CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

2026–27
Annual Budget

California State Teachers' Retirement System

Contents

CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

The California State Teachers' Retirement System

Mission

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

Vision

Your reward—A secure retirement

Our reward—Getting you there

Core values

The CalSTRS core values are a set of attitudes, beliefs and behaviors that define CalSTRS and our employees. These guiding principles are fundamental to our success and drive the work we do and how we serve our members.

Customer service

We never compromise on quality as we strive to meet or exceed the expectations of our customers.

Accountability

We operate with transparency and accept responsibility for our actions.

Leadership

We model best practices in our industry and innovate to achieve higher standards.

Strength

We ensure the strength of our system by embracing a diversity of ideas and people.

Trust

We conduct ourselves with integrity, acting ethically in every endeavor.

Respect

We respect the needs of our members, co-workers and others, treating everyone with fairness, honesty and courtesy.

Stewardship

We recognize our fiduciary responsibility as the foundation for all decision-making.

CALSTRS

California State Teachers'
Retirement System
100 Waterfront Place
West Sacramento, CA 95605

July 8, 2026

Chief financial officer's letter of transmittal

As the largest educator-only pension fund in the world, CalSTRS is defined by its commitment to more than 1 million members and their beneficiaries. Our mission—securing the financial future and sustaining the trust of California's educators—guides every decision we make and underscores our responsibility to manage the retirement system with care, discipline and long-term stewardship.

CalSTRS' 2025–28 Strategic Plan outlines goals and measurable objectives to guide our priorities, decision-making and resource allocation through June 30, 2028, ensuring resource alignment with broader organizational priorities and support for core business operations. Our strategic plan is a testament to our members that a safe, secure and sound trust fund will be there to serve their needs in retirement. We'll accomplish this by leading innovation and managing change as well as integrating sustainability across our culture, policies and practices.

CalSTRS' 2026–27 Operating Budget represents a disciplined financial plan to effectively manage the system and advance our long-term strategic priorities. In alignment with these priorities, our budget is $447.2 million and includes funding for 1,491 authorized positions. This includes $5.6 million for 33 additional authorized positions to support strategic plan priorities and ongoing operational needs. These resources will further enhance service delivery, strengthen our risk and compliance infrastructure, and advance our business capabilities. The budget further provides $6.1 million for an additional 27 new authorized positions to enhance our ability to prudently manage our investment portfolio through expanded internal expertise.

Building, supporting and modernizing our technology foundation remains essential to delivering high-quality services. Accordingly, our 2026–27 budget includes an additional $10.0 million for critical investments in information technology and innovation infrastructure to advance our business operations.

As we look ahead, we remain focused on maintaining disciplined spending while strengthening the long term health of our retirement system. Our commitment to delivering excellent service and securing the retirement of California's educators continues to guide our work for years to come.

Respectfully submitted,

Julie Underwood

Julie Underwood

Chief Financial Officer
CalSTRS

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

California State Teachers' Retirement System

For the Fiscal Year Beginning

July 01, 2025

Christopher P. Morrill

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the California State Teachers' Retirement System for its Annual Budget for the fiscal year beginning July 1, 2025. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide and as a communications device.

This award is valid for a period of one year only. We believe our *2026–27 Annual Budget* continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

About the California State Teachers' Retirement System

Overview[1]

The California State Teachers' Retirement System was established in 1913 to provide retirement benefits to California's public school educators. CalSTRS administers a hybrid retirement system, consisting of traditional defined benefit, cash balance and voluntary defined contribution plans, and provides disability and survivor benefits for California's full-time and part-time public school educators from prekindergarten through community college. We also administer a postemployment health benefit program.

As a global institutional investor with investment portfolio assets of $367.7 billion as of June 30, 2025, we're the largest educator-only pension fund in the world. Headquartered in West Sacramento, California, we serve California's more than 1 million educators and their beneficiaries, who are employed in approximately 1,800 public school districts, community college districts, county offices of education, charter schools, state agencies and regional occupational programs.

With seven member service centers across California, we provide a breadth of retirement and benefits planning services and education to our members.

CalSTRS is administered by the 12-member Teachers' Retirement Board. Board members carry fiduciary responsibility to ensure the system is sustainable over the long term to pay benefits and provide related services to CalSTRS members and their beneficiaries. Additional details related to the CalSTRS organization are provided in the **Departmental information** section of this report.

[1] All numbers in this report are rounded for presentation purposes.

Institutional investing

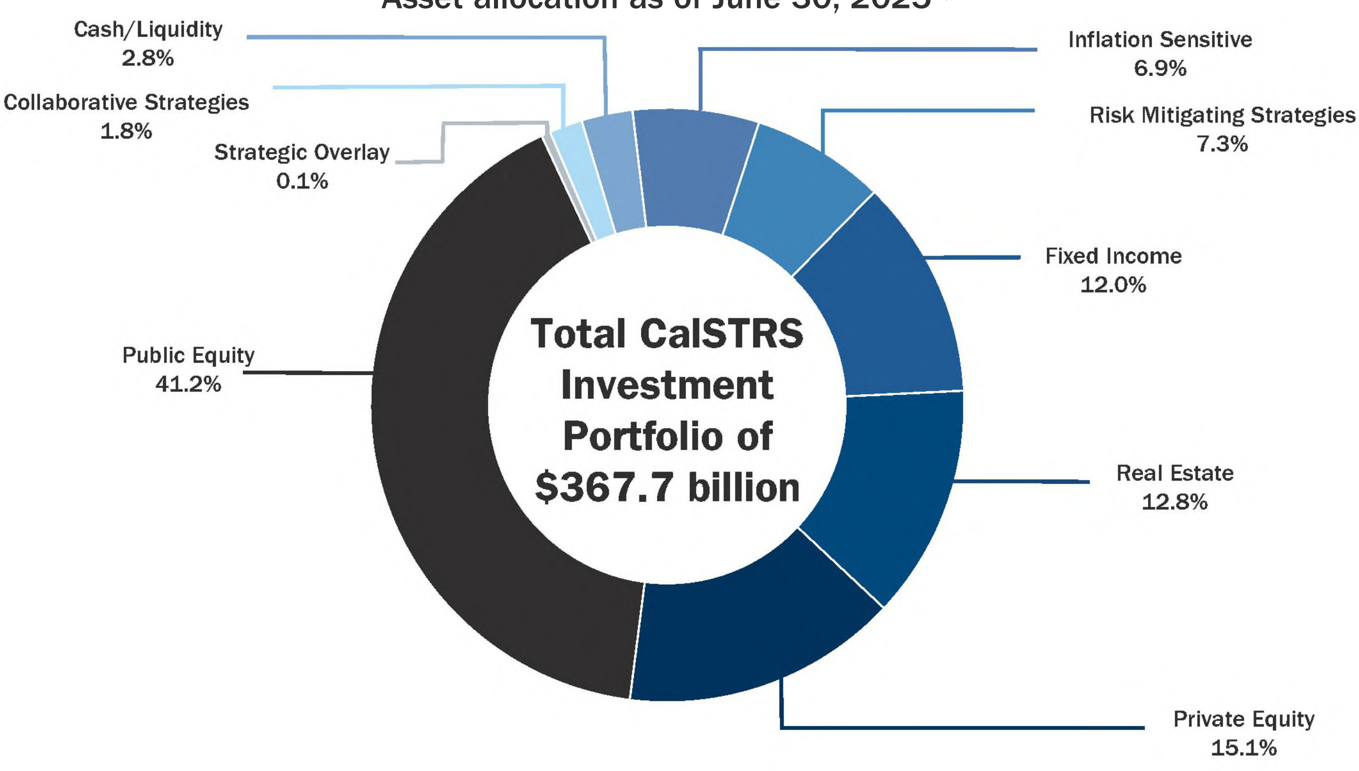
Investment overview

CalSTRS is a long-term investor, and ultimately, our goal is to generate financial returns to meet the retirement needs of our members and their beneficiaries. We honor this responsibility with diligence and integrity. Consistent with this vision, and as the trusted fiduciaries of the system, we strive to derive the most value from the investments we make to deliver promised retirement benefits.

As a global institutional investor, we take steps to balance risk with opportunity to preserve the integrity and strength of the fund. Managing the CalSTRS Investment Portfolio, with assets of $367.7 billion as of June 30, 2025, requires thoughtful diligence to monitor investment performance, analyze projections and ensure a stable, risk-adjusted return profile. Our primary performance objective is to achieve the assumed actuarial rate of return of 7.0% over the long term, at a prudent level of risk, while upholding our investment philosophy in long-term, patient capital.

The portfolio continues to be broadly diversified, holding investments ranging from publicly traded securities to privately held partnerships, spanning across both domestic and international markets. The portfolio follows a global strategic asset allocation policy, set by the Teachers' Retirement Board, that targets the percentage of funds invested in each asset class. The asset allocation process maximizes the likelihood that a portfolio's assets will, over time, fund plan benefits. Our portfolio allocation for the fiscal year ended June 30, 2025, is provided in the chart below.

Asset allocation as of June 30, 2025[1,2]



1 Public Equity, Private Equity and Collaborative Strategies include Sustainable Investment and Stewardship Strategies public and private investments of $3.5 billion.

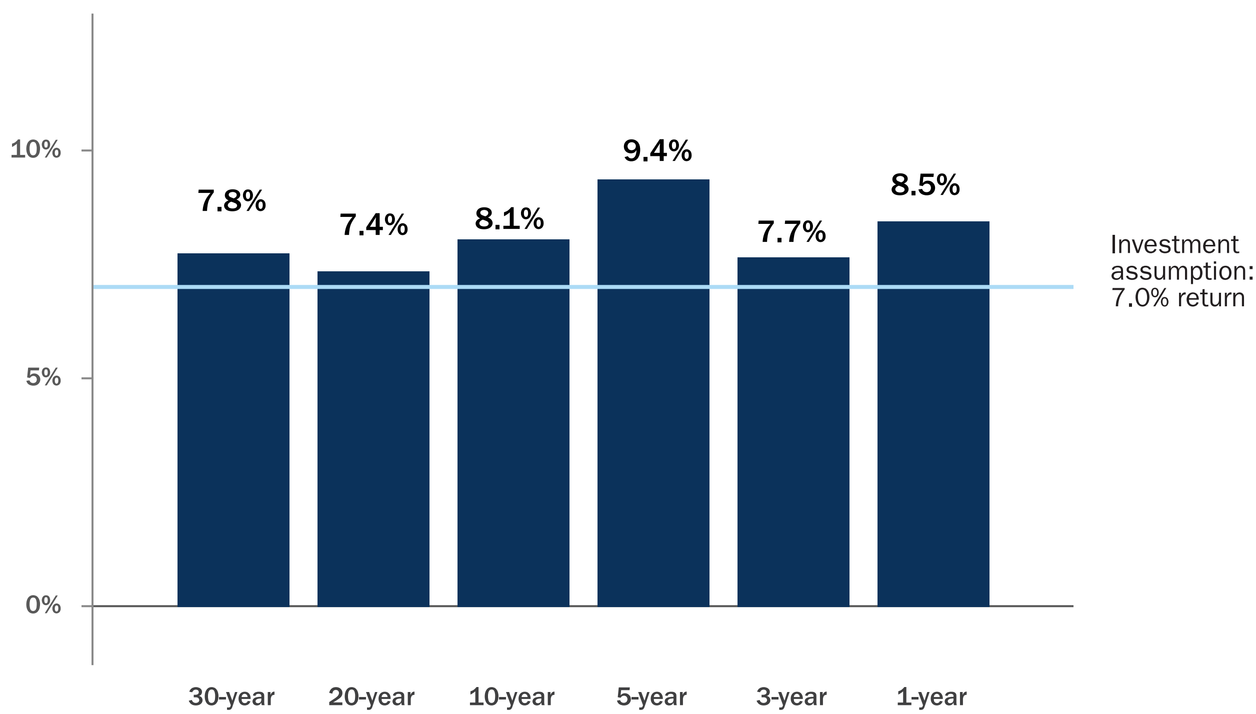
2 Strategic Overlay consists of the Currency Management Program and Derivative Overlay.

Investment performance

CalSTRS' diversified portfolio generated a time-weighted investment return of 8.5% net-of-fees, which exceeded the 7.0% assumed actuarial rate of return for funding purposes for the fiscal year ended June 30, 2025. The portfolio increased by $26.3 billion over the prior fiscal year, to reach a fund value of $367.7 billion as of June 30, 2025.

CalSTRS is a long-term investor with the goal of achieving an average return of 7.0% over a multiyear horizon to meet pension obligations for current and future retirees. Therefore, we look beyond the immediate effects of a single year's return for a mature defined benefit plan. CalSTRS' net time-weighted returns over various periods for the last 30 years are provided in the chart below.

Net time-weighted returns as of June 30, 2025



Organizational governance and leadership structure

Teachers’ Retirement Board

CalSTRS is administered by the 12-member Teachers’ Retirement Board. The board sets the policies and rules for the system and is responsible for ensuring benefits are paid. Consistent with Article 16, Section 17, of the California Constitution, the board maintains plenary authority and fiduciary responsibility for the investment of monies and administration of the system.

The board is composed of 12 members:

- Five members appointed by the Governor and confirmed by the Senate for a term of four years: one school board representative, one retired CalSTRS member and three public representatives.
- Four ex officio members who serve for the duration of their term in office: the California Director of Finance (who is appointed by the Governor and confirmed by the Senate), the California State Controller, the California State Treasurer and the State Superintendent of Public Instruction.
- Three member-elected positions representing current educators who serve for a term of four years.

The board has five standing committees: Appeals, Audits and Risk Management, Board Governance, Compensation and Investment. The board appoints a chief executive officer to administer the system consistent with the board’s policies and rules. The board also selects a chief investment officer to direct investments of the portfolio in accordance with board policy.

Committee	Purpose
Appeals	The Appeals Committee provides a dedicated body to hear, deliberate upon and decide appeals of CalSTRS determinations pursuant to the Administrative Procedure Act.
Audits and Risk Management	The Audits and Risk Management Committee assists the board in fulfilling its fiduciary oversight responsibilities for financial reporting, risk management, internal control, compliance, internal audit and external audit of the financial statements.
Board Governance	The Board Governance Committee supports the board in promoting the best interests of CalSTRS, its members, retirees and beneficiaries through the implementation of sound board governance policies and practices that enhance their good, fair and open decision-making.
Compensation	The Compensation Committee provides oversight to CalSTRS’ compensation policies and plan that support the successful recruitment, development and retention of talent to meet the business objectives of CalSTRS.
Investment	The Investment Committee oversees all matters relating to the investment of the system’s assets and investment management. The committee is charged with overseeing the system’s assets for the exclusive purpose of providing benefits to our members and their beneficiaries within the system and maximizing the financial stability of the system in an efficient and cost-effective manner.

Teachers' Retirement Board[1]

DENISE BRADFORD
Board Chair
K–12 Classroom Teacher
Term: January 1, 2024 – December 31, 2027

SHARON HENDRICKS
Board Vice Chair
Community College Instructor
Term: January 1, 2024 – December 31, 2027

MALIA M. COHEN
State Controller
Ex Officio Member

MICHAEL GUNNING
Public Representative
Term: February 27, 2026 – December 31, 2029

STEVE JUAREZ
Public Representative
Term: September 24, 2024 – December 31, 2027

HARRY M. KEILEY
K–12 Classroom Teacher
Term: January 1, 2024 – December 31, 2027

FIONA MA
State Treasurer
Ex Officio Member

JOE STEPHENSHAW
Director of Finance
Ex Officio Member

KEN TANG
School Board Representative
Term: February 16, 2024 – December 31, 2027

TONY THURMOND
State Superintendent of Public Instruction
Ex Officio Member

KAREN YAMAMOTO
Retiree Representative
Term: February 16, 2024 – December 31, 2027

VACANT
Public Representative

---

[1] Board members are listed as of the date this report is issued.

CalSTRS executive staff[1]

Executive staff are committed to implementing the direction set by the Teachers' Retirement Board and are responsible for day-to-day operations of the system.

Executive

CASSANDRA LICHNOCK
Chief Executive Officer

Investments

SCOTT CHAN
Chief Investment Officer

Chief Operating Officer

LISA BLATNICK
Chief Operating Officer

General Counsel

BRIAN J. BARTOW
General Counsel

Financial Services

JULIE UNDERWOOD
Chief Financial Officer

Administrative Services

MELISSA NORCIA
Chief Administrative Officer

Benefits and Services

JEFF ZIMMER
Chief Benefits Officer

Public Affairs

TERESA SCHILLING
Chief Public Affairs Officer

Technology Services

ASHISH JAIN
Chief Technology Officer

Actuarial Resources

DAVID LAMOUREUX
Chief Actuary

[1] Executive staff are listed as of the date this report is issued.

Strategic plan and performance measurement

2025–28 Strategic Plan

Every three years, the Teachers' Retirement Board and CalSTRS executive staff develop a strategic plan. The strategic plan lays out our high-priority objectives to advance our mission and vision. The plan is the product of more than a year of rigorous research and intensive discussions between executive staff and the board.

The ***CalSTRS 2025–28 Strategic Plan***, themed "Engage/Act," builds on the groundwork we established in the *CalSTRS 2022–25 Strategic Plan*, themed "Assess/Build capabilities." Our strategy is focused on three overarching goals, and each three-year plan identifies objectives to guide our collective direction. The objectives for each goal are implemented through our annual business plan with initiatives and key activities, along with expected outcomes and targets to gauge our success.

Meanwhile, we continue to monitor multiple key statistics over time through our performance and business reviews and report to the board periodically. Our strategic objectives from the *2025–28 Strategic Plan* are in the pages that follow. The strategic plan and the annual business plan are both available on the **Strategic planning** page of the CalSTRS website.

Goal 1: Trusted stewards

Ensure a well-governed, financially sound trust fund.

Objective A

Achieve full funding of the Defined Benefit Program by June 30, 2046.

Objective B

Develop and launch implementation of the Investments Branch’s shared vision.

Objective C

Deliver on the Investments Branch’s long-term fund sustainability efforts.

Objective D

Strategically evolve relationships with members, employers, policymakers and partner organizations.

Objective E

Enhance board practices to evolve excellence in governance.

Goal 2: Leading innovation and managing change

Innovate to grow resiliency and efficiency in service of our members.

Objective A

Transition services and operations to the new pension administration system platform.

Objective B

Expand and extend capabilities and culture to support a strategic and innovation mindset.

Objective C

Enhance the customer experience.

Objective D

Enhance operational agility, efficiency and effectiveness.

Objective E

Leverage relevant opportunities in disruptive technologies.

Goal 3: Sustainable organization

Fully integrate sustainability in all we do.

Objective A

Shape a resilient, sustainable workforce.

Objective B

Advance sustainability efforts across the organization.

Objective C

Mature how risks are identified, defined, viewed and managed.

Objective D

Strengthen preparedness capabilities.

Objective E

Mature cybersecurity program to further anticipate risks.

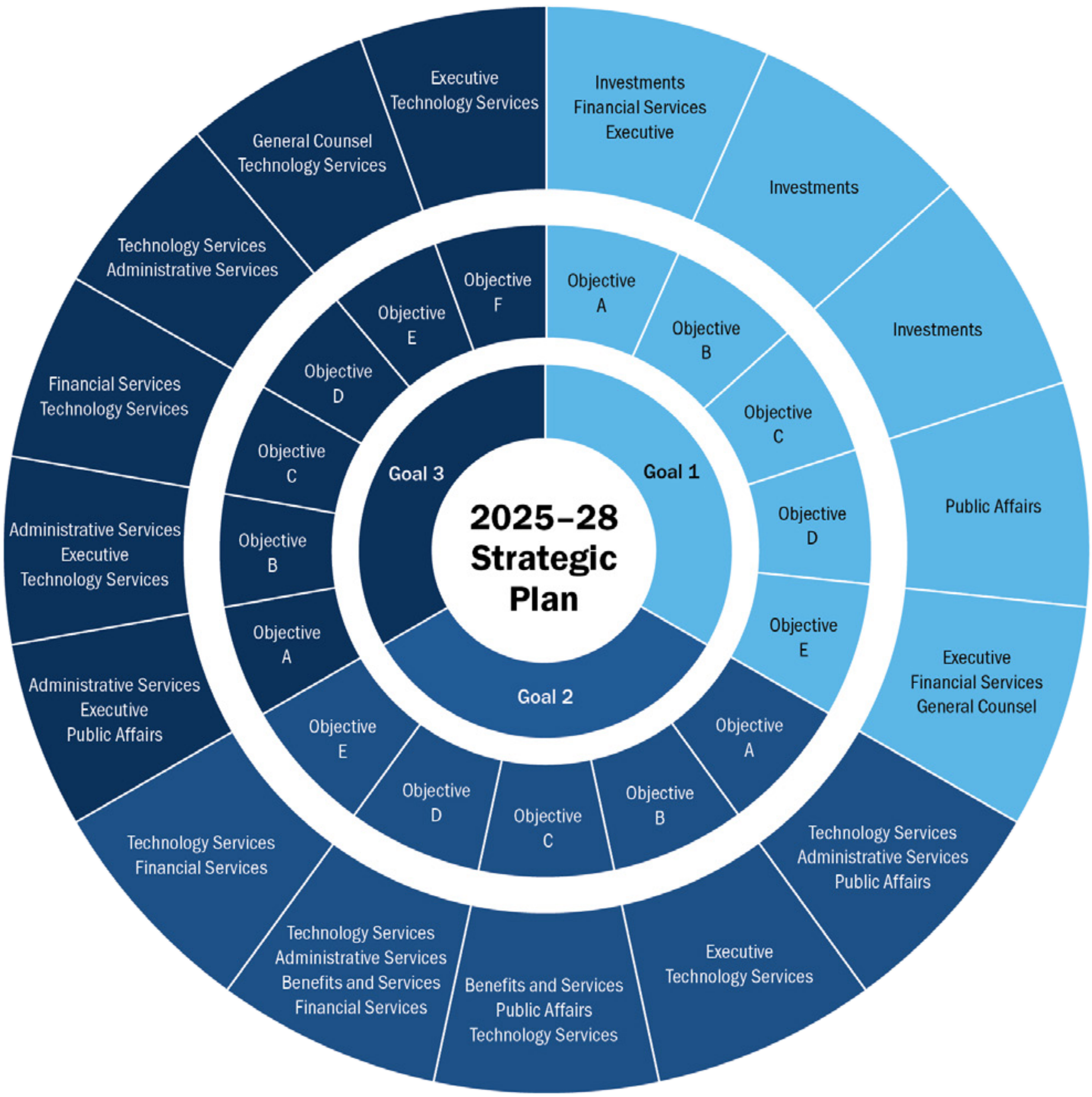
Objective F

Establish and scale centralized approach to resource allocation and reallocation.

