



## Proposed 2025–26 Operating Budget

## Table of Contents

|  |    |
|--|----|
| 2025–26 Budget in Brief.....                                 | 3  |
| Proposed 2025–26 Operating Budget Changes .....              | 4  |
| Authorized Positions .....                                   | 4  |
| IT Service Contracts .....                                   | 7  |
| Other Budgetary Changes .....                                | 8  |
| Administrative Expenses .....                                | 8  |
| Multi-Year Internal Investment Management Plan .....         | 8  |
| Pension Solution Project Budget Adjustment.....              | 8  |
| Additional Budget Authority .....                            | 9  |
| Teachers’ Retirement Fund Support Appropriation Savings..... | 9  |
| Teachers’ Deferred Compensation Fund Budget Authority .....  | 9  |
| Proposed 2025–26 Operating Budget Revision Authority .....   | 9  |
| Appendix 1 .....   | 10 |
| Appendix 2.....  | 12 |
| Appendix 3.....  | 14 |

### **2025–26 Budget in Brief**

CalSTRS' proposed 2025–26 budget fosters workload for **AB 1667**, **DEI**, and **Innovation** efforts to address strategic plan priorities and ongoing operational needs. This includes funding for an additional 15 authorized positions dispersed across the organization, and various information technology (IT) service contracts for security software, SAP managed services, and software maintenance & operations (M&O) costs.

Moreover, this budget includes adjustments for **Other Budgetary Changes** that represent adjustments for standard nondiscretionary expenditures that occur routinely each year. This includes funding for administrative expenses, including adjustments to employee compensation and the Pro Rata Assessment issued by the Department of Finance (DOF) for the cost of providing central administrative services, and the fifth year of scheduled expenditures for the continued implementation of the Multi-Year Internal Investment Management Plan (Investment Management Plan), in support of the CalSTRS Collaborative Model. Other Budgetary Changes also include a one-time reduction for the Pension Solution Project for funding approved in 2024–25 to continue system implementation activities and complete the project.

As a result, CalSTRS' total 2025–26 budget is projected at \$713.1 million and includes 1,431 authorized positions. Of this amount, \$292.0 million is for External Investment Management,<sup>1</sup> and \$421.1 million represents the proposed Operating Budget, which reflects a net decrease of \$187.4 million, or 31%, compared to the 2024–25 Operating Budget, which is primarily due to the reversal of one-time Pension Solution Project budget authority for fiscal year 2024–25.

---

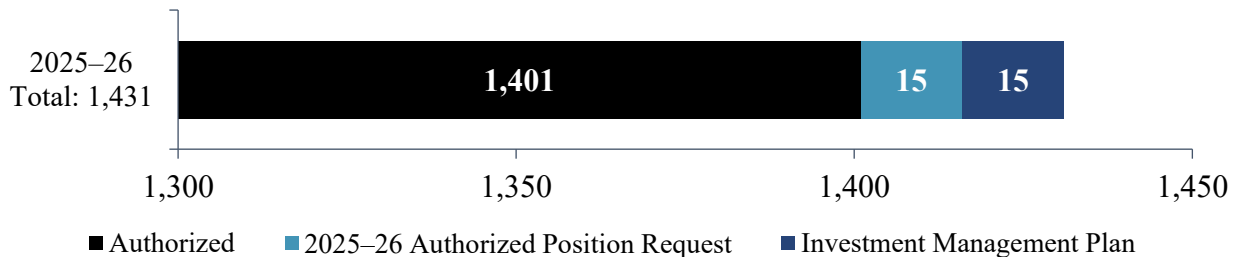
<sup>1</sup> External Investment Management fees are largely correlated to the value of assets under management and investment returns, and include bond administration costs for the headquarter expansion. This budget is continuously appropriated. Continuous appropriations represent statutory expenditure authorization that exists from year to year without further legislative or board action.

The following table summarizes CalSTRS’ prior year actuals, the revised 2024–25 and 2025–26 total budget, and highlights changes by budget category between fiscal years 2024–25 and 2025–26.

**Three-Year Overview**  
*(dollars in millions)*

| Budget Category                  | Actual<br>2023–24 | Revised<br>2024–25 <sup>2</sup> | Proposed<br>2025–26 | \$ Change        | % Change     |
|----------------------------------|-------------------|---------------------------------|---------------------|------------------|--------------|
| <b>Operating Budget</b>          |                   |                                 |                     |                  |              |
| Salaries                         | \$161.8           | \$231.3                         | \$199.4             | (\$31.9)         | (14%)        |
| Benefits                         | 79.5              | 107.8                           | 87.6                | (20.2)           | (19%)        |
| Operating Expenses and Equipment | 169.6             | 269.4                           | 134.1               | (135.3)          | (50%)        |
| <b>Total Operating Budget</b>    | <b>\$410.9</b>    | <b>\$608.5</b>                  | <b>\$421.1</b>      | <b>(\$187.4)</b> | <b>(31%)</b> |
| External Investment Management   | 227.2             | 344.8                           | 292.0               | (52.8)           | (15%)        |
| <b>Total Budget</b>              | <b>\$638.1</b>    | <b>\$953.3</b>                  | <b>\$713.1</b>      | <b>(\$240.2)</b> | <b>(25%)</b> |

