSTRS.com or order it by calling 800-228-5453.

If you do not have taxes withheld or if you do not have enough withheld, you may need to make estimated tax payments. Generally, your withholding or estimated tax payments or the total of both must cover at least 90 percent of your total tax liability for the current year. Failure to meet the 90 percent limit could subject you to penalties.

You can view your current tax withholding elections on *my*CalSTRS. Go to www.CalSTRS.com and log in or register to access *my*CalSTRS.

A portion of your benefit may not be taxable if you made previously taxed contributions to CalSTRS during your career. CalSTRS uses the Simplified Method established by the Internal Revenue Service to determine the taxable portion of your benefit. You may use any acceptable method when reporting to the IRS. For details on the Simplified Method, see *Pension and Annuity Income*, IRS publication 575, available from the IRS or refer to *Pension and Annuity Guidelines*, FTB publication 1005, from the state Franchise Tax Board.

Periodic Payments

Unless you tell CalSTRS otherwise, CalSTRS will withhold income tax on your periodic payments — payments received in installments at regular intervals — as if you were married and claiming three dependents. To change this withholding, see information on how to file an Income Tax Withholding Preference Certificate later in this section.

Non-Periodic Payments

CalSTRS withholds income tax from non-periodic payments such as a partial lump sum, one-time death benefit or the benefit accrued and unpaid on the date of death of a CalSTRS benefit recipient. Withholdings from non-periodic payments are set at a flat rate of 20 percent for federal and 6 percent for state. Your beneficiary can elect not to have state taxes withheld from a non-periodic payment unless he or she resides outside of the United States or its possessions, in which case, tax withholding is required. Federal taxes must be withheld unless the payment is a rollover.

Income Tax Withholding Preference Certificate

To request a change to your income tax withholding status, you must complete CalSTRS *Income Tax Withholding Preference Certificate* form. CalSTRS must receive this form no later than the first day of the month preceding the month you wish the change to take effect. To order the form, call us at 800-228-5453 or download or order the form at www.CalSTRS.com.

Lump-Sum Distributions

If you receive a lump-sum distribution, including a refund of your contributions, you should be aware that the Internal Revenue Code provides several complex rules regarding the taxation and penalties of such distributions. You may be eligible to defer tax liability on the taxable amount of the distribution by rolling over that amount into another qualified retirement plan or IRA.

To take advantage of these provisions, the distribution *must* be made by a trustee-to-trustee transfer. If you request a rollover distribution, additional information will be provided. For more information on rollovers, see the CalSTRS *Tax Considerations for Rollovers* brochure. To order this brochure, call 800-228-5453 and select option 3 or visit our Web site.

Tax Withholding for Out-of-State Residents

Pursuant to federal law, if you are not a resident of California, you are not subject to California state tax; however, CalSTRS benefits may be subject to taxation in the state in which you do reside. CalSTRS cannot withhold taxes for another state.

CalSTRS will not withhold California state income taxes for benefit payees who live outside California unless the payee files an *Income Tax Withholding Preference Certificate*.

CalSTRS recommends you consult a qualified tax professional for specific tax advice. You may contact the Internal Revenue Service, the state Franchise Tax Board or a qualified tax advisor for information relevant to your individual situation. For general information on withholding tax from CalSTRS benefits, call 800-228-5453 and select Teletalk and listen to message 650.

Internal Revenue Codes Affecting Benefits

Section 401(a)(9)

Section 401(a)(9) of the Internal Revenue Code and the California Education Code require CalSTRS to begin a distribution of a member's benefits no later than April 1 of the calendar year following the year the member reaches age 70½.

CalSTRS will not be required to begin distribution of your account if:

- You are currently employed in a position subject to coverage under CalSTRS.
- Your current employment is covered by, or you are retired from, another public retirement system. For a listing of other public retirement systems, see Retiring From More Than One Public Retirement System in Section 6.

Annually, CalSTRS attempts to notify members who may be affected by these statutory provisions. Therefore, it is important for members to ensure we have a current mailing address for you at all times.

Note: *The IRS may impose an excise tax equal to 50 percent of the minimum required distribution if the member receives less than the minimum-required distribution for a taxable year. Refer to the IRS or a tax professional for details.*

Section 401(a)(17)

Section 401(a)(17) of the IRC imposes a limit on the compensation that can be used to provide a benefit by a governmental plan such as CalSTRS. The compensation limit is applicable to all persons who became members or participants of CalSTRS on or after July 1, 1996. The compensation limit is $220,000 for the 2006-2007 plan year and $225,000 for the 2007-2008 plan year. Any compensation in excess of this limit is not creditable compensation and neither employer nor member contributions to the Defined Benefit Program, the Defined Benefit Supplement Program nor the Cash Balance Benefit Program are to be paid to CalSTRS on the excess amount.

Section 415

Section 415 of the IRC imposes a limit on benefits that can be paid by a state or local government defined benefit plan such as that administered by CalSTRS. Benefits are limited to an absolute dollar amount that is indexed for inflation. If you choose to receive a lump-sum payment, your service retirement will no longer qualify as a joint and survivor annuity under IRC Section 415 and may therefore exceed the Section 415 benefit limit. For calendar year 2007, the dollar limit is $180,000 at ages 62 through 65. The limit is lower below these ages and higher above these ages.