2025–28 Strategic Plan goals and objectives by branch

While strategic plan goals and objectives are set at the organizational level, each initiative supporting those objectives is championed by one or more executives. These executive champions are responsible for driving progress, coordinating resources and reporting on outcomes related to their initiatives.

This structure ensures high-level goals are linked to actionable plans, with clear ownership across all levels. The following diagram visually connects each objective to the broader strategic plan goals and links sponsorship responsibilities by branch.



CalSTRS business plan

Each year, executive staff develop and implement annual business plans describing how we'll accomplish strategic plan goals and objectives. The business plan includes initiatives and key activities we'll undertake during the fiscal year. The budget allocates resources according to both longer-term strategic and shorter-term business plan priorities.

We begin planning for the next annual business plan several months before it becomes effective. Business plan initiatives and key activities are agreed upon by executive staff. The business plan for the upcoming fiscal year is presented to the board in July.

Performance measurement

Performance reporting

Performance data is collected to determine CalSTRS' success in meeting established targets. This data is reported and reviewed in different forums throughout the year. These forums foster collaborative and open dialogue to drive organizational performance discussions and decision-making. The four key performance review meetings held at CalSTRS each quarter are depicted in the diagram below and described in the following sections.

Branch business reviews

Directors report quarterly to their branch executive on a range of key performance measures for their branches.

Customer service performance reviews

Directors of member-facing operations present results for service level performance indicators to executives each quarter. Management shares information on the business area's performance for the prior quarter and provides guidance for future quarters. This review is also provided to the board quarterly. Annually, year-over-year performance and any changes to measures and targets for the upcoming fiscal year are also presented to the board.

Operations performance reviews

Executives and directors report on operational performance and key topics in support of our mission. This forum also informs and assists the organization in fulfilling our oversight and fiduciary responsibilities in the achievement of the organization's strategic and operational objectives.

Quarterly performance reviews

All leaders meet with executives quarterly to discuss priorities and key topics that will address activities in the strategic plan and business plan and board priorities in detail. This forum is also where key organizational issues and projects are discussed.

Teachers' Retirement Board oversight

In developing its annual work plan, the Teachers' Retirement Board identifies its appropriate level of involvement and oversight over each area of the strategic plan. Board oversight is categorized into three areas: routine oversight, enhanced oversight and leadership priority. The board receives updates throughout the year consistent with its level of oversight for each objective.

Throughout the year, our chief executive officer reports progress on business plan initiatives and strategic plan objectives to the Teachers' Retirement Board.

2025–26 significant accomplishments and branch sponsors[1]

Goal 1 — Trusted stewards: Ensure a well-governed, financially sound trust fund.	Branch sponsors
Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.	
• Presented the *Funding Levels and Risks Report* to the Teachers' Retirement Board.	• Financial Services • Investments
Objective B: Develop and launch implementation of the Investments Branch's shared vision.	
• Engaged with key member and employer groups.	• Investments
Objective C: Deliver on the Investments Branch's long-term fund sustainability efforts.	
• In progress	• Investments
Objective D: Strategically evolve relationships with members, employers, policymakers and partner organizations.	
• In progress	• Public Affairs
Objective E: Enhance board practices to evolve excellence in governance.	• Executive • Financial Services
• In progress	

Goal 2 — Leading innovation and managing change: Innovate to grow resiliency and efficiency in service of our members.	Branch sponsors
Objective A: Transition services and operations to the new pension administration system platform.	
• Developed and executed change management strategy for affected resources.	• Administrative Services • Technology Services
• Integrated recommendations from readiness assessments and industry best practices.	• Technology Services
• Administered new pension administration system training to affected users and employers.	• Technology Services
• Implemented the tactical communications plan for members.	• Public Affairs
Objective B: Expand and extend capabilities and culture to support a strategic and innovation mindset.	
• Hired additional resources to support program activities and design sprints.	• Executive • Technology Services
• Launched a culture transformation program to enhance innovative behaviors.	• Executive
Objective C: Enhance the customer experience.	• Benefits and Services • Public Affairs • Technology Services
• In progress	
Objective D: Enhance operational agility, efficiency and effectiveness.	
• Leveraged a low code or no-code platform to modernize Human Resources' request for a personnel action tool.	• Administrative Services • Technology Services
• Evaluated identity and access governance capabilities.	• Administrative Services • Technology Services

[1] Key accomplishments and associated branch sponsors as of the second quarter of 2025–26, the first year of the 2025–28 *Strategic Plan*.

Goal 2 — Leading innovation and managing change: Innovate to grow resiliency and efficiency in service of our members. (continued)	Branch sponsors
Objective E: Leverage relevant opportunities in disruptive technologies.	
• Used generative artificial intelligence to improve precision and relevance of document queries.	• Technology Services
• Streamlined and enhanced the management of communication templates across multiple repositories using artificial intelligence.	• Technology Services

Goal 3 — Sustainable organization: Fully integrate sustainability in all we do.	Branch sponsors
Objective A: Shape a resilient, sustainable workforce.	
• Evaluated and analyzed current staff skill sets against future organizational strategic needs.	• Administrative Services
• Completed and published workforce and succession plans.	• Administrative Services
Objective B: Advance sustainability efforts across the organization. • In progress	• Administrative Services • Executive
Objective C: Mature how risks are identified, defined, viewed and managed. • In progress	• Financial Services • Technology Services
Objective D: Strengthen preparedness capabilities. • In progress	• Administrative Services • Technology Services
Objective E: Mature cybersecurity program to further anticipate risks. • Implemented and automated a unified cloud security posture management solution.	• General Counsel • Technology Services
Objective F: Establish and scale centralized approach to resource allocation and reallocation. • In progress	• Executive • Technology Services

Key performance indicators

Key performance indicators serve as overall representations of CalSTRS' performance in member service delivery. We set performance indicators that are balanced—measuring efficiency against effectiveness and cost against quality, as well as member perception and satisfaction. KPIs are a strategic aid to management, propelling future improvements in member services and setting the stage for informed discussions. They are studied, benchmarked with other pension systems, and confirmed annually with each business area before being approved by executives. Executive staff and directors review KPI performance quarterly during the customer service performance review where discussions are open to gain understanding and knowledge of business areas that engage with members face to face. During these sessions, senior leaders learn about impacts on member service levels and consider new approaches the organization might pursue. We believe the awareness and review of KPIs is critical to employee and board alignment and business focus.

The KPIs below reflect our performance for 2025–26, as of the second quarter, and our planned 2025–26 and 2026–27 targets.[1]

Business area	Key performance indicators	Target 2025–26	YTD 2025–26	Target 2026–27
CalSTRS	Members expressing a high level of satisfaction with CalSTRS overall (annual measure)	75%	N/A[2]	75%
	Member online self-service for account transactions	65%	64%	65%
Service Retirement	Members expressing a high level of satisfaction with their service retirement experience	75%	84%	75%
	Payments issued within 45 calendar days of benefit effective date or received date	90%	99%	90%
Disability	Eligible applications processed within 150 calendar days of application received date	90%	95%	90%
	Approved applicants expressing a high level of satisfaction with the overall process[3]	75%	85%	75%
	Approved applicants expressing a high level of satisfaction with service received from the disability analyst	75%	95%	75%
Survivor Benefits	Applications processed within 30 calendar days of receipt of all necessary information	90%	60%	90%
	Ongoing allowances established within 10 calendar days of receipt of all necessary information	90%	60%	90%
	Beneficiaries expressing a high level of satisfaction with the survivor benefits process overall	75%	70%	75%
Customer Service	Contact Center calls answered within 30 seconds	75%	32%	75%
	Paper account maintenance transactions processed within 10 business days of receipt	85%	81%	85%
	Average number of business days to respond to online messages	< 2 Days	0.92 Days	< 2 Days
	Members expressing a high level of satisfaction with service during their most recent Contact Center experience (calls)	75%	96%	75%

[1] Due to the transition and stabilization period for BenefitConnect, our new pension administration system, several KPIs in the YTD 2025–26 performance results experienced temporary adverse impacts. Updated third–quarter results are provided in the May 2026 Regular Meeting Item **#19d – 2025–26 Service Performance Metrics.**

[2] Annual measure available at the end of the fiscal year.

[3] Monthly results based on survey responses from previous month.

Business area	Key performance indicators	Target 2025–26	YTD 2025–26	Target 2026–27
Financial Services	Service credit purchase requests completed within 25 business days	100%	19%	100%
	Refund applications processed within 25 business days of receipt	95%	98%	95%
Employer Reporting and Contributions	(Financial Services) Percentage of contributions submitted prior to the delinquent date (95%/5th day)	100%	99%	100%
	(Employer Services) Percentage of employer reporting submitted prior to the delinquent date, by unit	100%	91%	100%
	(Employer Services) Complete cases of all new retirees that meet threshold within 75 calendar days of the retiree report received date	95%	78%	95%
	(Employer Services) Average quality score of employer inquiries meeting review parameters	85%	87%	75%
	(Employer Services) Employers expressing a high level of satisfaction after a service interaction	75%	90%	75%
	(Employer Services) Employers expressing a high level of satisfaction after a training event	75%	68%	75%
Community Property	Acceptable court orders implemented to member's accounts within 15 calendar days of receipt of all required documentation	85%	70%	90%
	Community Property estimates provided to a member, non-member or legal representative within 17 calendar days of receipt	90%	0%	90%
	Member-submitted draft court orders reviewed and responded to within 10 calendar days of receipt	90%	68%	90%
	Members expressing a high level of satisfaction with Community Property estimate services[1]	75%	65%	75%
	Members expressing a high level of satisfaction with Community Property representatives overall	75%	72%	80%
Retirement Readiness	Members expressing a high level of satisfaction with their benefits planning session	75%	95%	75%
	Members expressing a high level of satisfaction with the length of time between scheduling an appointment and attending a benefits planning session	75%	89%	75%
	Members age 44 and younger who receive educational services (annual measure)	4%	N/A[2]	4%
	Participants expressing a high level of satisfaction with defined contribution support service	75%	96%	75%
	Annual Pension2 contributions (millions)	$108	N/A[2]	$144
	New account growth	5,187	N/A[2]	5,549

[1] Monthly results based on survey responses from previous month.
[2] Annual measure available at the end of the fiscal year.

Long-range financial planning

Integrated financial management

CalSTRS' primary goal is to maintain a well-governed, financially sound retirement system. Our long-range financial plan evaluates funded status and assesses whether contribution rates from members, employers and the state are sufficient to meet current and future Defined Benefit Program obligations. This ensures long-term sustainability and the ability to pay benefits to members and their beneficiaries.

Path to full funding

Prior to the passage of the CalSTRS Funding Plan, enacted as part of the fiscal year 2014–15 budget in **AB 1469 (Bonta, Chapter 47, Statutes of 2014)**, actuarial projections showed that long-term revenues were insufficient, and the Defined Benefit Program would exhaust its assets within 30 years without contribution changes. In response, CalSTRS supported a comprehensive funding strategy.

The CalSTRS Funding Plan established a shared approach in which members, employers and the state gradually increased contributions to fully fund the program by 2046. The "Projected funded status" chart on the next page shows how these contributions have helped move the funding plan ahead of schedule, with full funding projected by 2043.

The funding plan also grants the Teachers' Retirement Board limited authority to adjust employer and state contribution rates as needed to respond to economic or demographic changes and maintain progress toward full funding.

Review of actuarial assumptions

CalSTRS conducts a formal review of actuarial assumptions every four years. The most recent review was completed in January 2024. Assumptions are monitored to ensure they reflect actual experience and remain appropriate for determining funding and contribution levels. Material changes may be brought to the board outside the regular review cycle.

Key highlights

Based on the June 30, 2025, actuarial valuation, (released in May 2026), the funded ratio increased from 76.7% to 79.3%, while the unfunded actuarial obligation decreased to $82.0 billion. Reducing the unfunded liability remains a strategic priority. Long-term projections assume a 7.0% investment return and 3.25% annual payroll growth.

As the system matures, declining active-to-retiree ratios and negative cash flow increase reliance on investment performance. The primary risk to full funding is investment returns falling below the assumptions, with additional risks from longevity and slower payroll growth.

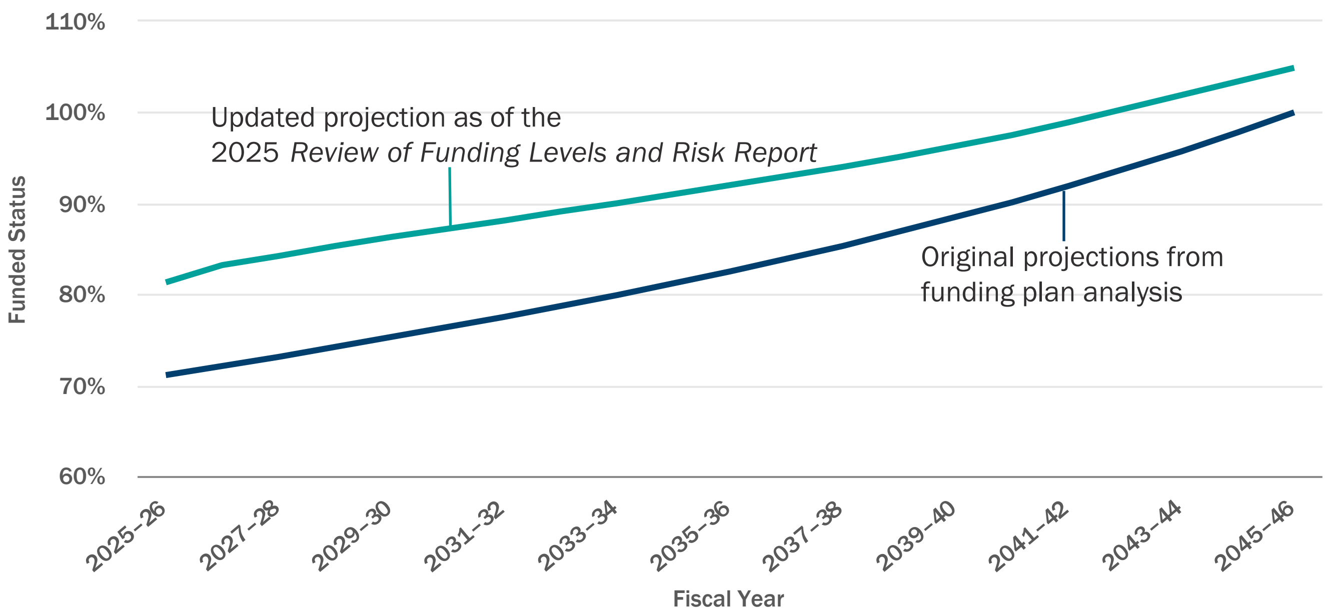
Member demographics

Active membership reached a record high of more than 471,000 members as of June 30, 2025, and the overall payroll increased by approximately 3.25%, in line with CalSTRS' long-term payroll growth assumption. CalSTRS continues to monitor projected K–12 enrollment declines, which could affect future membership and payroll growth.

Revised projected funding levels

Updated projections based on the June 30, 2025, valuation show full funding is now projected to occur in 2043, three years ahead of schedule. The projections assume that the fund will meet a 7.0% investment return and 3.25% payroll growth annually through 2046. These projections could be materially impacted if the portfolio experienced a return well below its assumed 7.0% return assumption.

Projected funded status



Revenues

Contributions

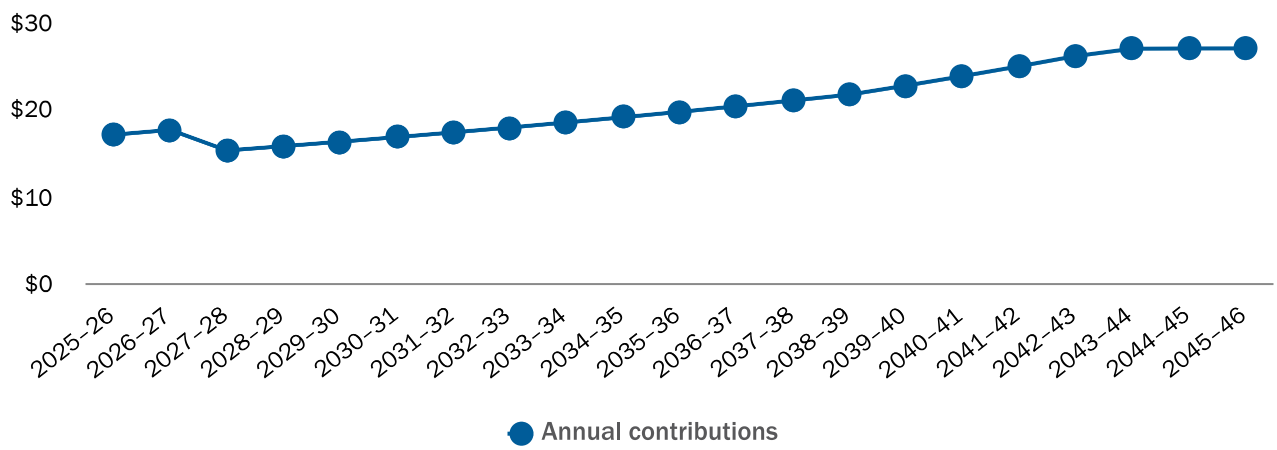
The Teachers' Retirement Fund is funded through investment returns and contributions from members, employers and the state. Over the past 30 years, investments returns accounted for approximately 61.7% of total revenues. Projections for contribution revenue are shown in the chart on the next page.

Contribution rates

At its May 2026 meeting, the board maintained the state and employer contribution rates for the Defined Benefit Program to promote stability and mitigate investment risk, while keeping the state and employers on track to eliminate their share of unfunded liability by 2046:

- State supplemental rate: 6.311% (total state rate: 10.828%)
- Employer supplemental rate: 10.850% (total employer rate: 19.100%)
- Member rates:
  - CalSTRS 2% at 60: 10.250%
  - CalSTRS 2% at 62: 10.205%

Projected contribution revenue[1]
(dollars in billions)



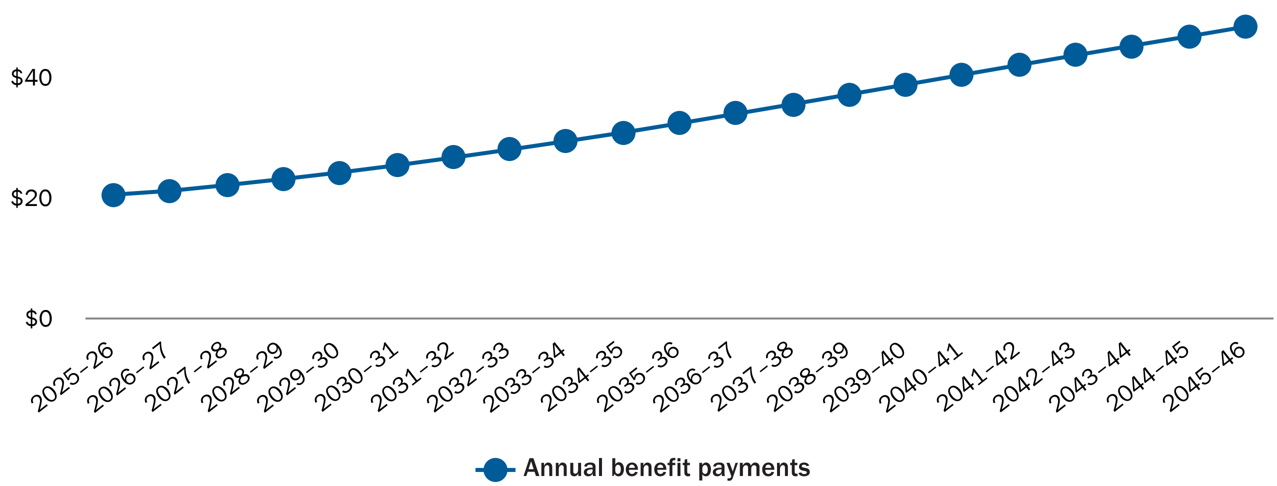
Expenses

Member benefit payments

Pension benefit payments comprise the majority of fund expenditures and, as shown in the chart below, are projected to grow by an average of 4.4% annually through 2046, driven by changes in various economic and demographic assumptions such as service retirements, mortality, creditable compensation, disability benefits and inflation.