The proposed 2025–26 Operating Budget includes 1,431 authorized positions, reflecting an increase of 30 positions to CalSTRS’ workforce, or 2%, relative to the 2024–25 Operating Budget. This includes a request to establish 15 authorized positions referenced above, and 15 authorized positions previously approved as part of the Investment Management Plan. A breakout of authorized positions by branch is provided in *Appendix 2*.



**Proposed 2025–26 Operating Budget Changes – (\$187.4) million**

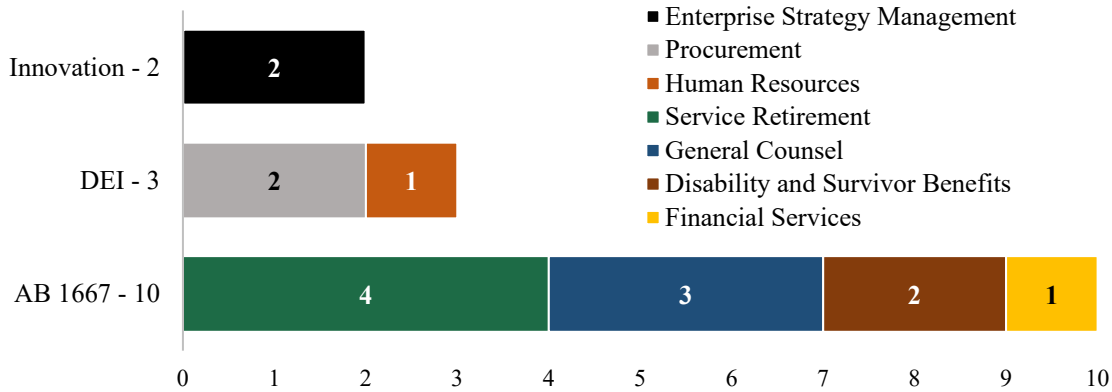
As displayed above, the proposed 2025–26 Operating Budget is \$421.1 million, which reflects a total net decrease of \$187.4 million, or (31%), compared to the revised 2024–25 Operating Budget. The total net decrease of \$187.4 million is composed of \$2.6 million to establish 15 authorized positions, \$3.7 million for IT service contracts, and (\$193.7) million for Other Budgetary Changes. Additional detail regarding these changes is provided below.

**Authorized Positions – \$2.6 million, 15 positions**

Ensuring the system is adequately resourced is an essential component to successfully advance CalSTRS’ mission, vision and strategy. Consistent with these priorities, the proposed 2025–26 Operating Budget includes \$2.6 million to establish 15 permanently authorized positions, to

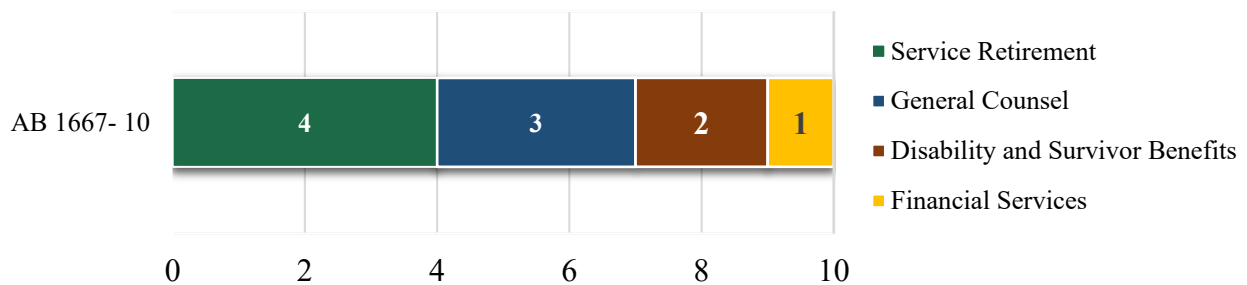
<sup>2</sup> To help mitigate the projected multi-year state budget shortfall, the 2024–25 Operating Budget was permanently reduced by \$2.5 million pursuant to [Budget Letter 24-20](#) and [Budget Letter 24-24](#) issued by the DOF.

support workload associated with AB 1667, and enterprisewide strategic plan initiatives, including DEI and Innovation efforts. The following chart displays the total authorized position request by function and business area.



