CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
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Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Comment Request for Study Regarding Financial Literacy Among Investors
Release No. 34-66164; File No. 4-645

Dear Ms. Murphy:

We are writing to you on behalf of the members of the California State Teachers' Retirement System (CalSTRS). CalSTRS was established for the benefit of California's public school teachers in 1913 and is currently the second-largest public pension system in the United States. The CalSTRS portfolio is currently over $150 billion and provides the funding for the Defined Benefit program interests of 850,000 plan participants. In addition, CalSTRS administers a Defined Contribution program offering 403(b) and 457(b) products, and it is through this lens that we are providing comments to you today.

Most of our members have only basic investment knowledge, but want to save additional funds for retirement, and any way we can increase transparency and the amount of relevant information provided is of great benefit and a focus our of program here at CalSTRS. We appreciate the opportunity to comment on these topics to you now in advance of your study due to the commission later this year.

Improving Disclosures

Recent initiatives by the SEC resulting in mutual fund summary prospectuses have helped tremendously with the ongoing mission to better serve the informational needs of investors. The summary prospectus, although in need of some improvements, serves its purpose of providing investors with a streamlined document that provides key investment information in a concise, consumer-friendly format. It should be a high-priority goal of the SEC to require summary prospectuses for annuity products including; variable, fixed, and equity-indexed annuities.

Many of the vendors in the 403(b) marketplace are insurance companies and therefore push, or in some cases offer exclusively, variable and fixed annuity products. These products are more difficult to understand, and often contain higher fees than mutual fund custodial accounts that would be of more benefit to the majority of our membership.

Annuities are intended to be a long term investment and include many sophisticated features that are difficult for both investors and advisers to comprehend. Such a document would go a long way in helping consumers make informed decisions about buying these complicated investments. In addition to being helpful to investors, an easy-to-understand document may be even more important for financial advisers. It would make it easier for financial advisers to compare products, a powerful tool for those professionals seeking clarity and confidence.

The typical variable annuity prospectus will range anywhere between 100-300 pages full of high level legalese and complex terms. The ideal summary prospectus for a variable annuity would include information such as contract basics, investment choices, death benefits, costs, risk, advisor compensation, and taxation all in a concise format of 10 pages or less. With the demand for insured retirement strategies increasing during these troubled economic times, reducing the length of the product information and presenting it in a more consumer-friendly format is needed now more than ever.

The most important change we believe should be pushed for is a summary document written in plain English for the average investor rather than the heavy legalese that is normally present in prospectus documents. Outlining the most basic of information – fees, historical performance, and investment strategy – could be accomplished on one page for any investment product available.

<u>Useful Information</u>

It is difficult to generalize what information is most relevant and useful to investors because obviously each individual brings their own experience and knowledge to the table. Rather than debate what is most relevant and useful, why not help educate investors on how to come to that decision on their own? Investors would be better served if we provide them with pointed, though-provoking investment questions and direct them to the proper resource.

In order to properly obtain the most useful and understandable relevant information investors must know the answers to some fundamental questions. These questions include but are not limited to:

1) How much money do I have to invest?
2) What is my investment horizon? How many years before I can retire (realistically)?
3) What am I planning on using the money for?

4) Do I need income from this investment for normal living expenses?
5) Any special personal circumstances (Pre-existing health concerns, housing needs, dependents which could include parents, children or grandchildren)?
6) How does my actual situation affect my investment strategy?
7) How can I direct my investments in a way that supports my values (i.e. socially responsible fund, supporting new technologies, no tobacco, etc.)?
8) What is my risk tolerance level?
9) Do I need these assets to be liquid? Do I need the ability to access a portion of my assets without restriction or waiting period?

The above questions, or similar ones, are as important as investment information like performance history, fees/expenses, commissions, and objectives. Providing questions like this is essential for investors that do not understand how to apply investment information to their particular scenario.

Increasing Transparency

In order to increase the transparency of commissions and fees an investor should be informed if the financial intermediary they are buying an investment from is tied to or independent of the product they are selling. It should be made public how much commission they are making and from whom the commissions derive. This information should be provided up-front prior to the investor's decision to purchase.

Investors must also be clearly made aware that the expense ratio and any other fee/expense associated with an investment have the potential to change. Future increases in a fund's annual operating expenses may justify a reevaluation of an investment's reasonableness.

We appreciate the opportunity to provide our comments to you. If you would like to discuss this issue further, please feel free to contact Julia Durand, Director of Defined Contribution Solutions at 916-414-1010 or email her at jdurand@calstrs.com.

Sincerely,

Ed Derman

Ed Derman
Deputy Chief Executive Officer

Cc: Julia Durand,
Director of Defined Contribution Solutions

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