As with any mature pension system, to the extent contributions are less than current and future benefit payments, investment income is leveraged to bridge the gap.

Projected member benefit payments
(dollars in billions)



[1] A provision of the funding plan requires the state supplemental contribution rate to be reduced to zero if the state share of the unfunded actuarial obligation is eliminated, which is expected to occur in fiscal year 2027–28.

Budget overview

Budget in brief

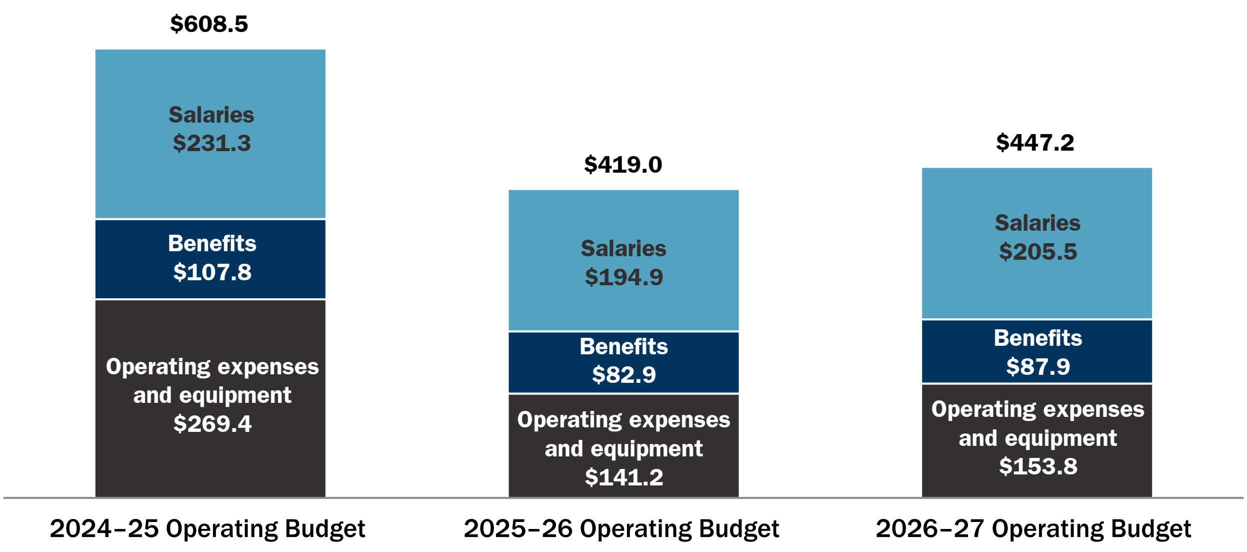
CalSTRS' 2025–28 *Strategic Plan* outlines a set of goals and measurable objectives to direct and guide our priorities and activities through 2028. In support of our plan, we've integrated resource planning to estimate the anticipated costs needed to achieve our future vision of success. The plan advances us toward the board's long-term vision and directs our energy toward execution of our important initiatives. The CalSTRS 2026–27 Annual Budget incorporates the goals and objectives by developing a detailed operational and financial plan to deliver on annual and long-term objectives and targets.

CalSTRS' 2026–27 Operating Budget is $447.2 million and includes 1,491 authorized positions. This reflects an overall increase of $28.2 million, or 6.7%, relative to the 2025–26 Operating Budget.

The 2026–27 Annual Budget fosters strategic plan priorities and ongoing operational support needs. This includes a funding increase for 60 authorized positions, of which 33 positions are dispersed across the organization for enterprisewide strategic support and 27 positions are dedicated to investment portfolio management, as well as funding for various information technology and innovation service contracts. Moreover, the budget includes adjustments to employee compensation and administrative expenditures.

Three-year overview

(dollars in millions)



The table below provides a summary of our prior fiscal year actual expenditures, the 2025–26 fiscal year Operating Budget and the 2026–27 fiscal year Operating Budget and highlights the amount of change by budget category between fiscal years 2025–26 and 2026–27.

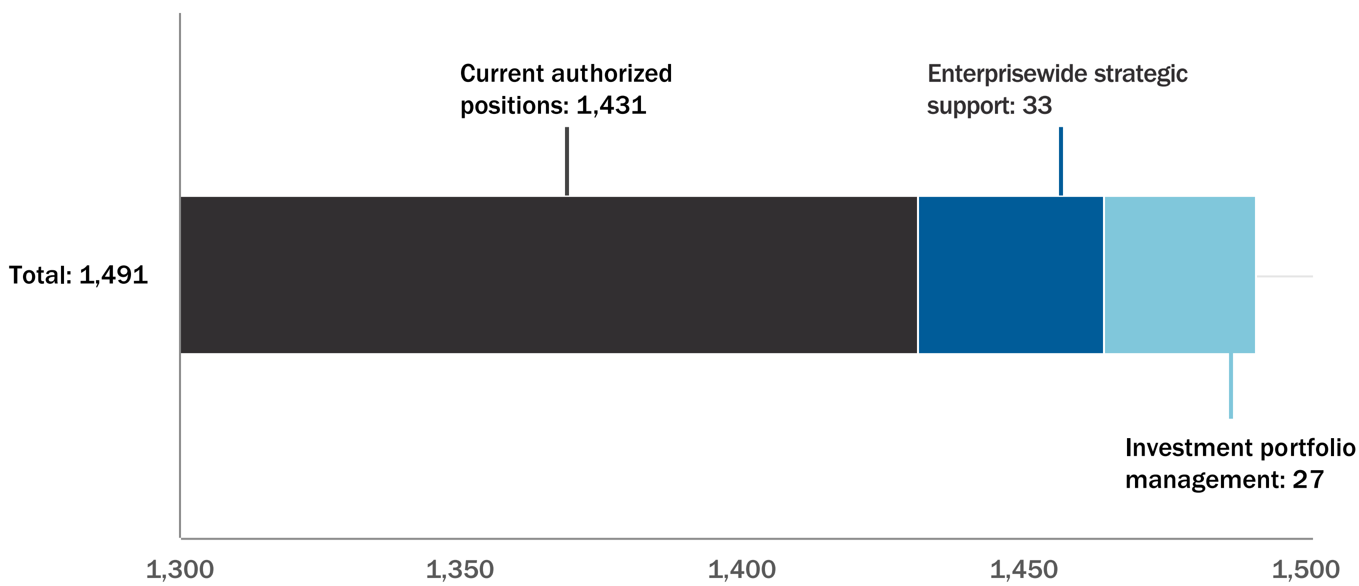
Three-year overview[1]

(dollars in thousands)

Budget category	Actual 2024–25	Budget 2025–26	Budget 2026–27[2]	Amount change
Operating Budget				
Salaries	$173,451	$194,892	$205,470	$10,578
Benefits	79,377	82,939	87,915	4,976
Operating expenses and equipment				
General expenses	20,052	36,644	40,208	3,564
Consulting and professional services	$119,561	48,073	55,313	7,240
Facilities operations	21,090	21,164	20,964	(200)
Central administrative services	16,935	20,004	22,104	2,100
Data processing and storage	14,858	15,250	15,250	—
Total Operating Budget	**$445,324**	**$418,966**	**$447,224**	**$28,258**
Percentage change				***6.7%***

The 2026–27 Operating Budget includes 1,491 total authorized positions,[3] reflecting an increase of 60 positions to CalSTRS' workforce, or 4.2%, relative to 2025–26. A breakout of authorized positions by branch is provided in the **Branch information** section of this report.

2026–27 authorized positions



1 Three-year overview by fund is provided in **Appendix 3**.

2 The board adopted the proposed 2026–27 Operating Budget with only minor revisions.

3 The CalSTRS workforce also includes blanket positions. Blanket positions provide staffing flexibility for urgent, one-time or limited-duration operational needs. Additional information regarding blanket positions is provided in the **Glossary** section of this report.

2026–27 Operating Budget changes

The 2026–27 Operating Budget is $447.2 million and includes 1,491 authorized positions, reflecting a net increase of $28.2 million, or 6.7%, relative to the 2025–26 Operating Budget. The overall net budget change is primarily driven by an increase in funding for 33 authorized positions for strategic plan priorities and ongoing operational needs, 27 authorized positions for investment portfolio management to support the Investments Branch, and an increase in funding for various innovation and information technology service contracts to support and advance our business operations, including maintenance and operations for technology applications. Additionally, the budget includes adjustments for administrative expenses. The table below displays the total net change of $28.2 million by operational category.

2026–27 Operating Budget changes

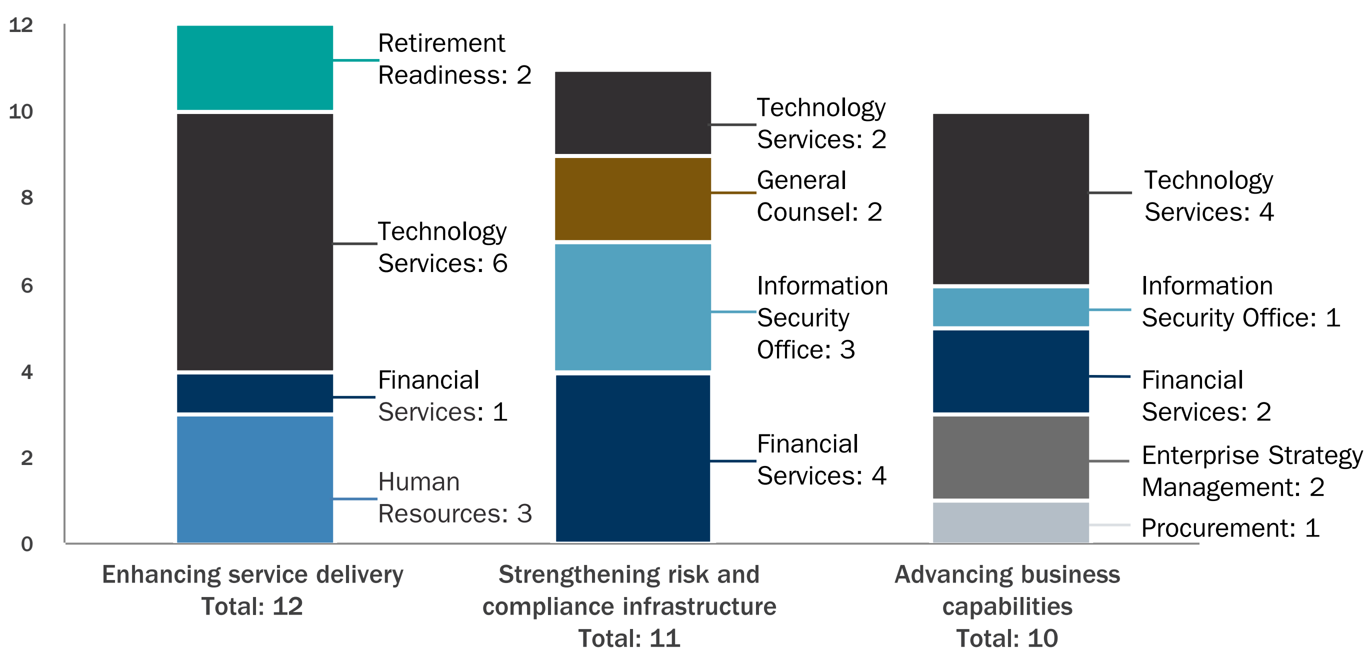
(dollars in millions)

Operational category	Amount change
Enterprisewide strategic support	$15.6
Investment portfolio management	6.1
Administrative expenses	6.5
Total	**$28.2**

Enterprisewide strategic support: $15.6 million

Authorized positions: $5.6 million, 33 positions

The 2026–27 Operating Budget includes $5.6 million to establish 33 permanently authorized positions. Workload for these positions is primarily associated with enhancing service delivery, strengthening our risk and compliance infrastructure, and advancing business capabilities. The following chart displays the 33 authorized positions by function and business area.



Enhancing service delivery: $1.9 million, 12 positions

Enhancing service delivery prioritizes improving the quality of internal business services across the organization to ensure more efficient and effective operations. These resources will assist with producing workforce training and learning opportunities; enhancing data collection, analysis and reporting; providing end-user technology support; enhancing defined compensation plan operations; and implementing a resource capacity management program. These 12 positions dispersed across four business areas will perform the following key tasks:

- Enhance process improvement efforts as well as the collection, analysis and reporting of data.
- Develop and implement strategies to retain top talent in partnership with business areas by leveraging collaborative approaches for recruitment, employee development and career growth pathways.
- Enhance the coordination of marketing, training and communications to improve member and employer engagement and plan outcomes for CalSTRS defined contribution plans.
- Implement a resource capacity management program to improve workload planning and enhance visibility into resource utilization.
- Analyze data trends and performance metrics to drive standardization and continuous improvement of information technology service delivery across the enterprise.
- Provide comprehensive audio and video support for CalSTRS headquarters and member service centers, ensuring reliable setup, operation and troubleshooting of audio-visual systems for meetings, events and hybrid collaboration.

Strengthening risk and compliance infrastructure: $1.9 million, 11 positions

Strengthening the risk and compliance infrastructure is essential to safeguard operations, ensure regulatory alignment, and support proactive risk management and audit readiness. These resources will reinforce efforts to mature the enterprise compliance and cybersecurity programs, improve investment and financial accounting functions, strengthen third-party risk management frameworks, and advance data governance architectures. These 11 positions dispersed across four business areas will perform the following key tasks:

- Mature the enterprise compliance program by implementing a risk-based monitoring approach and regularly reporting on program effectiveness and progress.
- Review and process powers of attorney, conservatorships, guardianships and court orders related to community property and member account administration.
- Perform investment accounting tasks including data management and various financial reporting activities in compliance with Generally Accepted Accounting Principles and Governmental Accounting Standards Board.
- Manage a third-party risk management database to ensure accurate tracking, assessment and reporting of vendor risk.
- Support zero trust security governance by developing policies, frameworks and oversight processes to strengthen access controls, data protection and our enterprise security posture.
- Implement and manage cloud security controls to protect enterprise data, ensure compliance and support secure cloud architecture across platforms.

Advancing business capabilities: $1.8 million, 10 positions

Advancing business capabilities focuses on expanding internal resources and infrastructure to ensure the organization has the tools, technology and innovative capabilities that enable the organization to run more efficiently. These resources will advance efforts in innovation and artificial intelligence capabilities, expand our cost-conscious culture, enhance data analytics and reporting, and support ongoing standardization of enterprise technology architecture solutions. These 10 positions dispersed across five business areas will perform the following key tasks:

- Research tools to enable secure use of artificial intelligence solutions and services, implement artificial intelligence governance and frameworks, and monitor solutions.
- Foster a cost-conscious culture by identifying efficiencies, optimizing resource use and encouraging fiscal responsibility across the organization.
- Perform complex research and data analytics for business process improvements, system modifications and procedure development for various financial services.
- Manage information technology procurement processes, including vendor selection and contract negotiation, to support and improve business capabilities.
- Develop and maintain business intelligence reports and dashboards and leverage advanced data analytics to deliver actionable insights that support business decision-making.
- Support application development and system implementation for artificial intelligence capabilities.

Service contracts: $10.0 million

The 2026–27 Operating Budget includes an increase of $10.0 million for critical investments in consulting services to support and advance business operations—including innovation consulting services to build prototypes and implement solutions to move the enterprise innovation program forward, enhance data governance efforts, implement cloud modernization, and integrate artificial intelligence across key business areas. It also includes maintenance and operations support for several new and updated technology applications, as well as costs associated with software licenses.

Continuing to build, support and modernize our technology foundation is an essential component of delivering quality services to our members and their beneficiaries, employers and various stakeholder communities. Over the past few years, CalSTRS has experienced significant increases in technology requirements and costs, largely driven by the organization's growing size and complexity, inflation, and strategic investments in transformative technologies aimed at driving efficiency and effectiveness, improving overall value and fostering innovation throughout the organization.

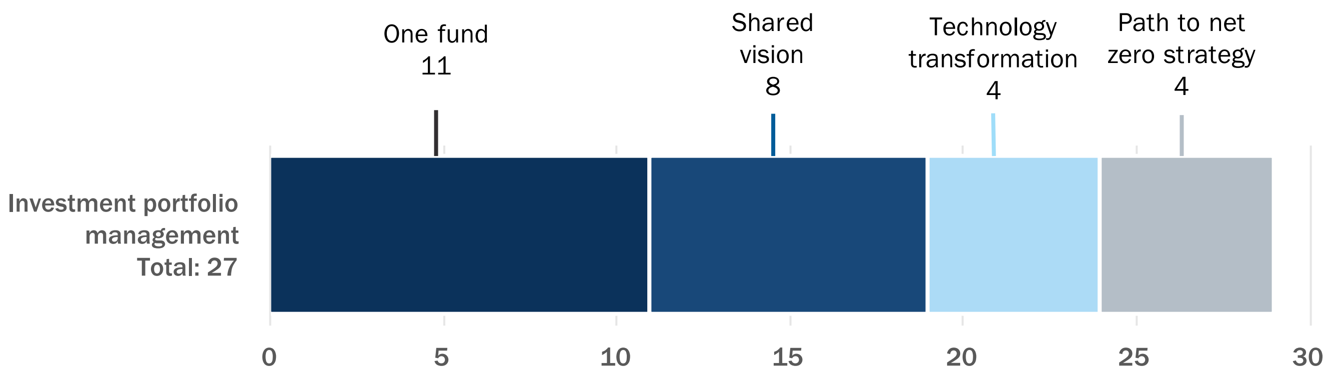
Investment portfolio management: $6.1 million, 27 positions

The 2026–27 Operating Budget includes $6.1 million to establish 27 permanently authorized positions for the Investments Branch to enhance CalSTRS' ability to prudently manage its investment portfolio through expanded internal expertise. As the portfolio grows and evolves, so does the need for a robust investment infrastructure to ensure sound fiduciary oversight and value creation. Of the 27 positions, 23 will support three new strategic priorities—One Fund, Shared Vision and Technology Transformation.[1] The remaining four positions will support the Path to Net Zero Strategy, which is an existing strategic plan priority.

The addition of resources for these priorities represent thoughtful, forward-looking steps to remain steadfast in the highly competitive investment landscape.

[1] Additional information is provided in the July 2025 Regular Meeting Item **#8 – Chief Investment Officer Report**.

The following chart displays the total authorized positions organized by investment priority.



One fund: $2.4 million, 11 positions

Resources for the one fund approach entail bridging the gaps between investment teams and operational functions to harness the advantages of the size and scale of the Investments Branch. As the portfolio grows in size and complexity, additional staffing is critical to ensure prudent asset management, risk oversight, compliance and operational efficiency. These positions will help maintain CalSTRS' investment edge, support internal management capacity and capabilities, and meet the long-term return objectives required to sustain the fund's obligations. These 11 positions will perform the following key tasks:

- Support portfolio growth through analysis and execution of long-term asset allocation strategies adopted by the board.
- Assist in the expansion and management of public and private market investments, including sourcing, evaluating and executing investment transactions.
- Conduct due diligence activities and monitor investment performance to ensure alignment with strategic objectives and risk tolerance.
- Strengthen investment-related risk management and compliance processes to uphold fiduciary and regulatory standards.
- Perform advanced data analysis and develop reporting tools to support investment decision-making and performance monitoring.

Shared vision: $2.1 million, eight positions [1,2]

In today's highly competitive landscape—alongside other global pension funds, endowments, foundations and sovereign wealth funds—CalSTRS' ability to adapt and innovate is critical to maintaining our place as a global leader. Identifying new and improved ways to achieve the Investments Branch's goals will require a clear, thoughtful and strategic approach.

The shared vision project commenced in September 2024 and is continuing, with its various components progressing at different stages. While the project is currently in the engagement and data collection stage, there are several investment division risk reviews that have identified immediate staffing needs as we continue to assess and develop a holistic plan across the total fund. The plan is to advance into the full development stage of the project in spring of 2026. The implementation stage is expected to begin in early 2027, with implementation ongoing for multiple years. These resources directly support the shared vision to demonstrate global leadership in responsible investing, long-term value creation and sustainability.

Currently, the project is supported by existing branch resources; however, as risk assessments advance and development begins, anticipated business and operational changes will require additional resources in the coming years. While the shared vision is still being finalized, these resources are essential to mitigate current risks and build the foundational infrastructure and

[1] Additional information is provided in the January 2025 Investment Committee Board Item **#7 – Shared Vision – RMS Strategic Review.**
[2] Additional information is provided in the May 2025 Investment Committee Item **#6 – Shared Vision.**

internal capacity needed for its successful execution, enabling CalSTRS to strengthen stewardship, drive innovation, and act with greater confidence in its investment approach. These eight positions will perform the following key tasks:

- Research emerging investment strategies and utilize insights to support long-term portfolio goals.
- Evaluate market trends and macroeconomic risks and apply advanced risk analytics to inform data-driven investment decisions, scenario planning and strategic allocation.
- Strengthen regulatory risk management through implementation of robust governance structures and internal controls.
- Enhance data governance practices to improve accuracy, transparency and consistency in investment data.
- Lead benchmarking activities to assess portfolio performance against peers and industry standards.
- Contribute to the development and evaluation of new investment strategies to support innovation and long-term value creation.