Currently, few CalSTRS members have been, or are likely to be, affected by the limits of Section 415. CalSTRS will notify you, upon receipt of your application for retirement, if your benefit will be affected by the IRC Section 415 benefit limit. Pursuant to federal law, CalSTRS has established a Replacement Benefits Program from which benefits in excess of the Section 415 limits can be paid. If your benefit is limited by IRC Section 415, in addition to the limited benefit, you will receive a separate payment from the Replacement Benefits Program.

Legal Matters

CalSTRS Right to Recover Costs

When a third party causes the injury or death of a CalSTRS member before retirement and the member or family pursues civil litigation, CalSTRS must be informed. CalSTRS has a right to recover an amount equal to the actuarial equivalent of benefits paid under the plan because of the injury or death of the member. The process that permits this participation is called subrogation.

Power of Attorney

CalSTRS members can arrange for management of their assets by a third party through the use of a power of attorney. CalSTRS can provide you with some of the necessary forms.

When a CalSTRS benefit payee becomes incapacitated and can no longer manage his or her financial affairs, CalSTRS may need to determine who has the legal authority to act on the payee's behalf regarding the payee's CalSTRS account and benefits. That authority could extend to changing the recipient's address, instituting or changing direct deposit authorizations and changing tax withholding preferences.

A durable power of attorney is the most common method used by a benefit payee to delegate authority to act for the payee. This document permits a benefit payee to act as a principal and appoint an agent. The document also identifies the extent of authority granted to the agent.

A durable power of attorney can be drafted by an attorney or purchased as a commercially available fill-in-the-blank form. CalSTRS has a *Special Power of Attorney* form available. This form enables your named agent to handle all matters pertaining to a CalSTRS account, unless barred by law.

In addition, CalSTRS requires an agent to execute an affidavit affirming the agent's authority under the durable power of attorney. For an agent's convenience, the CalSTRS form, *Declaration of Attorney in Fact,* can be completed by the agent each time he or she makes a request.

If you wish to obtain a *Special Power of Attorney* or a *Declaration of Attorney in Fact* form, call the CalSTRS automated telephone system at 800-228-5453 or download the form from www.CalSTRS.com.

Members' Rights – The Appeal Process

Any party who disagrees with a decision by the staff at any level may request review of that decision by higher authority. These rights and the procedure will be provided early in the written correspondence and may be found on the CalSTRS Web site in the FAQs section. The following is a brief description of the appeal process. It is not intended to take the place of the law or the detailed written procedures.

Requesting a Review

If you disagree with the initial decision from staff, you may request the Executive Review Committee to review this decision. The ERC, which is typically the final level of review within CalSTRS, is made up of members of the Executive Staff, program managers and staff, the Ombudsman and General Counsel staff. The ERC reviews the situation based upon any additional information you provide, the law and facts and prepares a written analysis and decision.

Requesting a Hearing

To appeal the Executive Review Committee's decision, you may request an administrative hearing, which will be held before an independent Administrative Law Judge employed by the Office of Administrative Hearings. The request for a hearing must be made within 90 days from the date of the ERC response.

The Office of Administrative Hearings schedules the hearing, and all parties are given notice regarding the time, date and location. The hearing is a full evidentiary hearing, meaning witnesses may be called. CalSTRS may be represented by the State Attorney General or may use in-house counsel. You may be represented by an attorney or you may represent yourself. Following the hearing, the Administrative Law Judge will submit a Proposed Decision to CalSTRS. Within 30 days CalSTRS will provide all parties with a copy of the Proposed Decision.

Proposed Decision and Further Action

The Proposed Decision of the Administrative Law Judge is not the final decision. The Teachers' Retirement Board must decide whether or not to adopt the Proposed Decision within 100 days of receipt. The Teachers' Retirement Board's Appeals Committee, referred to as the Committee, has the final authority to act on behalf of the Board in these matters. When you receive your copy of the Proposed Decision you will be given the date that the Committee will act on your case, what the staff is recommending and how you may submit further written argument.

Sometimes the Committee does not adopt the Proposed Decision and orders that the matter be returned to the Administrative Law Judge for further hearing or brought back before the Committee for hearing at a later meeting based upon the record, including the transcript with or without taking additional evidence. If heard by the Committee, it will make its own independent decision after hearing arguments from both sides.

If you are dissatisfied with the Committee's decision you may ask the Committee to reconsider its decision or you may appeal to Superior Court. You will be notified of this right when you receive your copy of the Committee's decision shortly after the Committee hearing takes place.

Community Property Information

If you have been divorced or your registered domestic partnership terminated, or you are presently going through a divorce or termination, there may be a community property interest in your CalSTRS benefits. You may need to refer to your Settlement Agreement and/or contact an attorney for legal advice on how your benefits may be affected.

If the dissolution or termination judgment and the member's death occur after January 1, 2002, the *One-Time Death Benefit Recipient Designation* form, which names the former spouse or partner as the recipient, is invalid.

If you choose to have your former spouse or partner as your one-time death benefit recipient, you must submit a new *One-Time Death Benefit Recipient Designation* form after the dissolution judgment. For details, refer to the CalSTRS *Community Property Information* brochure. To order this brochure, visit www.CalSTRS.com or call 800-228-5453.