Technology transformation: $900,000, four positions

Technology transformation is a critical strategy to advance our investment analytics tools, data infrastructure and technology capabilities to maintain a competitive edge and achieve the fund's performance goals. The growth of CalSTRS' investment portfolio necessitates a corresponding transformation in the technology infrastructure to support data-driven decision-making, real-time risk oversight and operational resilience. Accordingly, these resources will play a key role in enabling and utilizing advanced investment platforms, portfolio analytics tools, and integrated data environments that enhance efficiency, accuracy and transparency. As we modernize our technology systems to align with the evolving complexity of global markets and internal management goals, a skilled and forward-looking workforce is essential to ensure successful adoption, governance and optimization of these technologies across asset classes. These four positions will perform the following key tasks:

- Support the transformation of investment technology by advancing data warehousing capabilities to ensure accurate, centralized and accessible investment data.
- Provide oversight of investment systems and tools to ensure they meet business needs and support operational efficiency.
- Enhance investment technology governance by developing standards, controls and processes that promote transparency, security and accountability.
- Collaborate with subject matter experts to align technology solutions with investment objectives and evolving data needs.
- Improve investment risk management by integrating technology-driven solutions that enhance data quality, analytics and decision-making.

Path to net zero strategy: $700,000, four positions

These resources will directly contribute to advancing CalSTRS' path to net zero strategy by integrating climate risk analysis, low-carbon investment opportunities and active stewardship across the portfolio. As we work toward achieving a portfolio with significant reductions in greenhouse gas emissions by 2050 or sooner, dedicated staff are essential for conducting climate scenario analysis, engaging company boards and leadership, evaluating transition risks and sourcing resilient investments aligned with long-term value creation. These roles will help incorporate climate considerations within investment processes and ensure that our commitment to sustainability is embedded in investment decision-making to minimize risks and maximize returns. These four positions will perform the following key tasks:

- Incorporate climate considerations across the investment process by integrating sustainability criteria into policies, procedures and decision-making frameworks to minimize risks and maximize returns.

- Support the organization's commitment to reduce greenhouse gas emissions by 2050 or sooner by aligning investments with long-term portfolio goals to support stability and resilience.
- Conduct climate-related scenario analysis to assess potential impacts on portfolio risk, returns and resilience.
- Evaluate climate and transition risks at the transaction level to inform investment selection and risk mitigation strategies.
- Identify and source resilient investment opportunities that align with our risk-return goals.
- Engage with portfolio companies to promote climate risk disclosure, emission reduction targets and proven business practices.

Administrative expenses: $6.5 million

Employee compensation: $4.5 million

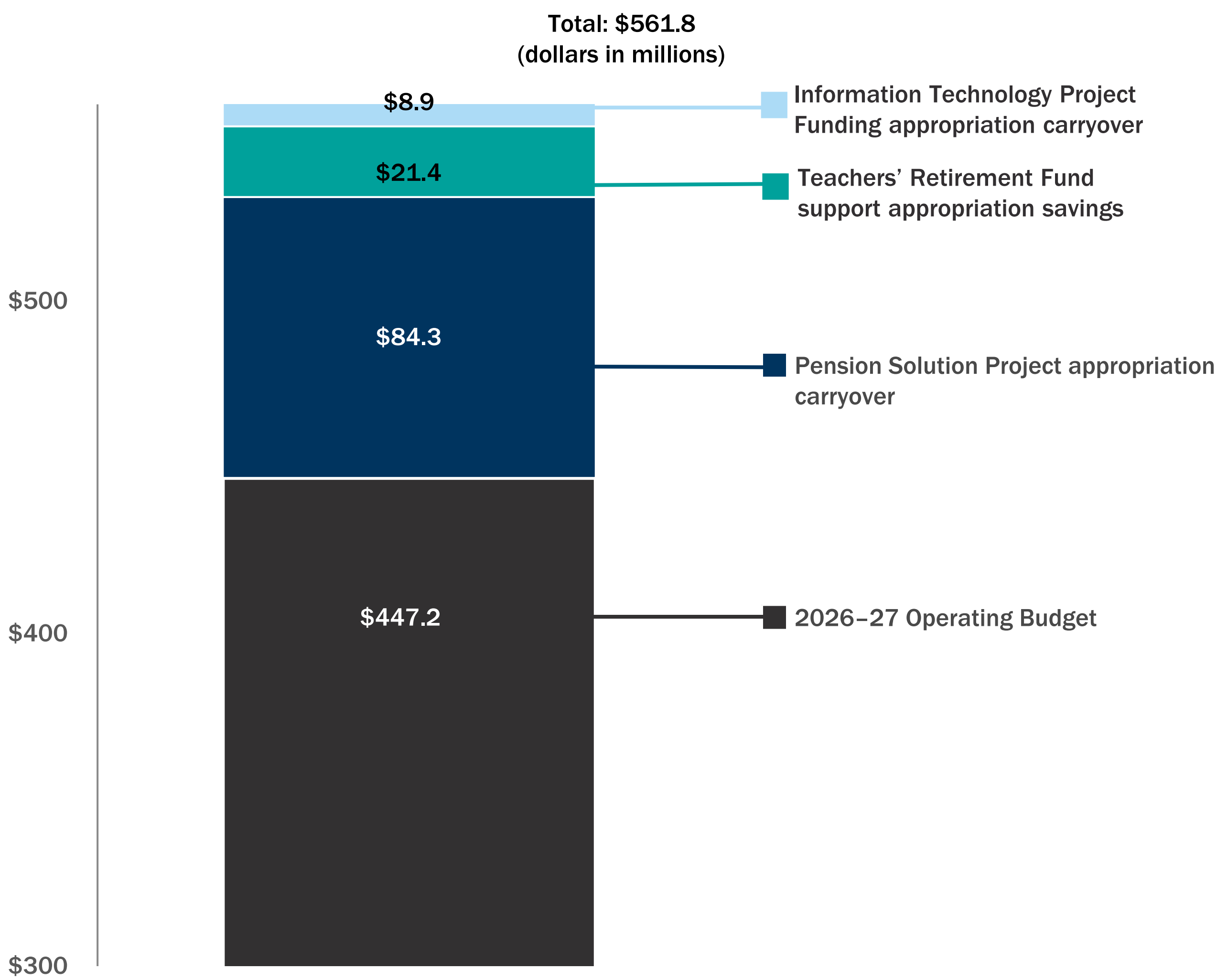
Employee compensation adjustments reflect a net increase of $4.5 million. This primarily includes a merit salary adjustment of 5.0% for eligible employees.

Pro rata assessment: $2.0 million

We are required by the Department of Finance to contribute on a pro rata basis for the cost of providing central administrative services to CalSTRS. The pro rata assessment represents General Fund recoveries of shared statewide general administrative costs. The pro rata process apportions the costs of providing central administrative services to all state departments that benefit from shared services, such as centralized state payroll processing for CalSTRS employees. The apportioned amount is further allocated to each state department's funding sources based on the percentage of total expenditures in each fund. Annual updates to CalSTRS' pro rata share are based on the most current assessment provided by the DOF.

For 2026–27, the annual pro rata assessment will increase by $2.0 million, based on the current assessment provided by the DOF. The overall increase is largely due to higher costs for retirees' health benefits and planned shared services provided by various state agencies.

2026–27 total estimated spending authority



The Operating Budget provides the authority to expend up to $447.2 million in fiscal year 2026–27. CalSTRS has additional spending authority resulting from prior board approvals, available for expenditure in fiscal year 2026–27. As a result, CalSTRS can end the year with total expenditures greater than the 2026–27 Operating Budget. The primary sources of additional budget authority are the Information Technology Project Funding appropriation carryover, the TRF support appropriation savings and Pension Solution Project appropriation carryover.[1]

As summarized in the chart above, total estimated spending authority above the 2026–27 Operating Budget is currently projected at $114.6 million. Based on these estimates, CalSTRS can expend up to $561.8 million in fiscal year 2026–27. Additional details are provided on the following page.

[1] Additional information regarding BenefitConnect is provided in the **Capital Project** section.

Pension Solution Project appropriation carryover: $84.3 million

Of the total $627.8 million Pension Solution Project budget, $84.3 million represents the carryover budget authority from previously approved Pension Solution Project budget appropriations. This funding is available to encumber by June 30, 2027, and through June 30, 2029, to liquidate. The encumbrance and liquidation periods for the Pension Solution Project reflect extensions to the original encumbrance and liquidation dates, which were approved as part of the 2024–25 Operating Budget. The project will use these carryover balances by the respective dates.

Teachers' Retirement Fund support appropriation savings: $21.4 million

Pursuant to **Appendix III.1 of the *Teachers' Retirement Board Governance Manual***, if CalSTRS ends the year with savings in the Teachers' Retirement Fund support appropriation, up to 3% of the Operating Budget can carry over into a future fiscal year. These savings are available for expenditure for two years after the initial year of appropriation, upon board approval. These savings will be used as needed for any unanticipated system costs and to promote better service to the system's membership. Upon board approval, the 2024–25 Budget Act provision includes $10.5 million to be available to encumber by June 30, 2027, and through June 30, 2029, to liquidate; and the 2025–26 Budget Act provision includes $10.9 million to be available to encumber by June 30, 2028, and through June 30, 2030, to liquidate.

Information Technology Project Funding appropriation carryover: $8.9 million

Our baseline Operating Budget includes an annual Information Technology Project Funding appropriation of $18.5 million for enterprisewide projects as authorized by the Enterprise Program Investment Council. Pursuant to the annual Budget Act, each year this amount is available to encumber for up to three years and two additional years for liquidation. Funds not encumbered in the initial fiscal year of appropriation are carried over for up to two fiscal years and can be designated to projects authorized by EPIC. Based on current projections, $8.9 million is available to encumber by June 30, 2028, and through June 30, 2030, to liquidate. These funds will be used as projects are approved by EPIC.

Capital projects

This section provides a summary of capital projects and their associated financing. The Capital Projects budget plans for expenses associated with technology, infrastructure and other enterprise projects. These costs are typically one-time, multiyear-bounded costs as compared to ongoing administrative costs.

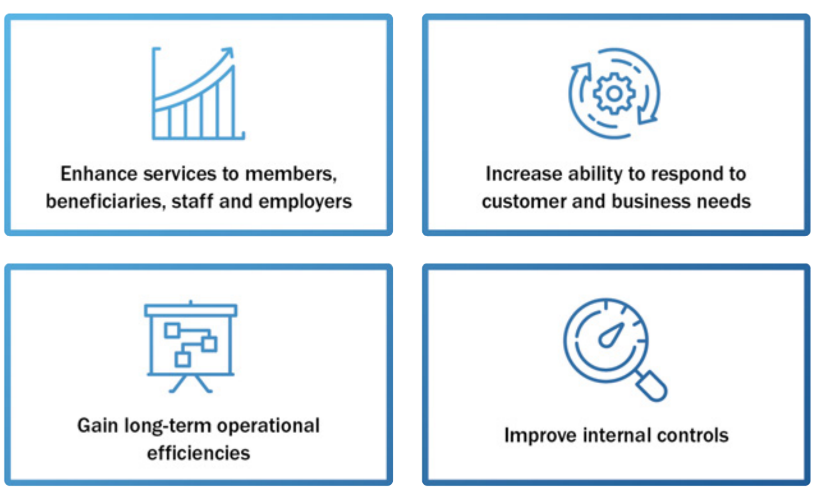
We capitalize operational assets in accordance with Governmental Accounting Standards Board Statements No. 34 and No. 51. Specifically, all land, buildings, improvements, equipment, computer software, and other tangible or intangible assets used in operations that have initial useful lives extending beyond one year and have an initial cost basis of $1 million or greater are capitalized. Our policy also includes the capitalization of right-to-use (lease) assets in accordance with GASB Statement No. 87, for assets with a threshold of $1 million or more based on the present value of future lease payments. Depreciation or amortization is charged to operations using the straight-line method over the estimated useful life of the related asset. For budgetary reporting and planning, all assets, including those with useful lives greater than one year and costing more than $1 million, are fully expensed in the year encumbered. Depending on the type of capital project or asset, funding may be authorized from either continuous or support appropriations.

BenefitConnect

The Pension Solution Project was completed, and the new pension administration system, BenefitConnect, went live in September 2025. BenefitConnect replaced the legacy pension administration system with modern functionality and was the largest technology effort in CalSTRS' history. It adds automated controls; interfaces with multiple systems, including our financial and electronic content management systems; and offers secure portals for members and employers. BenefitConnect administers member and beneficiary account information, employer reporting, benefit calculations and case management activities in a single integrated solution.

BenefitConnect is progressing through the stabilization period, with leaders monitoring priorities and teams collaborating with the vendor as production and service times improve, indicating long-term operational benefits ahead. We remain committed to improving service to our members.

BenefitConnect objectives



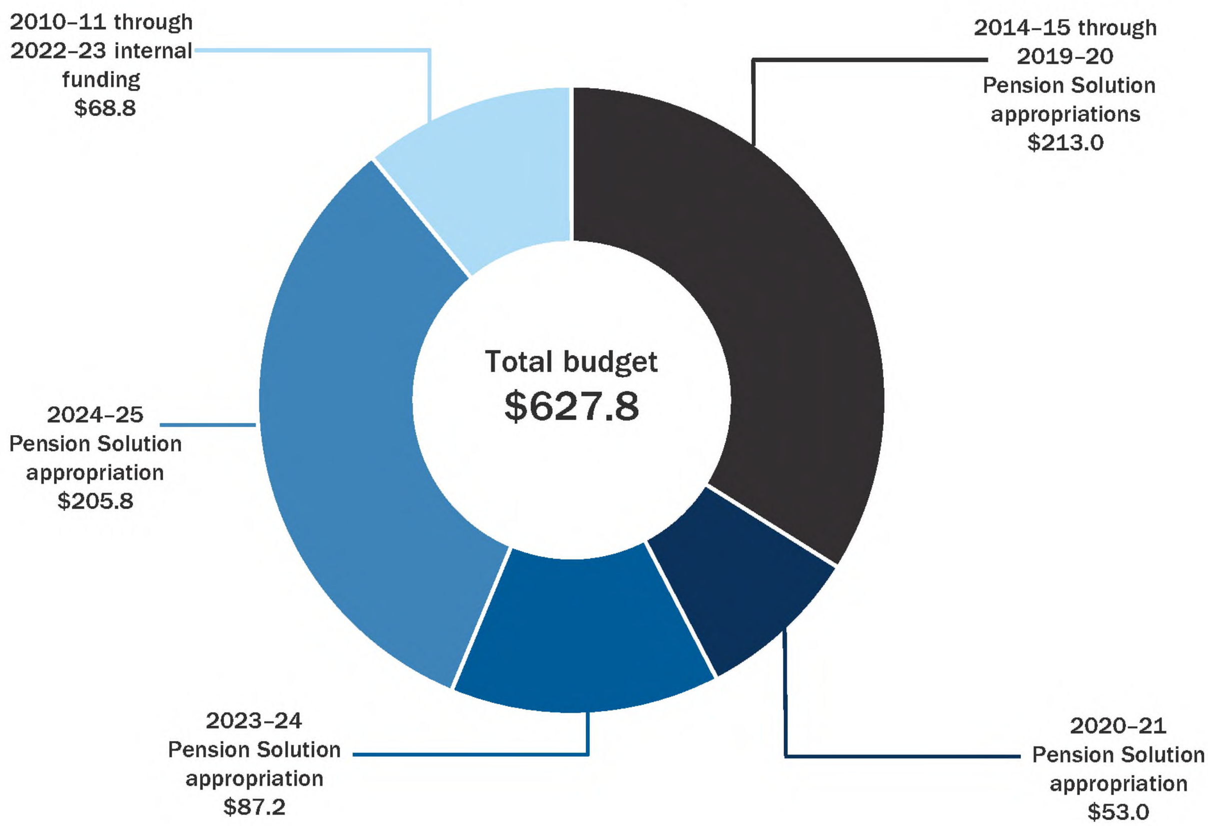
Pension Solution Project budget: $627.8 million[1]

In November 2023, the Teachers' Retirement Board approved a Pension Solution Project budget of $627.8 million for the development and implementation of a new pension administration system. Of the total $627.8 million budget, $213.0 million represents the original budget authority approved in fiscal year 2014–15, with funding allotted annually through 2019–20. An additional $53.0 million was approved for fiscal year 2020–21; $87.2 million was approved for fiscal year 2023–24; $205.8 million was approved for fiscal year 2024–25; and the remaining $68.8 million budget is from 2010–11 through 2022–23 internal funding, composed of annual Information Technology Project Funding and Teachers' Retirement Fund support appropriations.

The chart below summarizes the current Pension Solution Project budget by funding source.

Pension Solution Project budget

(dollars in millions)



[1] The approved Pension Solution Project budget continues to support essential post-implementation activities, including the stabilization efforts for BenefitConnect.

The table below summarizes the Pension Solution Project budget and the budgeted and consumed amounts by funding source as of December 31, 2025.

Pension Solution Project budget consumption

(dollars in thousands)

Appropriation	Budgeted amount	Consumed amount	Remaining amount
2014–15 through 2019–20 Pension Solution appropriations	$213,000	$213,000	$—
2020–21 Pension Solution appropriation	53,000	53,000	—
2023–24 Pension Solution appropriation	87,173	86,385	788
2024–25 Pension Solution appropriation	205,837	110,282	95,555
2010–11 through 2022–23 internal funding	68,834	68,833	1
Total	**$627,844**	**$531,500**	**$96,344**

CalSTRS Headquarters Expansion

In August 2024, staff occupied our completed West Sacramento, California, headquarters expansion tower. The new 10-story tower includes 260,000 square feet of additional office space. Our new tower was constructed using sustainable construction, green building practices, energy conservation and onsite renewable energy generation, which was financed through conduit tax-exempt lease revenue green bonds. The expanded headquarters space will allow the organization to grow over the long term to meet the needs of our changing business models and growth expectations.

Bond financing

The CalSTRS Headquarters Expansion Project budget was $321.4 million, which included $300 million that was financed with Series 2019 tax-exempt lease revenue green bonds that state and local governments commonly use to finance capital improvements, such as infrastructure. This financing approach provided the most cost-effective, long-term value for financing the building by spreading infrastructure costs over time rather than requiring an immediate one-time $300 million cash outlay from the fund. The total borrowing cost was 3.25%, allowing CalSTRS to keep assets invested in diversified markets at the current expected actuarial rate of return of 7.0%.

In January 2022, the board approved up to $18.5 million in additional funding to complete the Headquarters Expansion Project. This was financed through Series 2022 tax-exempt lease revenue green bonds issued in December 2022. Proceeds from the Series 2022 bonds were placed in trust and used after Series 2019 bond funds were exhausted. The Series 2022 bonds align with the payment terms of the Series 2019 bonds: annual principal payments and semiannual interest payments starting in fiscal year 2023–24, with final payments in fiscal year 2049–50. Total borrowing cost, including issuance and premium, was 4.06%. This financing approach preserved fund assets for investment in diversified markets to earn at the current expected actuarial rate of return of 7.0%.

Green bonds

Our vision and guiding beliefs support advancing sustainability. As such, the headquarters expansion was designed to support sustainable green building practices, including green technologies, sustainable construction, energy conservation and whole-building integrated energy efficiency measures as well as employee wellness goals. These efforts qualified the tax-exempt lease revenue bonds to be classified as green bonds, which identify to investors that bond proceeds will be used specifically for sustainable projects that will have a positive impact on the environment. We received the 2020 Green Project Bond of the Year award from Environmental Finance for the Series 2019 bonds. Our bonds met the criteria for green bond certification from the Climate Bond Initiative, receiving Climate Bond Certification for our Series 2019 bonds in January 2021 and for our Series 2022 bonds in November 2022.

Credit rating agencies

Crediting ratings assess an organization's fiscal health and influence its ability to obtain low-cost financing for important projects. Strong ratings from credit rating agencies such as Fitch, Moody's and S&P help maintain favorable borrowing terms. At issuance of the Series 2019 bonds, we received the following ratings noted below, which have been reaffirmed through 2025.

- Fitch Ratings: AA
- Moody's Investors Service: A1
- S&P Global Ratings: A+

In 2024, our Series 2022 bonds maintained the original ratings received in November of 2022 from the two rating agencies noted below.

- Fitch Ratings: AA
- S&P Global Ratings: A+

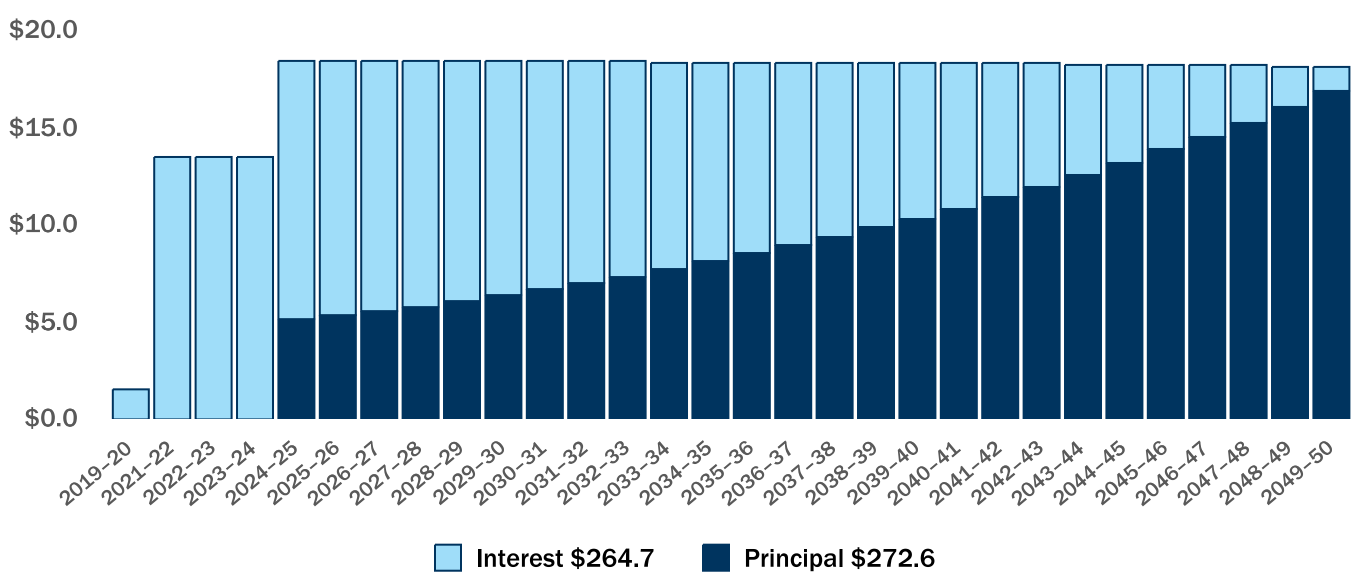
These ratings demonstrate that our prudent financial management and fiscal strength are viewed most favorably by credit agencies.

Long-term debt obligations

Series 2019 – $340.6 million

In December 2019, the California Infrastructure and Economic Development Bank (IBank), a conduit debt issuer, issued $340.6 million ($272.6 million par and $68.0 million original issue premium) in tax-exempt lease revenue green bonds on behalf of CalSTRS. The bond proceeds were used to fund the construction of, as well as to furnish and equip, CalSTRS' headquarters expansion project and pay the cost of bond issuance and capitalized interest[1] during the construction period. Principal and interest payments will be paid over 30 years. We commenced annual principal and interest debt service payments in 2023–24 to fulfill our semiannual debt service obligations. These payments will continue to be made through fiscal year 2049–50. The amortization schedule for the Series 2019 Bonds is provided in the diagram below. Additional information regarding debt service payments is provided in the **Financial summaries** section of this report.

Long-term debt service payments
Series 2019 bonds
(dollars in millions)

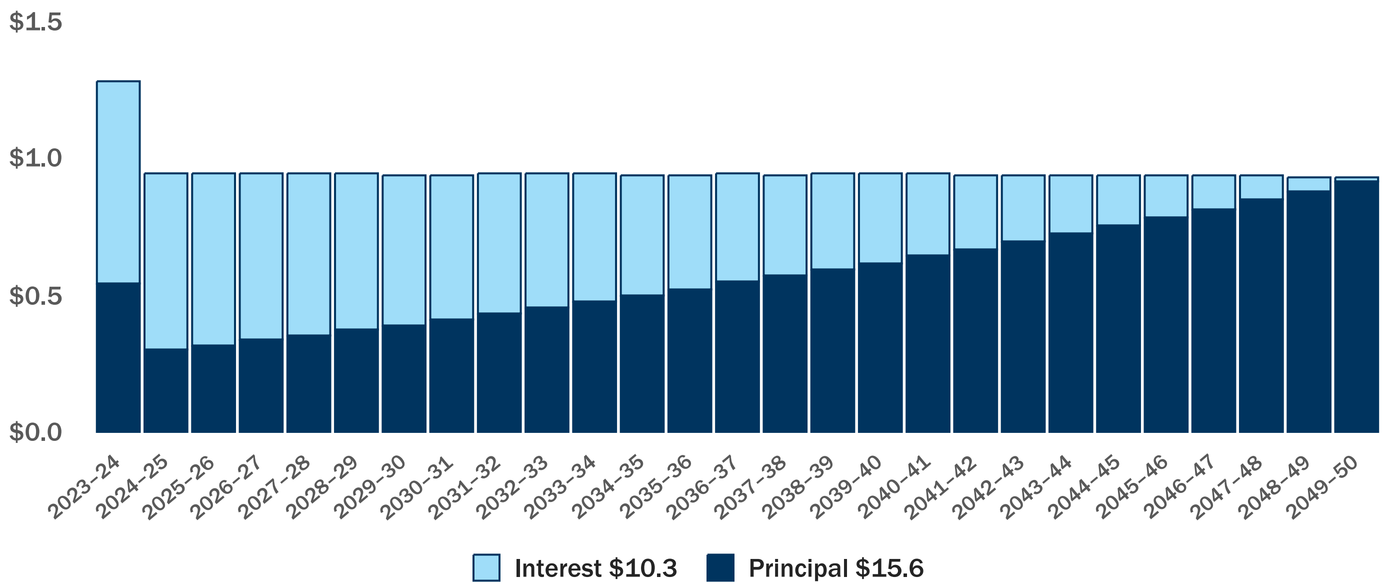


Series 2022 – $16.2 million

In December 2022, the IBank issued $16.2 million ($15.6 million par and $0.6 million original issue premium) in tax-exempt lease revenue green bonds on behalf of CalSTRS. The annual principal and interest debt service payments commenced in 2023–24 and will continue over 27 years. The payment schedule for the Series 2022 Bonds aligns with the Series 2019 Bonds so that both bonds will be fully paid off at the same time, in fiscal year 2049–50. The amortization schedule for the Series 2022 Bonds is provided in the diagram on the next page.

[1] A portion of the proceeds from a bond issue that is set aside to pay interest on the debt for the period from when the bonds are issued to when construction is expected to be completed. The first two and a half years consisted of capitalized interest payments while the building was being constructed.

Long-term debt service payments
Series 2022 bonds
(dollars in millions)



Impact of capital expenditures on the Operating Budget

While the annual budget represents a single year of planned expenditures, the major initiatives funded are generally longer term in nature and have economic impacts extending beyond the upcoming budget year. On that basis, we evaluate the impact of current capital investments from a multiyear perspective. These expenditures encompass permanent ongoing costs associated with prior year capital investments once assets are fully functional. Estimated operating costs associated with capital investments are evaluated each year during the annual budget cycle. During the budget planning cycle, anticipated ongoing expenditures for an asset are incorporated into the budget. These expenditures include, but are not limited to, labor, contracts and services; software and hardware maintenance; and other ancillary costs associated with maintaining the asset as an ongoing operational cost. Planning for the downstream impacts of capital projects on the Operating Budget is a critical component of business planning and ensuring the system is adequately resourced for effective long-term financial and operations management.

Financial summaries

Overview of funds

CalSTRS administers a hybrid retirement system consisting of a defined benefit plan, two voluntary defined contribution plans, a postemployment health benefit plan and a fund used to account for ancillary activities associated with the deferred compensation plans and programs. The Teachers' Retirement Law (Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans and CalSTRS as the administrator. The terms of these plans may be amended through legislation.

We administer funds that are both annually and continuously appropriated. In general, annual appropriations represent expenditure authorization obtained each year, the majority of which require approval by the board and the Legislature. Continuous appropriations represent constitutional or statutory expenditure authorization that exists from year to year without further legislative or board approval. The Teachers' Retirement Board maintains oversight and control over continuously appropriated funds through internal budget controls.[1]

[1] Additional information regarding sources of funding is provided in the **Budget development** section of this report.

The table below illustrates the relationship between the funds and the various programs offered by CalSTRS. Additionally, it provides the funding source used to administer each fund.

Fund to program relationship

Fund	Associated programs
Teachers' Retirement Fund *Annual and Continuous*	• Defined Benefit • Defined Benefit Supplement • Cash Balance Benefit • Supplemental Benefit Maintenance Account
Teachers' Replacement Benefits Program Fund *Continuous*	• Replacement Benefits
CalSTRS Pension2 Personal Wealth Plan *Continuous*	• Pension2 403(b) and Roth 403(b) • Pension2 457(b) and Roth 457(b)
Teachers' Deferred Compensation Fund *Continuous*	• 403bCompare
Teachers' Health Benefits Fund *Continuous*	• Medicare Premium Payment

The table below illustrates the revenue and expense categories for each fund that CalSTRS administers.

Relationship of revenues and expenses to funds

Budget category	TRF	TRBF	Pension2	TDCF	THBF
Revenues					
Investment income	✓		✓	✓	✓
Employer contributions	✓	✓	✓		✓
Member contributions	✓		✓		
State contributions	✓				
Other income	✓		✓	✓	
Expenses					
Pension benefit payments	✓	✓			
External investment management	✓				
Administrative expenditures	✓			✓	✓
Contribution refunds	✓		✓		
Other benefit payments	✓		✓		✓
Other expenditures	✓		✓		
Debt service payments	✓				

Financial highlights

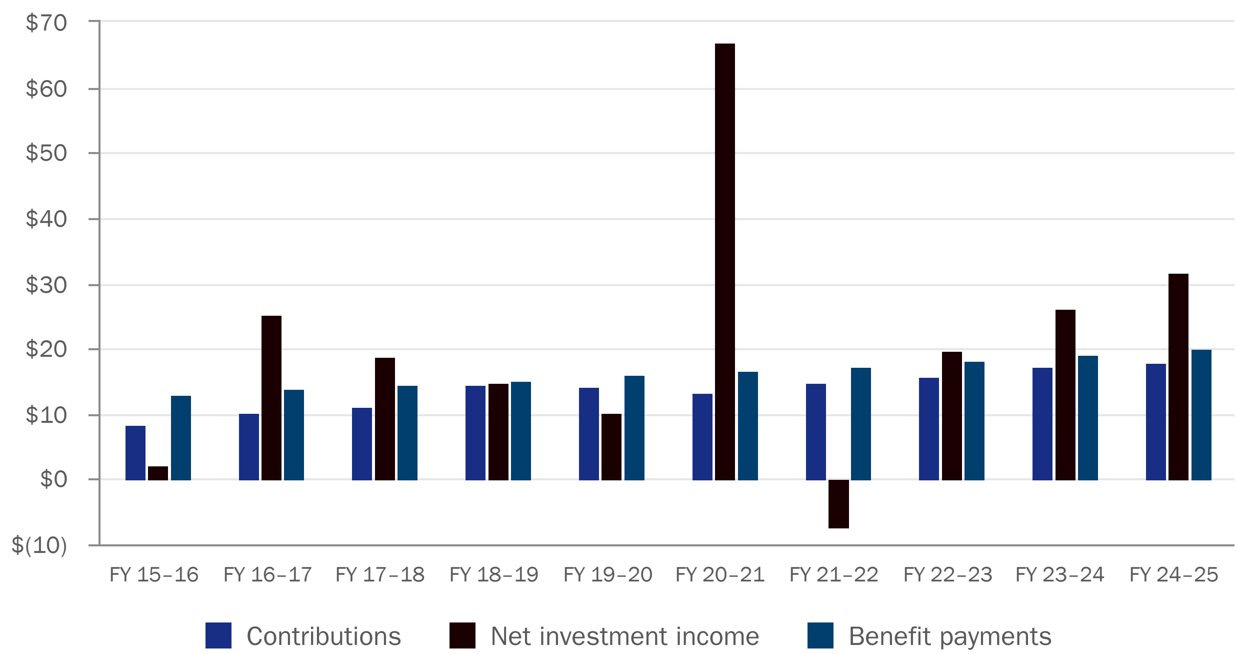
In accordance with the California Constitution, Article 16, Section 17:

"The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system."

Our revenues and expenses include all financial activities of the organization. Our largest sources of revenue are from investment income and contributions from members, employers and the State of California. The major expense categories are benefit payments and administrative expenditures associated with maintaining operations, which represent CalSTRS' total budget and investment-related expenses.

The chart below provides a 10-year comparison of contributions, net investment income and benefit payments for the State Teachers' Retirement Plan[1] for the fiscal years ended June 30.

10-year comparison of contributions, net investment income and benefit payments
(dollars in billions)



[1] The State Teachers' Retirement Plan is composed of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit and Replacement Benefits programs.

The fund balance summary below provides a high-level view of CalSTRS' actual beginning and ending fund balance for all funds and programs, sources of revenues and expenses, and ending fund balance for the 2024–25 fiscal year.

2024–25 fiscal year fund balance: All funds[1]

(dollars in thousands)

Beginning fund balance	**$344,161,713**
Revenues	
Investment income	34,079,586
Employer contributions	8,785,636
Member contributions	5,225,800
State contributions	4,263,762
Other income	380,722
Total fund revenues	**52,735,506**
Expenses	
Pension benefit payments	19,217,237
External investment management	226,725
Administrative expenditures	445,324
Contribution refunds	150,225
Other benefit payments	903,986
Other expenditures	2,233,173
Debt service payment	11,386
Total fund expenses	**23,188,056**
Ending fund balance	**$373,709,163**

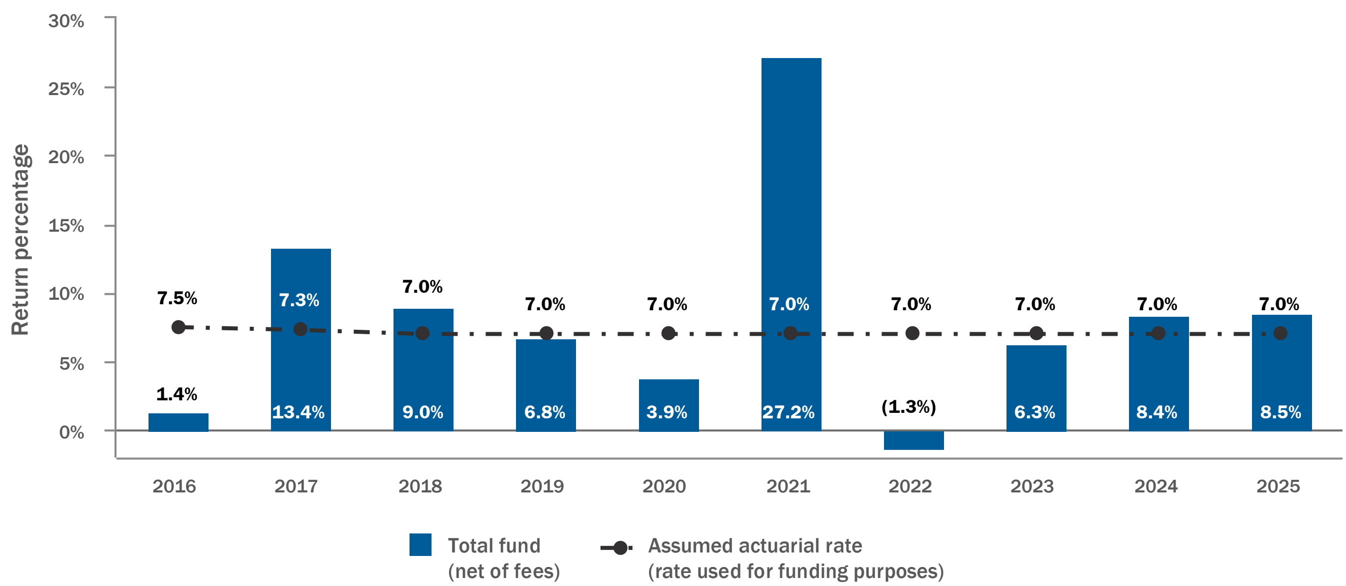
Revenues

Our primary sources of revenue are member, employer and state contributions and investment income. The majority of the revenues derive from investment earnings of the State Teachers' Retirement Plan. Contribution amounts are determined as a percentage rate of members' creditable compensation. Creditable compensation is defined by California Education Code sections 22119.2 and 22119.3 and generally refers to member salary and wages and remuneration in addition to salary. The chart on the next page presents 10 years of time-weighted annual returns, and for the fiscal year ended June 30, 2025, the CalSTRS Investment Portfolio generated a time-weighted investment return of 8.5% net-of-fees, which exceeds our 7.0% investment return assumption.

Over the last 30 years, investment income funded approximately 61.7% of retirement benefits, with employer, state and member contributions providing 16.3%, 9.3% and 12.7% of the funding, respectively. These percentages can change over time due to fluctuations in net investment income, adjustments to required employer and state contribution rates under the CalSTRS Funding Plan pursuant to AB 1469, and impacts of other legislation. Additional details regarding funding plan contribution rates are provided in **Long-range financial planning** section of this report.

[1] Fund balances are prepared on a legal basis, which combines elements of the accrual and the cash basis of accounting. These figures will differ from balances reported in **CalSTRS'** ***Annual Comprehensive Financial Report*** for the fiscal year ended June 30, 2025, which are prepared using Generally Accepted Accounting Principles. Additional details are provided in the **Policies** section of this report.

10 years of time-weighted annual returns (fiscal years ended June 30)



In addition to revenues received or generated by the State Teachers' Retirement Plan, we also receive a mix of investment income, contributions and other income for the Medicare Premium Payment, Pension2 and Teachers' Deferred Compensation Fund programs, as reflected in the "Relationship of revenues and expenses to funds" table earlier in this section.

Expenses

Our major expense categories include pension benefit payments, administrative expenditures associated with maintaining operations and investment-related expenses. The largest expense for CalSTRS is retirement benefit payments for the State Teachers' Retirement Plan.[1] In the 2024–25 fiscal year, retirement benefit and supplemental purchasing power benefit payments for the STRP were approximately $19.9 billion.

Administrative expenditures associated with maintaining operations include direct costs to administer our pension programs, internal investment costs, capital projects and the costs of operational support functions. Primary drivers for administrative expenditures in the 2024–25 fiscal year were staff salary and benefits,[2] the continued implementation of the multiyear internal investment management plan and capital projects. Other drivers consisted of adjustments for administrative expenditures, including pro rata assessments issued by the state's Department of Finance.

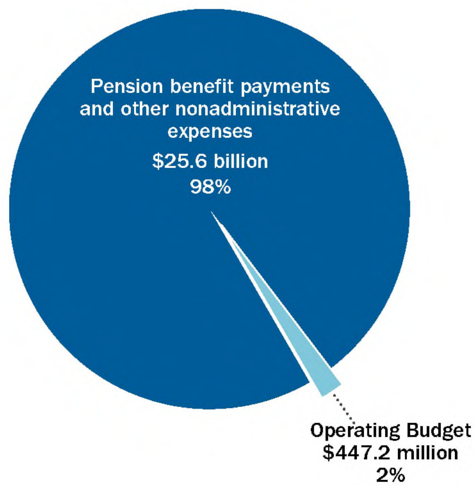
External investment management-related expenses are continuously appropriated and include fees paid to external investment managers to manage a portion of the CalSTRS Investment Portfolio. External investment management fees are largely correlated to the value of the assets under management and investment returns. Portfolio-related expenses are also continuously appropriated and include expenses associated with holdings or activity in the portfolio, such as securities lending, interest expense and foreign taxes.

The pie chart on the next page displays the components of CalSTRS' total budget for the 2026–27 fiscal year.

[1] Additional details on member benefit payments are provided in **Appendix 2**.

[2] Excludes long-term pension and other postemployment benefit costs accrued for financial reporting purposes for CalSTRS employees in accordance with GASB Statements No. 68 and No. 75.

Fiscal year 2026–27 total budgeted expense breakout



Total expenses are primarily composed of pension benefit payments and administrative expenses required to manage CalSTRS' operations.

Administrative expenses account for approximately 2% of CalSTRS' total expenses and represent CalSTRS' total Operating Budget.

Three-year overview and projected fund balances

Revenue and expense projections are based on an annual evaluation of key performance indicators and the organization's short-term and long-term goals and initiatives. This includes, but is not limited to, incorporating the current assumed actuarial rate of return for the CalSTRS Investment Portfolio; impacts to member, employer and state contribution rates; and costs associated with administering the system.

The table on the next page provides an overview of actual and projected revenues and expenditures by category for all of CalSTRS' funds (Teachers' Retirement Fund, Teachers' Replacement Benefits Program Fund, Pension2, Teachers' Deferred Compensation Fund and Teachers' Health Benefits Fund). Material changes in revenues are primarily driven by projected investment performance and contribution rate changes. While material changes in expenditures can vary by fund, they are largely attributed to rising benefit payments driven by increasing service retirements and projected inflation-related adjustments, changes in administrative expenditures, organizational growth and variations in investment-related expenses.

Three-year overview and projected fund balances: All funds[1]

(dollars in thousands)

	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Beginning fund balance	**$344,161,713**	**$373,709,163**	**$402,322,941**	**$28,613,778**
Revenues				
Investment income	34,079,586	33,978,271	36,347,897	2,369,626
Employer contributions	8,785,636	9,098,681	9,419,110	320,429
Member contributions	5,225,800	5,414,109	5,599,000	184,891
State contributions	4,263,762	4,638,558	4,789,167	150,609
Other income	380,722	368,209	376,659	8,450
Total fund revenues	**52,735,506**	**53,497,828**	**56,531,833**	**3,034,005**
Expenses				
Pension benefit payments	19,217,237	20,527,851	21,367,517	839,666
External investment management	226,725	292,031	299,764	7,733
Administrative expenditures	445,324	418,967	447,224	28,257
Contribution refunds	150,225	183,550	184,000	450
Other benefit payments	903,986	1,037,028	1,179,640	142,612
Other expenditures	2,233,173	2,413,474	2,520,930	107,456
Debt service payments	11,386	11,149	10,849	(300)
Total fund expenses	**23,188,056**	**24,884,050**	**26,009,924**	**1,125,874**
Ending fund balance	**$373,709,163**	**$402,322,941**	**$432,844,850**	**$30,521,909**
Percent change				***7.6%***

Teachers' Retirement Fund

The Teachers' Retirement Fund was established by California Education Code section 22400 and is the largest fund we administer. The fund is a multiple-employer, cost-sharing defined benefit plan composed of the Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Supplemental Benefit Maintenance Account. The fund's deposits primarily include member contributions, employer contributions, state contributions and income on investments. The majority of the fund's expenditures are from retirement benefit payments, expenses associated with the CalSTRS Investment Portfolio and the ongoing costs of funding CalSTRS' operations.

For fiscal year 2026–27, changes in estimated revenues are primarily due to projected growth in investment returns based on the assumed actuarial rate of return of 7.0% and increases in state, employer and member contributions[2] resulting from annual growth in creditable compensation.

Changes in budgeted expenditures are primarily driven by projected increases in pension benefit payments due to a growing retiree base and an annual non-compounding 2% benefit adjustment. Projected increases in external investment management expenditures are driven by technology expansion and the continued growth of the portfolio.

The overall increase in administrative expenditures is primarily driven by funding for innovation and technology-related service contracts, staffing increases to address strategic plan priorities, adjustments for employee compensation and associated benefits, and pro rata assessments by the Department of Finance.

[1] Actual fund balances are prepared on a legal basis, whereby capitalized assets are depreciated. For budgetary purposes, capitalized assets are expensed in the period encumbered.

[2] Additional information regarding contribution rates is provided in **Long-range financial planning** section of this report.

Other benefit payments are provided to retired and disabled members of the Defined Benefit Program and their beneficiaries through annual distributions (in quarterly payments) to restore purchasing power up to 85% of the initial monthly benefit. The population of members eligible for receiving purchasing power protection benefit payments is projected to grow due to high inflation.

Other expenditures are composed of portfolio-related expenses, which are projected to increase due to master line of credit interest expenses, increases in securities lending rebates and fees, and depreciation, which is driven by the capitalization of the BenefitConnect system and the Headquarters Expansion Project.

Teachers' Retirement Fund

(dollars in thousands)

	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Beginning fund balance	**$341,645,524**	**$370,718,825**	**$398,823,852**	**$28,105,027**
Revenues				
Investment income	33,793,691	33,633,882	35,976,342	2,342,460
Employer contributions	8,752,150	9,064,000	9,384,000	320,000
Member contributions	4,847,179	5,017,000	5,192,000	175,000
State contributions	4,263,762	4,638,558	4,789,167	150,609
Other income	376,527	362,074	369,729	7,655
Total fund revenues	**52,033,309**	**52,715,514**	**55,711,238**	**2,995,724**
Expenses				
Pension benefit payments	19,210,040	20,520,000	21,359,000	839,000
External investment management	226,725	292,031	299,764	7,733
Administrative expenditures	443,033	415,738	443,488	27,750
Contribution refunds	147,829	180,550	181,000	450
Other benefit payments	695,449	786,000	880,000	94,000
Other expenditures[1]	2,225,546	2,405,019	2,510,930	105,911
Debt service payments	11,386	11,149	10,849	(300)
Total fund expenses	**22,960,008**	**24,610,487**	**25,685,031**	**1,074,544**
Ending fund balance	**$370,718,825**	**$398,823,852**	**$428,850,059**	**$30,026,207**
Percent change				***7.5%***

[1] Other expenditures are primarily composed of investment transactional costs for securities lending, foreign taxes and borrowing costs on investment-related master lines of credit.

Teachers' Replacement Benefits Program Fund

The Teachers' Replacement Benefits Program is an excess benefits arrangement for Defined Benefit Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three State Teachers' Retirement Plan programs. The program was created pursuant to Education Code section 24260 and was established in accordance with Internal Revenue Code section 415(m). IRC section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The limit for individual CalSTRS 2% at 60 members varies based on the age at which they retire. For calendar year 2025, the federal dollar limit applicable to a CalSTRS member retiring at age 65 and receiving only a single-life benefit from the Defined Benefit Program was $238,397. The federal dollar limit for other ages at retirement and other benefit types will differ.

Employer contributions that would otherwise be credited to the Defined Benefit Program each month are instead credited to the Teachers' Replacement Benefits Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equivalent to the benefits not paid as a result of IRC section 415(b), subject to withholding for any applicable income or employment taxes.

For fiscal year 2026–27, estimated employer contributions and pension benefit payments are projected to increase due to higher program participation from CalSTRS 2% at 60 members. CalSTRS 2% at 62 members are ineligible to receive benefits from the Teachers' Replacement Benefits Program under the California Public Employees' Pension Reform Act of 2013, which caps creditable compensation and is expected to keep retirement benefits within the federal limit.

Teachers' Replacement Benefits Program Fund[1]

(dollars in thousands)

	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Beginning fund balance	**$—**	**$—**	**$—**	**$—**
Revenues				
Employer contributions	7,197	7,851	8,517	666
Total fund revenues	**7,197**	**7,851**	**8,517**	**666**
Expenses				
Pension benefit payments	7,197	7,851	8,517	666
Total fund expenses	**7,197**	**7,851**	**8,517**	**666**
Ending fund balance	**$—**	**$—**	**$—**	**$—**
Percent change				***0%***

[1] The Teachers' Replacement Benefits Program Fund is an extension of the Defined Benefit Program. Therefore, expenditures for the TRBPF are funded from employer contributions that would otherwise be credited to the Defined Benefit Program but instead are credited to the TRBPF, which is continuously appropriated.

CalSTRS Pension2 Personal Wealth Plan

The CalSTRS Pension2 Personal Wealth Plan (Pension2) includes two tax-deferred defined contribution plans pursuant to IRC sections 403(b) and 457(b), which were established by Education Code sections 24950 and 24975, respectively. Pension2 offers participants the opportunity to invest through tax-advantaged payroll deductions in high-quality, low-cost 403(b), Roth 403(b), 457(b) and Roth 457(b) plans for additional retirement savings. Voya Institutional Plan Services is responsible for administrative services, including custody and recordkeeping, while CalSTRS determines the investment options offered to plan participants.

The marketing of the Pension2 Program has increased member enrollments in the 403(b) and 457(b) plans. The program experienced overall membership growth of 9.9% in the 2024–25 fiscal year. For fiscal year 2026–27, based on the current member growth trajectory, contributions and investment income are projected to continue increasing. Projected expenditures for benefit payments and fees and services for plan administration will continue to increase as the program continues to grow and the asset values increase, while distributions and plan withdrawals will also increase.

Pension2

(dollars in thousands)

	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Beginning fund balance	**$2,511,617**	**$2,983,846**	**$3,489,185**	**$505,339**
Revenues				
Investment income	285,590	343,950	371,000	27,050
Employer contributions	4,266	5,373	6,000	627
Member contributions	378,621	397,109	407,000	9,891
Other income	762	817	988	171
Total fund revenues	**669,239**	**747,249**	**784,988**	**37,739**
Expenses				
Contribution refunds	2,396	3,000	3,000	—
Other benefit payments	186,987	230,455	280,000	49,545
Other expenditures	7,627	8,455	10,000	1,545
Total fund expenses	**197,010**	**241,910**	**293,000**	**51,090**
Ending fund balance	**$2,983,846**	**$3,489,185**	**$3,981,173**	**$491,988**
Percent change				***14.1%***

Teachers' Deferred Compensation Fund

The Teachers' Deferred Compensation Fund was established pursuant to Education Code section 24976 and is used to account for ancillary activities associated with deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for members and their beneficiaries.

The TDCF is funded by the fee revenues received by CalSTRS from deferred compensation plans and a vendor registration program. The TDCF includes 403bCompare, which is a state-sponsored website provided by CalSTRS that offers a clear and transparent way to compare investment fees, performance and services for 403(b) plans offered in California. The TDCF also accounts for administrative expenditures associated with the Pension2 Program.

For 2026–27, revenues are projected to increase in other income primarily due to higher fees collected through the Pension2 Program administrator and growth in assets from increased participation in the Pension2 Program. Investment income is also projected to increase due to higher interest earnings. In addition, administrative expenditures are projected to increase due to a staffing increase to address strategic plan priorities, adjustments for employee compensation and pro rata assessments by the Department of Finance.

Teachers' Deferred Compensation Fund

(dollars in thousands)

	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Beginning fund balance	**$4,264**	**$6,191**	**$9,604**	**$3,413**
Revenues				
Investment income	240	380	498	118
Other income	3,433	5,318	5,942	624
Total fund revenues	**3,673**	**5,698**	**6,440**	**742**
Expenses				
Administrative expenditures	1,746	2,285	2,726	441
Total fund expenditures	**1,746**	**2,285**	**2,726**	**441**
Ending fund balance	**$6,191**	**$9,604**	**$13,318**	**$3,714**
Percent change				***38.7%***

Teachers’ Health Benefits Fund

The Teachers’ Health Benefits Fund is used to administer a cost-sharing, multiple-employer other postemployment benefit plan known as the Medicare Premium Payment Program. The program was established pursuant to Education Code section 25930. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. Members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program. The Teachers’ Retirement Board has exclusive control of the administration of the fund. The THBF is continuously appropriated and is funded on a pay-as-you-go basis from a portion of monthly employer contributions.

In accordance with Education Code section 22950, contributions that would otherwise be credited to the Defined Benefit Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

For 2026–27, employer contributions and other benefit payments are projected to decrease due to declining membership in the program. Administrative expenditures are projected to slightly increase due to changes in routine operating costs.

Teachers’ Health Benefits Fund

(dollars in thousands)

	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Beginning fund balance	**$308**	**$301**	**$300**	**($1)**
Revenues				
Investment income	65	59	57	(2)
Employer contributions	22,023	21,457	20,593	(864)
Total fund revenues	**22,088**	**21,516**	**20,650**	**(866)**
Expenses				
Administrative expenditures	545	944	1,010	66
Other benefit payments	21,550	20,573	19,640	(933)
Total fund expenses	**$22,095**	**$21,517**	**$20,650**	**($867)**
Ending fund balance	**$301**	**$300**	**$300**	**$0**
Percent change				***0%***

Policies

The following policies reflect CalSTRS' overall system of principles to guide decisions and achieve balanced outcomes while ensuring the organization models integrity and ethics. Policies are reviewed annually and updated as required. Policies provide an overall framework for our board governance and fiduciary responsibility, services to members, management and operation of the investment portfolio, and core business processes and activities, including established budget and accounting guidelines.

Board policy[1]

Under the California Constitution, Article 16, Section 17, the Teachers' Retirement Board has the sole and exclusive fiduciary responsibility over the assets of the retirement system and the duty to administer the system in a manner that will assure prompt delivery of benefits and related services to CalSTRS members and their beneficiaries. Therefore, the ultimate authority to manage the system is vested in the board.

Article 16, Section 17 of the California Constitution (in part) (Proposition 162)[2]

(a) The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

This authority provides the basis for which all policies are established and affords the system a significant level of autonomy from state administration as compared to other state agencies.

1 Refer to the ***Teachers' Retirement Board Governance Manual*** on the CalSTRS website for a comprehensive list of Teachers' Retirement Board policies.

2 Proposition 162 amended the California Constitution to give the board of each public pension system authority and fiduciary responsibility for investment of monies and the administration of the pension system.

Budget Policy

We maintain the CalSTRS budget and results under the modified cash basis method. Under this method, revenue is recognized when it's due, and expenses are recognized when a documented commitment to make the expenditure is established or the goods and services are received. Operational expenses are controlled primarily through budget and accounting policies. Among other controls and processes, these policies manage position requests, the availability of appropriated funds, funding sources, methods for requesting additional funding and the development of budgets. Furthermore, CalSTRS' budget is developed and managed in compliance with budget and financial policies.

Specific policies related to the CalSTRS budget include, but are not limited to:

Budgetary/legal basis accounting and reporting: We use the accrual basis of accounting for the *Annual Comprehensive Financial Report*. The modified cash basis of accounting is used for budgetary/legal basis reporting, which combines elements of the accrual basis and the cash basis. The *Budgetary/Legal Basis Annual Report* is prepared in compliance with Government Code sections 12460 and 13344 and in conformance with the Budget Act for each fiscal year.

Period of availability for budgeted funds: We receive legal authorizations to make expenditures from specific funds and for specific purposes. Operating Budget funds come from both annual and continuous appropriations. Generally, we have one fiscal year to encumber and two fiscal years to liquidate funds under an annual appropriation. Other appropriations may have longer periods of availability based on the implementing legislation. Continuous appropriations do not have to be encumbered or liquidated within a specific time frame.

Commitment of budgeted funds policy: We use pre-encumbrances, encumbrances and earmarked funds to designate and reserve budget funds for specific purposes. The most common expenditures made under the Operating Budget are purchases of goods and services, travel expenses, training expenses, and salaries and wages.

Funding sources for budgeted expenses: This policy helps ensure the correct appropriations are being charged at the time of purchase. Approval of all budgeted expenses is subject to the availability of funds within each appropriation.

Request additional funding: Within a fiscal year, needs for additional funding authority may be identified. In most cases, funding can be obtained through redirection of available resources within CalSTRS or the upcoming annual budget cycle. In some cases, there may be an immediate need for resources and funding that cannot be delayed until the next budget cycle. Immediate needs might be the result of external requirements (such as newly enacted legislation) or internally identified priorities to deliver services to our members. In these limited circumstances, there is a formal process to obtain additional funding from internal reserves. This process requires executive approval.

Responsibilities using a decentralized budgeting system: We use a decentralized budgeting system. After the initial budget allotment each fiscal year, the funding for each business area is under the purview of its executive, director or manager. Budget transfers within each major budget category (salaries, benefits or operating expense) are allowed; however, transfers across major budget categories require approval from the Budget Operations unit, which is within the Financial Services Branch.

Financial Accounting and Reporting Policy

Specific policies related to financial accounting and reporting include, but are not limited to:

Accounting for contributions: Education Code section 22002 is the statutory source for revenue policy regarding contributions. It provides that three sources contribute to the retirement fund: members, employers and the state. This policy establishes guidelines for accounting for member, employer and state contributions, including penalties and interest. We recognize revenue for member, employer and state contributions, service credit purchases and retirement enhancements in accordance with Generally Accepted Accounting Principles. With limited exceptions, we require revenue recognition on a full accrual basis. Contributions received from governmental entities are recognized when the monies are made available to us through appropriation.

Operational asset capitalization: Establishes the guidelines for determining what expenditures should be capitalized, how capitalized assets are depreciated and the treatment of subsequent expenditures. These guidelines are discussed in the **Budget overview** section.

Allocations for financial and managerial accounting: We establish accounting policies and structure to accumulate and report financial information for the various programs and funds. In cases where financial data is not directly assignable to a specific program or fund, we prepare various allocations to ensure the appropriate assets, liabilities, income and expenses for each program and fund are accounted for in accordance with applicable accounting standards, laws and regulations and completed in a consistent and standardized manner.

Private assets fair value cut-off date for financial reporting: Establishes the financial reporting period end cut-off date for recognizing and recording adjustments to the fair value of private asset investments, which are primarily composed of investments in private equities and real estate.

Funding of the Medicare Premium Payment Program: The Medicare Premium Payment Program is funded on a pay-as-you-go basis from a portion of monthly employer contributions. Contributions that would otherwise be deposited into the Teachers' Retirement Fund and credited to the Defined Benefit Program each month are instead deposited into the Teachers' Health Benefits Fund and credited to the MPP Program to fund monthly program benefits and administrative costs.

Series 2019 and 2022 Bonds Management Policy: Sets forth guidelines for the management of the Series 2019 and Series 2022 bonds. This policy describes oversight over bond management activities, including investment of bond proceeds; proceeds monitoring; private use of facilities financed with tax-exempt debt; continuing disclosure; arbitrage compliance; relationships with credit rating agencies; payment of debt service; and compliance with federal, state and local reporting requirements.

Budget development

Budget management and development process

The Budget Office collaborates with branch and business area managers to oversee and manage the organization's total budget. The roles and responsibilities of this process are illustrated below.

In line with our budget policy, we use a decentralized budgeting system, in addition to maintaining a balanced budget.

A balanced budget ensures the organization's use of resources for operations does not exceed available resources over a defined budget period. We do not maintain a balanced budget in the traditional sense. Due to the variability of certain types of revenues and expenses, such as investment gains and losses, investment management and advisory fees, and benefit payments, budgets for these items may exceed their original estimates.

Budget development and management – Roles and responsibilities

Business area managers	Budget Office
Create spending plans	Build the budget and present it to the board
Monitor budget allotments	Provide managers with tools to estimate annual expenditures
Research and report discrepancies to the Budget Office	Assist managers with budget questions
	Act as a liaison between the CFO, COO, CEO and business areas
	Act as a liaison between various fiscal control agencies and the administration

Conversely, the majority of the operational budget is subject to the legislative process and, therefore, limited to the approved annual appropriations. We maintain internal controls to monitor budget usage throughout the year for all revenues and expenses.

We also monitor our pension administration and investment costs relative to peers by participating in benchmarking surveys. With this global perspective on pension plan administrative and investment costs, we further analyze operations and identify where additional efficiencies can be achieved and where best practices can be implemented.

Annual budget development process

The annual budget development process is a detailed, structured and interactive effort to facilitate informed and value-based financial decisions on the organization's upcoming funding needs. The goal is to manage resources and administrative costs to efficiently facilitate pension administration and investment activities, while remaining fiscally prudent.

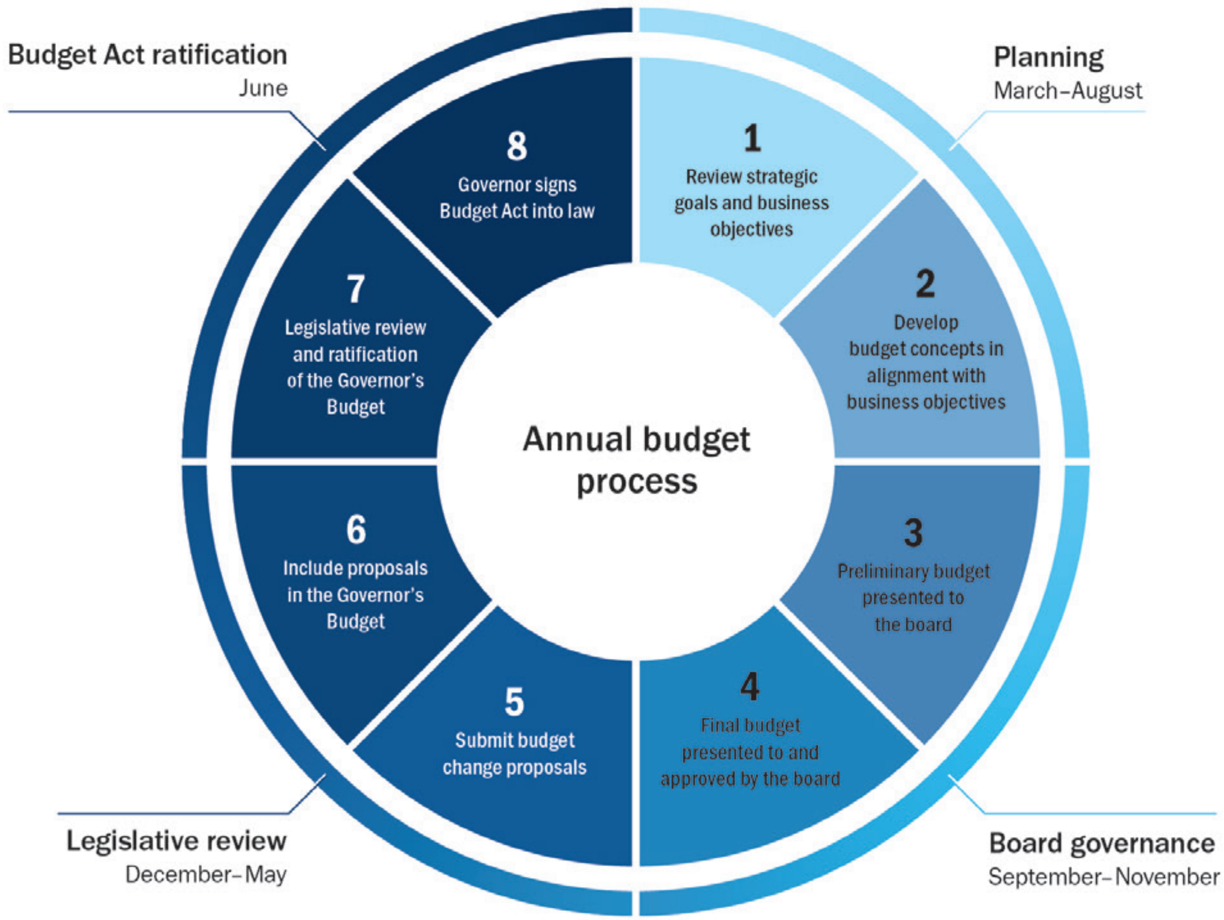
More than a year before the final adoption of the budget, the budget process begins with an analysis of resource needs for the upcoming budget year to address strategic initiatives, enterprise priorities, risk and compliance landscapes, as well as maintain core business functions.

The process advances to the Teachers' Retirement Board for final review and approval. The operational budget is presented in an open board meeting with public attendance, providing an opportunity for public comments prior to board consideration. Upon board approval, the budget moves through the state budget process, which commences with legislative review and ends with final Budget Act ratification.

While the board maintains fiduciary authority over the administration of the system, certain components of the budget are subject to the state's annual budget process. CalSTRS' budget is administered through funds that are both annually and continuously appropriated.

In general, annual appropriations represent expenditure authorization obtained each year, the majority of which require approval by the board and review by the Legislature. Continuous appropriations represent constitutional or statutory expenditure authorization that exists from year to year without further legislative or board approval.

Augmentations to annually appropriated funds require ratification from the Legislature and the Governor and include spending limitations that are overseen by the Department of Finance and the State Controller's Office. Augmentations to continuously appropriated funds do not require legislative approval, and expenditures are limited by the available resources within the fund source. A diagram that provides an overview of the annual budget cycle and details of each phase of the budget process are provided on the next page.



Planning

March—June

- Review strategic plan goals and business objectives to assess funding needs to successfully achieve the goals.
- Collaborate with business areas on budget augmentation requests to address strategic initiatives and other priorities.
- Review summarized budget augmentation requests and present to the chief financial officer and executive leadership for consideration.
- Evaluate incremental budget baseline changes for state-mandated expenditures such as employee compensation costs pursuant to collectively bargained union agreements, costs for implementing new legislation and assessments from the Department of Finance.

July—August

- Chief financial officer reviews funding needs with executive leadership.
- Funding requests are approved by the chief executive officer.
- Staff refine the proposed funding requests and compile a preliminary budget for board review.

Board governance

September—November

- Chief financial officer presents a proposed budget, including a summary of significant changes, to the board in September for review and approval.
- Staff refine estimates based on feedback from the board meeting in September,

incorporating supplemental information received from the Department of Finance and additional funding requests from the business areas deemed prudent by executive leadership.

- Final budget presented to the board for review and approval in November, if not approved in September.

- After board approval of the budget, staff draft budget change proposals for submission to the Department of Finance, Government Operations Agency and Legislature, to augment the annual appropriations.

Legislative review

December—May

- Board-approved budget and budget change proposals are submitted in December to the Department of Finance for inclusion in the Governor's proposed budget. Pursuant to Proposition 162 and by longstanding mutual agreement with the Department of Finance, the Operating Budget is included in the Governor's proposed budget without change.

- The Governor's proposed budget is released to the public by January 10.

- Legislative subcommittees review the Governor's proposed budget, including CalSTRS' budget change proposal(s) in the spring.

- If requested, the chief financial officer and other executive leadership, as appropriate, may testify before the Legislature to provide information on the board-approved proposals.

- In mid-May, the Governor releases a revision to the proposed budget.

- The Legislature finalizes its version of the budget, and any differences between the Senate and Assembly versions are negotiated in a legislative conference committee.

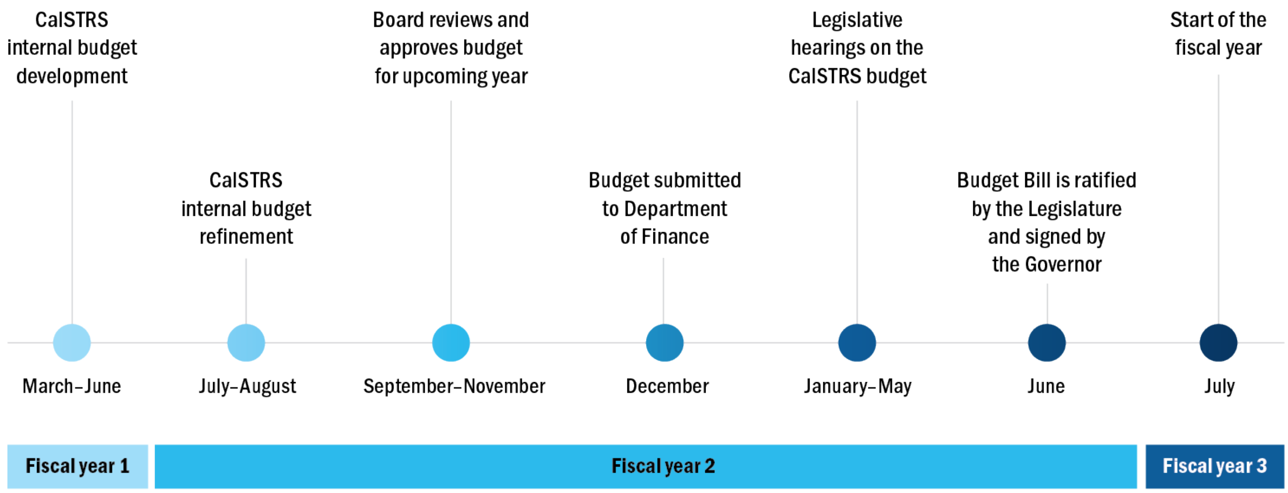
Budget Act ratification

June

- The final Budget Bill is ratified by the Legislature and signed into law by the Governor, which is constitutionally required to be passed by both houses by June 15.

- The Budget Bill becomes the Budget Act upon signature by the Governor.

The general timeline and CalSTRS' role in the budget process are illustrated below.

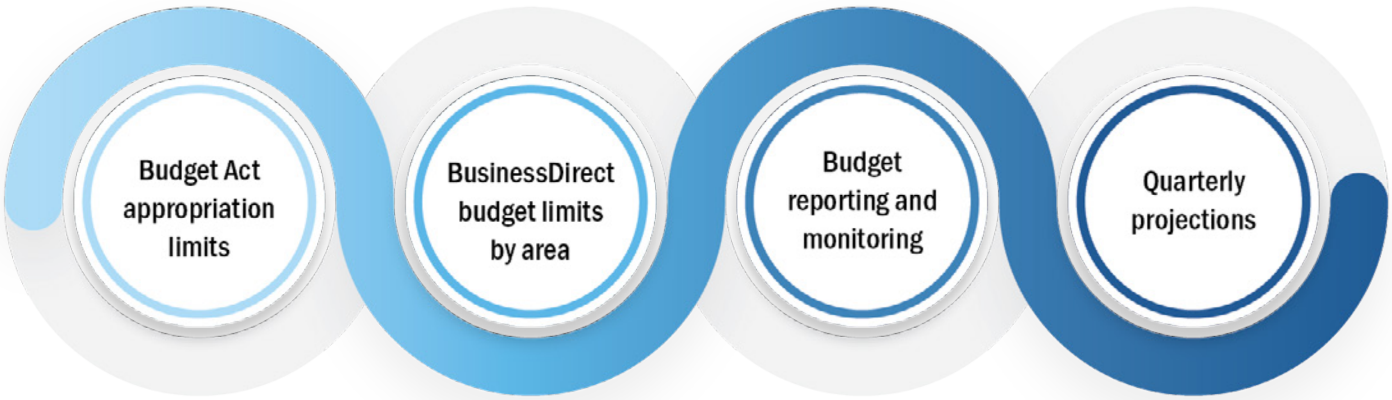


Budget controls and monitoring

We maintain multiple layers of control and monitoring activities to ensure our adopted budgets are appropriately managed. From a control perspective, the budget is recorded in our enterprise resource planning system, which establishes expenditure limits by fund and branch. The budget is also recorded in both the State Controller's Office and Department of Finance's statewide budgeting and fiscal systems, providing overlapping layers of control and reconciliation.

On a monthly basis, budgetary information is reconciled to State Controller's Office records, and budget consumption is reviewed to ensure transactions are recorded accurately and usage is consistent with projections. Revenues and expenditures are forecasted and monitored monthly to prevent overspending the established budget authority. Analyses are presented to executive management on a monthly and quarterly basis. Furthermore, the board receives quarterly reports comparing budget-to-actual expenditures, which are published on **CalSTRS.com**. These reports present performance against budgeted amounts and summarized budget changes.

Watch this video to learn about CalSTRS' annual budget



Projected funding shortfalls and deficits are addressed through an evaluation process. The impacted business area first looks within its existing budget to evaluate if any existing resources could be redirected within budget categories. If no budget surplus is available, then the available funding from other business areas within the branch is considered. If no available funding exists from within the branch, surplus funding is identified from other business areas outside of the branch. The Budget Office coordinates the redirection of surplus funds between business areas.

If current budget allotments are insufficient, the business area may request internal reserves. Internal reserves are funds set aside within the approved budget for unanticipated expenses and/or economic uncertainties that cannot be delayed until the next budget cycle. The use of internal reserves requires joint approval from the chief financial officer and the chief operating officer.

CalSTRS also submits annual reports to the Department of Finance detailing actual expenditures and remaining budgetary authority.

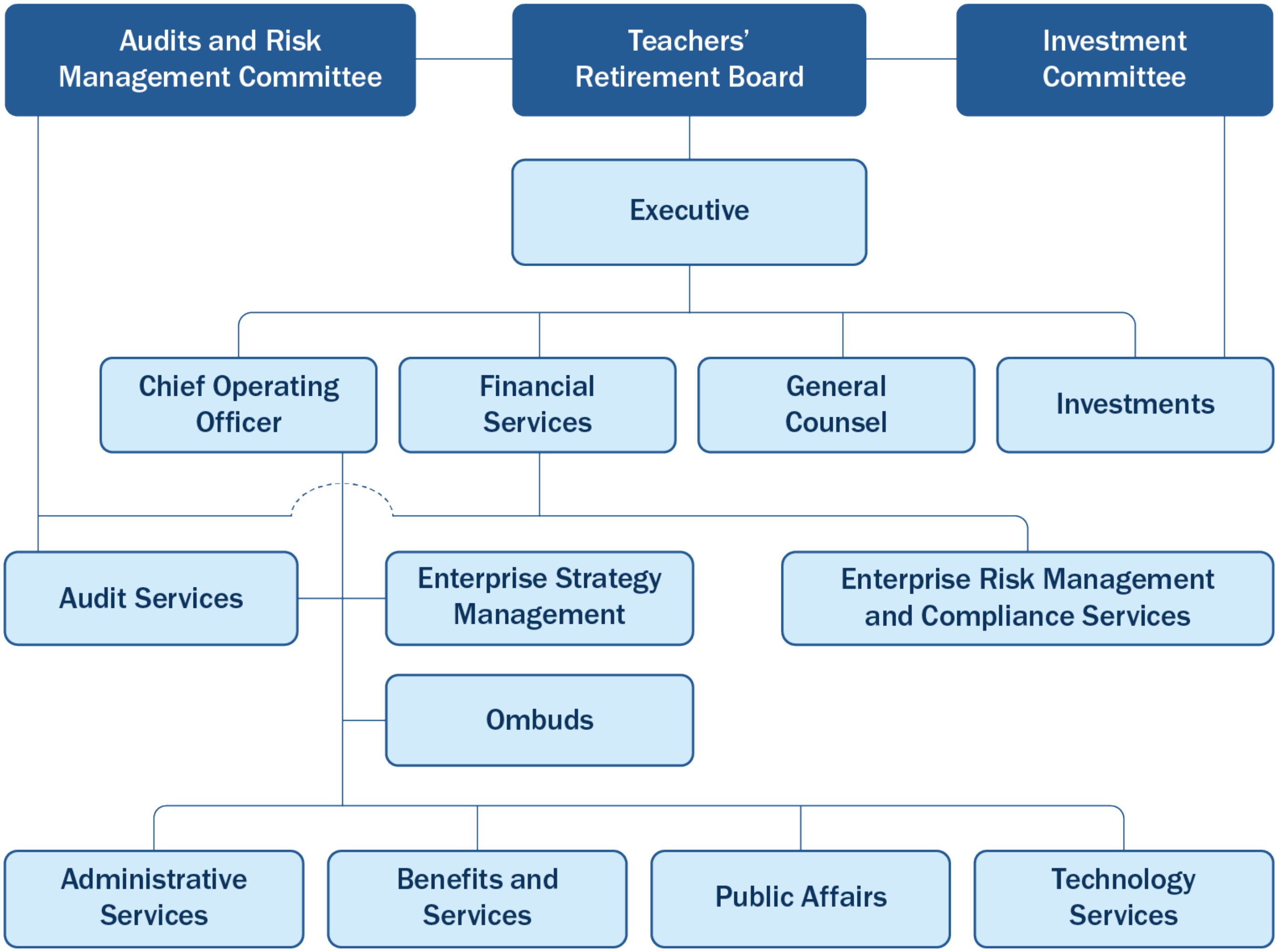
Position control

Augmentations to authorized positions follow the standard budget process and require legislative ratification. Once established, authorized positions are recorded into our enterprise resource planning system for monthly monitoring and reconciliation against approved personnel documents. Position reclassifications exceeding a $13,842 monthly salary threshold requires authorization from the Department of Finance. While the board sets the salary and incentive packages for certain executives and investment staff, other staff compensation is determined through collective bargaining agreements between the state and employee unions.

To manage the variations in workload and large projects that are limited term in nature, we maintain the authority to establish additional temporary full-time positions, pending executive approval and available funding.

Departmental information

The CalSTRS organization[1]



[1] In addition to the Audits and Risk Management and Investment committees, the board's other standing committees include the Appeals, Board Governance and Compensation committees. Additional information is provided in the **About the California State Teachers' Retirement System** section of this report.

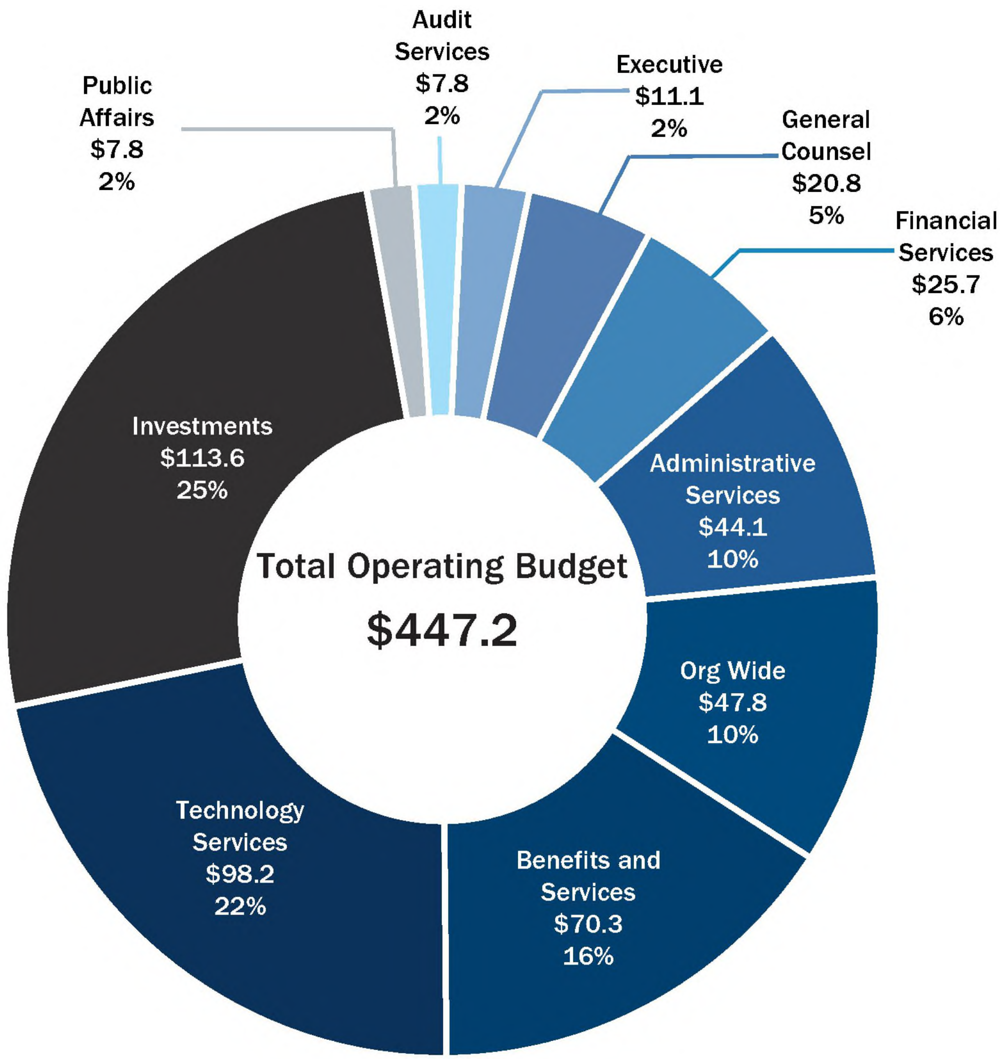
Branch information

CalSTRS is divided into functional areas, each referred to as a branch. Within each branch are business areas. Each branch has a corresponding functional budget.

The chart below displays CalSTRS' 2026–27 total functional budget by branch, which includes salaries, benefits, and operating expenses and equipment.

Total 2026–27 Operating Budget by branch[1]

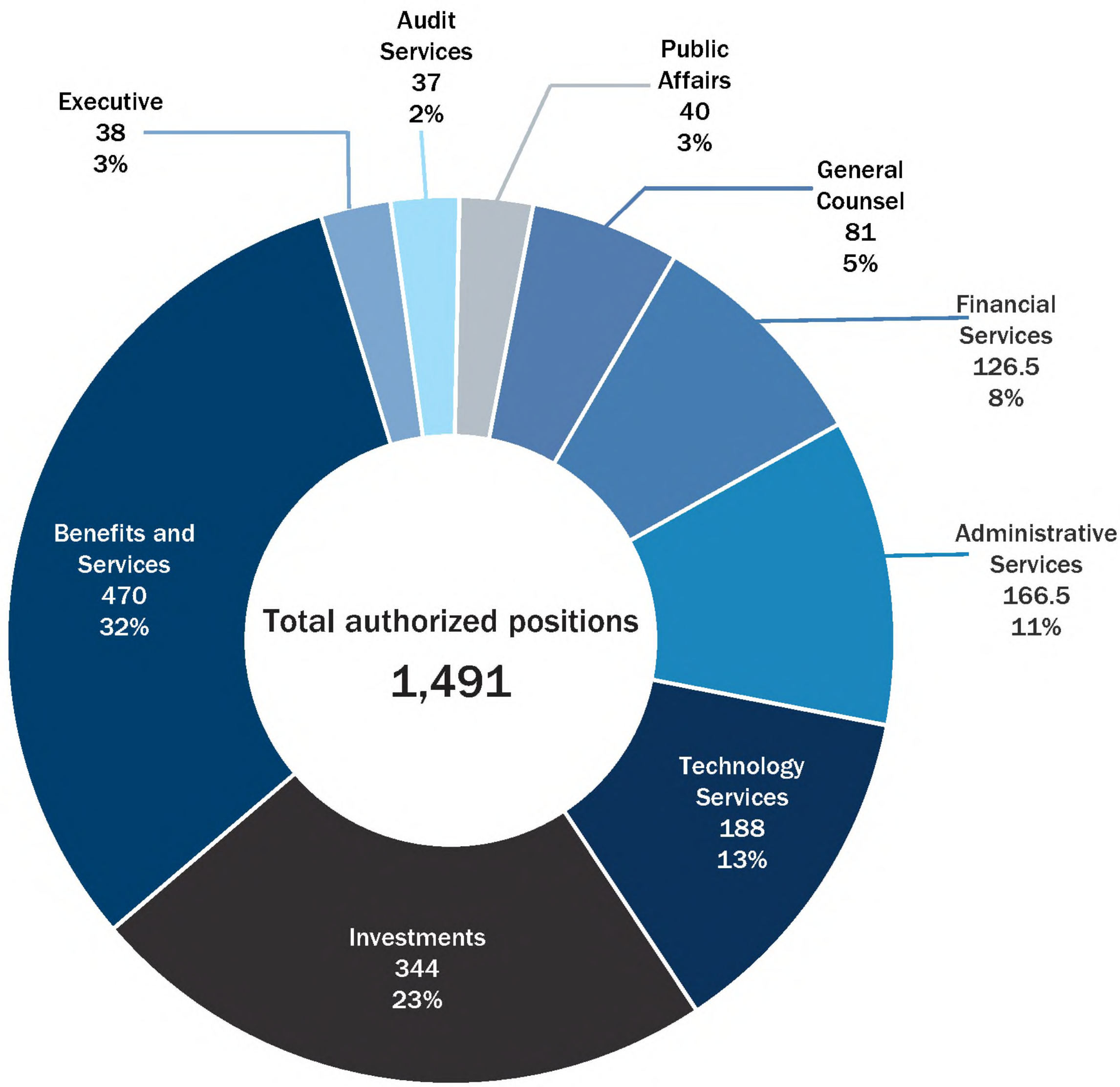
(dollars in millions)



[1] The Org Wide budget is for expenses, including office supplies, contracts and internal reserves, that occur throughout the organization.

CalSTRS' total authorized positions by branch are displayed in the chart below.

Total 2026–27 authorized positions by branch

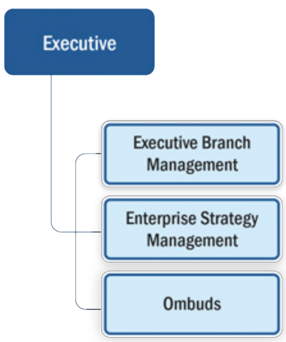


A description of each branch and the corresponding actual, budget and position information for fiscal years 2024–25, 2025–26 and 2026–27 are provided on the following pages.[1]

Three-year overview of positions and budget

(dollars in thousands)

	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	1,253.3	1,431	1,491
(dollars in thousand)	$445,324	$418,967	$447,224



Executive

The primary objective of the Executive Branch is to execute the CalSTRS mission of securing the financial future and sustaining the trust of California's educators. The Executive Branch shapes the organization's policies, operations and strategies consistent with the Teachers' Retirement Board's direction. The branch strives to promote a transparent, accountable, unified and high-integrity organization whose growth is matched to the mission of paying benefits to California's educators.

	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	32	36	38
(dollars in thousands)	$9,204	$8,666	$11,059

Audit Services

From an organizational structure perspective, Audit Services is not considered a branch; however, for independence purposes, the business area has reporting lines to both the Teachers' Retirement Board and the chief operating officer. The mission of Audit Services is to provide independent, objective assurance through audit and consulting services designed to add value and improve CalSTRS' operations. Audit Services assists in accomplishing our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance processes.

	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	33.4	37	37
(dollars in thousands)	$9,793	$7,715	$7,795

[1] Actual authorized positions are based on total filled positions for the fiscal year. If a position was filled for half the year, it is reflected as 0.5. This is done to align position counts with actual expenditures for salaries and benefits in the fiscal year.

Administrative Services

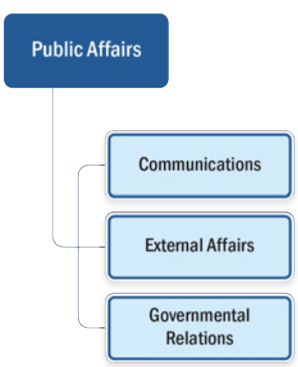
The Administrative Services Branch provides Human Resources, Facility Management and Procurement Management services to internal and external business partners. The branch focuses on streamlining the organization's internal operations and providing administrative support to optimize accountability, effectiveness and performance. The branch strives to continuously improve the quality, cost effectiveness and efficiency of CalSTRS' business functions.

	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	141.7	162.5	166.5
(dollars in thousands)	$40,761	$43,077	$44,131

Benefits and Services

The Benefits and Services Branch is the largest business area in the organization. The branch's primary goal is to deliver excellent services and secure the financial future of CalSTRS members. Benefits and Services business areas mirror the member lifecycle, starting with the establishment and maintenance of member accounts supported by accurate data reported from employers followed by ongoing communication through multiple channels. This further includes the delivery of appropriate retirement or disability benefits, the provision of effective education to members, and the extension of benefits to survivors.

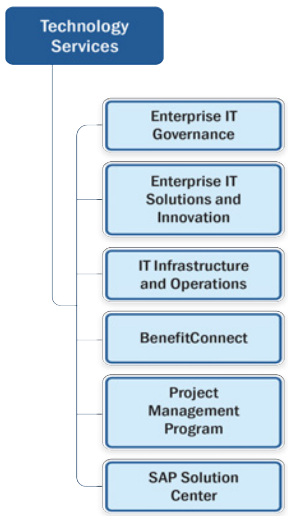
	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	437.1	468	470
(dollars in thousands)	$67,043	$69,465	$70,266



Public Affairs

The Public Affairs Branch manages CalSTRS' relationships with the state; our stakeholders, including members and employers; and the public. As part of this effort, the branch serves as the primary liaison between CalSTRS and key stakeholder groups to provide a clear and consistent message regarding our priorities, operational activities and fiduciary obligations. The branch actively engages in the legislative and rulemaking processes to shape statutory and regulatory issues impacting the organization. In addition, the branch develops and implements communications, branding and public relations strategies.

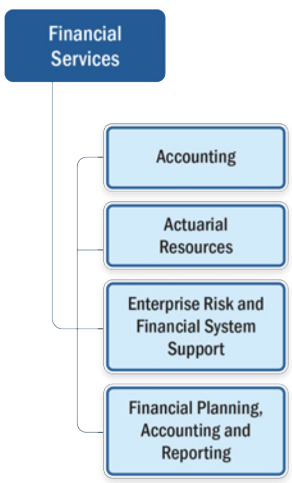
	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	37.6	40	40
(dollars in thousands)	$7,592	$7,746	$7,847



Technology Services

The Technology Services Branch realizes CalSTRS' business goals through technology transformation and information technology operations with quality solutions, excellence in service, strategic partnerships and strong collaboration with internal and external stakeholders. Technology Services provides responsible management of CalSTRS' IT assets through enforcing sensible IT governance, implementing information security, promoting quality management and performing proactive and preventive maintenance as well as continuous improvement.

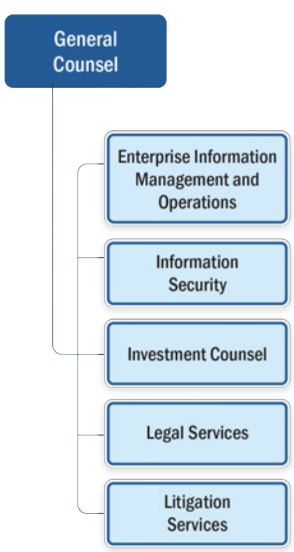
	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	149.5	176	188
(dollars in thousands)	$157,676	$86,859	$98,221



Financial Services

The Financial Services Branch provides financial and business process planning; financial, cost and operational accounting; actuarial services; compliance oversight; enterprisewide risk management; contributions collections; disbursements; and budget, performance and operational financial reporting. The Financial Services Branch prepares actuarial valuations, financial reports and operational budgets, identifying risks, overseeing compliance, addressing audit issues related to financial reporting and internal control, and advising executives on all fiscal-related matters impacting the organization.

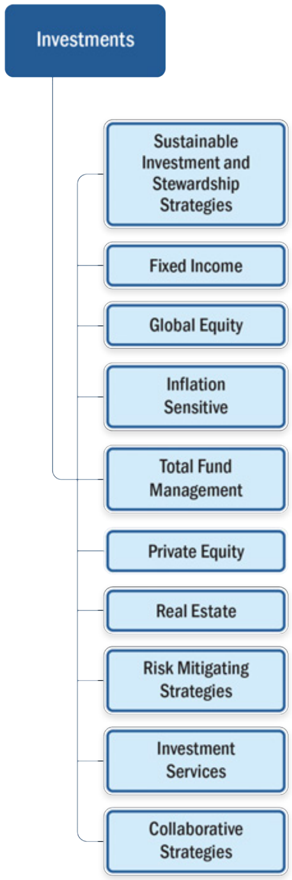
	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	109.5	119.5	126.5
(dollars in thousands)	$21,259	$24,773	$25,724



General Counsel

The General Counsel Branch provides legal advice and support to CalSTRS programs, executive management and the Teachers' Retirement Board. In addition, the branch provides independent and objective assurance that CalSTRS' assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws and board and management policies.

	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	60	75	81
(dollars in thousands)	$20,272	$16,965	$20,771



Investments

The Investments Branch oversees and manages the CalSTRS Investment Portfolio, which was valued at approximately $367.7 billion as of June 30, 2025. The branch's primary performance objective is to achieve the actuarially assumed rate of return at a prudent level of risk. The branch continues to uphold its investment philosophy in long-term patient capital, which is to buy long-term net cash flows and capital gain potential at a reasonable price.

	Actual 2024–25	Budget 2025–26	Budget 2026–27
Authorized positions	252.5	317	344
(dollars in thousands)	$83,599	$107,346	$113,592

Appendix

Appendix 1

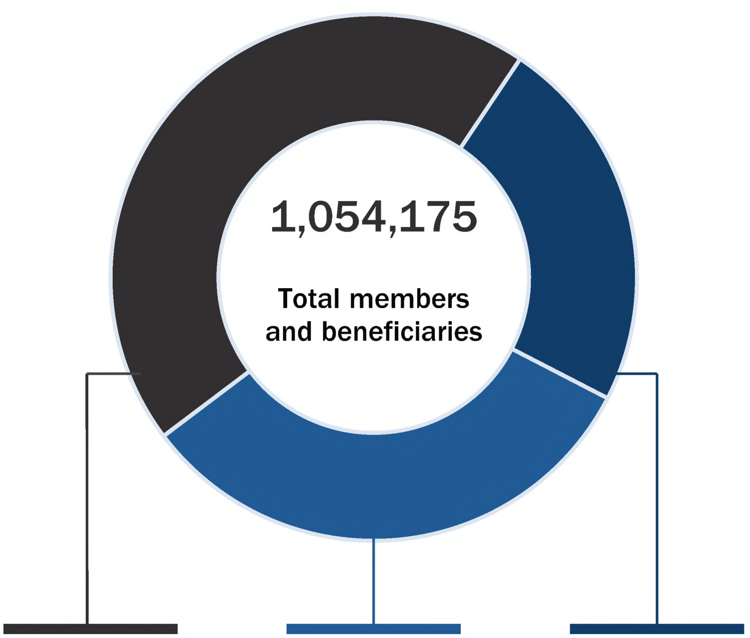
Members and beneficiaries at a glance

CalSTRS is the largest educator-only pension fund in the world. A summary of key statistics about our members and retirees for 2024–25 is below.

$19.9 billion

Benefits paid to members, which include service retirement benefits, disability benefits, survivor benefits and purchasing power supplemental payments

$5,740 Average monthly Member-Only Benefit for those retiring in 2024–25



471,044
Active members

338,712
Benefit recipients
Service retirement: 297,038
Disability: 9,517
Survivor: 32,157

244,419
Inactive members

12,346
Service retirements during the fiscal year

24.9
Average years of member service credit

63.0
Average member age at retirement

60.8%
Percentage of members selecting the Member-Only Benefit

Appendix 2

CalSTRS retirement benefits fuel local economies

Defined Benefit Program

Retirees who live in California—Characteristics by county

CalSTRS contributes to California's economy through the benefits we pay to our members, who may then spend that money in the communities in which they live. We paid an estimated $17 billion in benefits to 279,066 retirees living in California during fiscal year 2024–25. The chart to the right shows the number of retired members living in each county and the estimated amount of benefits paid to those members. This data is graphically illustrated on the map in the "CalSTRS' impact on California's economy" section of the ***Popular Annual Financial Report***, which is located on the CalSTRS website.

County	Number of retirees	Estimated benefits paid in FY 2024–25[1]
Alameda	9,485	$570,523,091
Alpine	14	675,118
Amador	521	26,493,732
Butte	3,022	161,201,099
Calaveras	667	35,191,705
Colusa	145	7,588,104
Contra Costa	8,461	491,833,621
Del Norte	297	15,590,753
El Dorado	2,745	156,837,265
Fresno	8,820	519,132,348
Glenn	219	11,269,332
Humboldt	1,695	77,899,219
Imperial	1,029	71,122,459
Inyo	283	13,712,189
Kern	5,484	333,279,686
Kings	766	46,129,303
Lake	575	28,038,124
Lassen	294	14,936,120
Los Angeles	52,329	3,303,755,683
Madera	1,278	69,296,256
Marin	2,448	134,186,677
Mariposa	245	12,011,648
Mendocino	1,221	59,823,278
Merced	1,812	111,637,086
Modoc	89	3,519,071
Mono	120	6,919,066
Monterey	3,670	217,182,168
Napa	1,483	86,783,699
Nevada	1,722	88,745,423
Orange	26,042	1,814,236,374
Placer	5,731	336,050,227
Plumas	307	14,309,842
Riverside	15,975	986,118,753
Sacramento	11,540	647,945,981
San Benito	475	30,215,872
San Bernardino	12,971	811,185,711
San Diego	26,526	1,610,081,817
San Francisco	3,415	195,680,947
San Joaquin	4,777	289,456,923
San Luis Obispo	5,232	295,255,791
San Mateo	4,403	286,536,131
Santa Barbara	3,787	218,171,015
Santa Clara	9,664	631,282,067
Santa Cruz	3,986	222,242,500
Shasta	1,961	101,995,671
Sierra	56	2,810,111
Siskiyou	746	35,471,206
Solano	3,300	185,403,190
Sonoma	6,004	330,622,530
Stanislaus	4,277	268,905,575
Sutter	847	51,052,493
Tehama	602	30,768,313
Trinity	141	6,485,129
Tulare	3,540	217,783,076
Tuolumne	854	45,747,269
Ventura	8,520	524,933,731
Yolo	2,073	110,806,846
Yuba	375	20,443,529
Total	**279,066**	**$16,997,311,943**

[1] The annualized benefits based on the June 2025 monthly benefits, which also include purchasing power protection payments from the Supplemental Benefit Maintenance Account and ongoing monthly payments for members who elected to annuitize their Defined Benefit Supplemental Program account balance at retirement.

Appendix 3

Operating Budget by fund[1]

We administer a hybrid retirement system consisting of a defined benefit pension, cash balance and two voluntary defined contribution plans; a postemployment benefit plan; and a fund to account for ancillary activities associated with various deferred compensation plans and programs. The Teachers' Retirement Law (California Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans and CalSTRS as the administrator. Accordingly, the 2026–27 Operating Budget is administered through the TRF, TDCF and THBF.

Teachers' Retirement Fund

(dollars in thousands)

Budget category	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Salaries	$172,367	$193,475	$203,802	$10,327
Benefits	78,791	82,077	86,853	4,776
Operating expenses and equipment	191,875	140,186	152,833	12,647
Total	**$443,033**	**$415,738**	**$443,488**	**$27,750**

Teachers' Deferred Compensation Fund

(dollars in thousands)

Budget category	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Salaries	$848	$1,066	$1,299	$233
Benefits	462	627	807	180
Operating expenses and equipment	436	592	620	28
Total	**$1,746**	**$2,285**	**$2,726**	**$441**

Teachers' Health Benefits Fund

(dollars in thousands)

Budget category	Actual 2024–25	Budget 2025–26	Budget 2026–27	Amount change
Salaries	$236	$351	$365	$14
Benefits	123	236	261	25
Operating expenses and equipment	186	357	384	27
Total	**$545**	**$944**	**$1,010**	**$66**

[1] Additional information regarding the Operating Budget by fund is provided in the **Financial summaries** section.

Appendix 4

Operating Budget by appropriation

The table below displays the funding sources for the 2026–27 Operating Budget, which is predominantly funded by appropriations in the annual Budget Act.[1] The annual Budget Act appropriations are primarily composed of the annual Teachers' Retirement Fund appropriation and the annual Information Technology Project Funding appropriation.

Other funding sources for our Operating Budget consist of funding for direct transfers, other continuous appropriations, the Teachers' Deferred Compensation Fund and the Teachers' Health Benefits Fund. Direct transfers include the pro rata assessment and the **SB 84 (Chapter 50, Statutes of 2017)**[2] loan payment, which are assessed by the Department of Finance for all state agencies. Other continuous appropriations are primarily composed of budget for fiduciary insurance, investment audits, capital improvements, and the Sustainable Investment and Stewardship Strategies division within the Investments Branch.

Operating Budget by appropriation

(dollars in thousands)

	2026–27
Budget Act	
Teachers' Retirement Fund support appropriation	$384,890
Information Technology Project Funding appropriation	18,500
Total Budget Act	403,390
Direct transfers	24,823
Other continuous appropriations	15,275
Total Teachers' Retirement Fund Budget	443,488
Teachers' Deferred Compensation Fund	2,726
Teachers' Health Benefits Fund	1,010
Total 2026–27 Operating Budget	**$447,224**

1 Additional information regarding the annual Budget Act can be found on the **Department of Finance's website**.

2 SB 84 authorized a $6 billion supplemental payment from the state's Surplus Money Investment Fund to the California Public Employees' Retirement System to reduce long-term retirement contribution rates for all state agencies. Effective 2018–19, all state agencies were required to begin repayment of the loan.

Glossary

Accrual

Revenues or expenditures that have been recognized for a particular fiscal year but not received or disbursed until a subsequent fiscal year. Annually, accruals are included in the revenue and expenditure amounts reported in departments' budget documents and year-end financial reports. For budgetary purposes, departments' expenditure accruals also include payables and outstanding encumbrances at the end of the fiscal year for obligations attributable to that fiscal year.

Amortization

The accounting practice of spreading the cost of an intangible asset over its useful life.

Appropriation

Authorization for an agency to make expenditures or create obligations from a specific fund for a specific purpose. It is usually limited in amount and period of time during which the expenditure is to be recognized.

Audit

Typically, a review of financial reports or performance activity (such as of an agency or program) to determine conformity or compliance with applicable laws, regulations and/or standards. Many state departments also have internal audit units to review their own internal functions and program activities.

Augmentation

An increase to a previously authorized appropriation. This increase can be authorized by Budget Act provisional language, control sections or other legislation. In addition, increases can also be authorized by the Teachers' Retirement Board for items funded from continuous appropriations. Generally, a budget revision or an executive order is processed to implement the increase.

Authorized positions

Represents the number of full-time equivalent staff authorized for an organization. Authorized positions are reported to, and reconciled with, the State Controller's Office.

Balanced budget

A balanced budget is a budget in which revenues are equal to expenditures. Thus, neither a budget deficit nor a budget surplus exists. More generally, it's a budget that has no budget deficit but could possibly have a budget surplus.

Blanket positions

Blanket positions are established to the extent they can be funded within existing appropriation authority; serve as a budgetary tool that provides staffing flexibility for urgent, one-time or limited-duration operational needs; and allow departments to temporarily hire above total authorized positions. Blanket positions do not require formal authorization by the Teachers' Retirement Board, the Department of Finance or the Legislature.

Branch

A functional business area within the organization.

Business area

Subunit of a branch.

Budget

A plan of operation expressed in terms of financial or other resource requirements for a specific period of time.

Budget Act

Legislation authorizing state programs to expend appropriated funds for the purposes stated in the Governor's Budget as amended by the Legislature.

Budget year

The upcoming fiscal year, beginning July 1 and ending June 30, for which the Governor's Budget is submitted.

Department of Finance

A fiscal control agency serving as the Governor's chief fiscal policy advisor. The Department of Finance is accountable for long-term economic sustainability and responsible resource allocation through the state's annual financial plan.

Depreciation

The expensing of a fixed asset over its useful life. Fixed assets are tangible objects acquired by a business.

Fiduciary

A fiduciary owes to the other entity the duties of good faith and trust and acts in the other's best interest.

Fiduciary responsibility

To discharge responsibility in a manner that is in the sole and exclusive interest of the participants and beneficiaries of the plan and will assure the prompt delivery of benefits and related services.

Fund balance

For budgetary purposes, the excess of a fund's resources over its expenditures. For accounting purposes, the balance available in a fund is the net of assets over liabilities and reserves that are available for expenditure.

Generally Accepted Accounting Principles

Generally Accepted Accounting Principles refer to the standard framework of guidelines for financial accounting. They are the common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements and are the commonly accepted ways of recording and reporting accounting information.

Governmental Accounting Standards Board

The Governmental Accounting Standards Board establishes accounting and financial reporting standards for state and local governments in the United States that follow Generally Accepted Accounting Principles.

Government Finance Officers Association

The GFOA represents public finance officials throughout the United States and Canada. The association's members are finance officials deeply involved in planning, financing and implementing thousands of governmental operations in each of their jurisdictions. The GFOA's mission is to advance excellence in public finance.

Government Operations Agency

The Government Operations Agency was established in July 2013 to improve management and accountability of government programs, increase programmatic effectiveness, and promote better and more coordinated operational decisions within government. CalSTRS is a unit of the GovOps Agency.

Governor's Budget

The recommendations and estimates for the state's financial operations for the budget year that the Governor presents to the Legislature by January 10 of each year. This document also displays the actual revenues and expenditures of the state for the immediate past year, updates estimates for the current year revenues and expenditures, and projects revenues and expenditures for the upcoming budget year.

Liquidation

Issuance of a payment for an obligation.

Merit salary adjustment

CalSTRS generally augments organizational budgets to account for periodic increases to staff salaries. Pursuant to collectively bargained employment contracts and the California Department of Human Resources, personnel generally receive a salary increase of 5% per year up to the upper end of salary range for the classification.

Modified cash basis

Revenue is recognized when it's due, and expenses are recognized when a documented commitment to make the expenditure is established or the goods and services are received.

Net zero

The balance between the amount of greenhouse gas that is produced and the amount that is removed from the atmosphere. It can be achieved through a combination of emission reduction and emission removal.

Operating expenses and equipment

A category of a budget that includes expenditures, such as general expenses, printing, communication, travel, data processing, equipment and accessories for the equipment.

Other postemployment benefits

Other postemployment benefits are benefits (other than pensions) that state and local governments in the United States provide to their retired employees. These benefits principally involve health care benefits but also may include life insurance, disability benefits, and legal and other services.

Plenary authority

The complete authority over the system's administration and investment of pension assets with no limitations except those outlined in the California Constitution and Teachers' Retirement Law.

Right-to-use asset

An intangible asset that lessees recognize on their financial statements, representing their control over the right to use an underlying leased asset for a specific period in exchange for lease payments. The underlying asset includes buildings, land or equipment.

State Controller's Office

A fiscal control agency responsible for the accountability and disbursement of the state's financial resources.

Unfunded actuarial obligation

The unfunded actuarial obligation refers to the amount of additional actuarial assets needed on the valuation date to meet the expected obligations of the plan incurred from members' past service. The term "shortfall" is also used to describe an unfunded actuarial obligation, which is also known as a funding gap.

CALSTRS®
HOW WILL YOU SPEND YOUR FUTURE?