*AB 1667 – \$1.8 million, 10 Positions*

AB 1667 provides relief prospectively for CalSTRS’ retirees affected by benefit overpayments resulting from errors that were not their own. AB 1667 is intended to improve reporting and reduce future errors by providing additional resources to clarify creditable compensation and creditable service requirements. These 10 positions will be dispersed across four business areas (*Service Retirement –4, General Counsel–3, Disability and Survivor Benefits–2, Financial Services–1*) as displayed in the following chart.



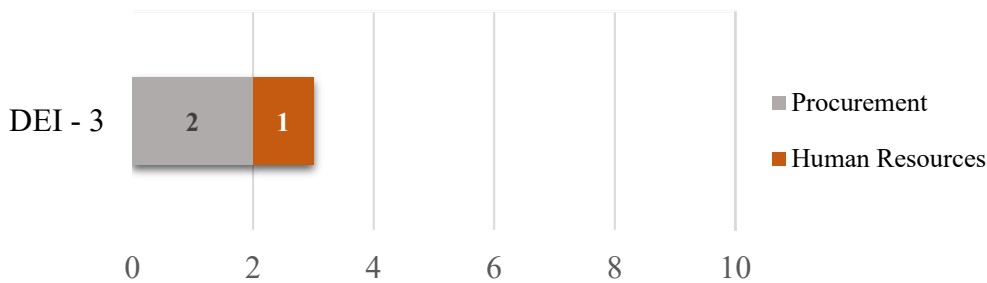
These positions will perform the following key tasks:

- Research, review and analyze member benefit overpayments; prepare formal decision letters; and reissue payments.
- Prepare documentation for overpayment liability; recommend resolutions for payment discrepancies; and provide status updates to members.
- Ensure compliance with applicable laws, rules and regulations.
- Perform billing and collection processes to recover benefit overpayments from employers and the General Fund.

- Conduct legal research and analyses; draft advisory opinions and other legal documents; and represent CalSTRS in administrative hearings.

*DEI – \$500,000, 3 positions*

Two positions will address workload associated with [Executive Order N-16-22](#), [Assembly Bill 2019](#), [Senate Bill 588](#). Collectively, these bills require additional outreach efforts to advance economic equity in state procurement processes. One position will lead enterprisewide DEI efforts in alignment with CalSTRS’ strategic plan. These three positions are being requested for two business areas (*Procurement–2, Human Resources–1*) as displayed in the following chart.



These positions will perform the following key tasks:

- Plan and organize procurement outreach efforts to certified women, disabled veterans, minorities, and LGBTQ community owned businesses.
- Manage CalSTRS enterprisewide DEI program, including development and maintenance of DEI policy; foster integration of DEI principles and practices; and establish measures of success throughout the organization.
- Develop key performance indicators in partnership with business stakeholders across the organization to monitor and track progress of DEI initiatives.

*Innovation – \$300,000, 2 positions*

In support of CalSTRS’ strategic plan priority to lead innovation and manage change, and in alignment with [Executive Order N-12-23](#) to responsibly employ GenAI within state government, these two positions are being requested for *Enterprise Strategy Management*.

These positions will perform the following key tasks:

- Assist with managing innovation and AI projects through monitoring and reporting progress; develop project plans and timelines; collect, organize, and analyze data related to innovation activities; establish and monitor performance metrics; and assist with the establishment of an AI framework.

- Conduct assessments on current innovation capabilities and identify strategies for improvement; assist in development of enterprisewide innovation culture exercises and training; facilitate workshops; and communicate with stakeholders.

*IT Service Contracts – \$3.7 million*

This request includes \$3.7 million for IT service contracts for security software, SAP managed services, and software M&O costs. Additional details are provided below.

*Security Software – \$1.7 million*

Consistent with CalSTRS' strategic plan to strengthen preparedness capabilities to address change and disruptions, this request includes \$1.7 million for security software to further enhance and protect our information security architecture – critical to maintaining core business operations and sustaining the security and integrity of data. This software will unify security services under a single technology platform to strengthen our information security posture in both the cloud and hybrid work environments, provide advanced cybersecurity, and enhance data privacy and email security.

*SAP Managed Services – \$1.2 million<sup>3</sup>*

This request includes \$1.2 million for the SAP Managed Services contract, which was approved by the Teachers' Retirement Board on January 10, 2024. Services include essential maintenance and operations support for CalSTRS' existing SAP solutions, including BusinessDirect, Concur, and HRLink systems. The BusinessDirect system relies on SAP technology and incorporates the functionality essential to maintain CalSTRS' financial and management needs at the highest level of integrity and efficiency. BusinessDirect provides CalSTRS with one comprehensive system for the tracking and reporting of critical activities as diverse as budgeting, procurement, asset management, contract processing, business partner relationship management, accounts payable, accounts receivable, investment accounting, tax and financial reporting. SAP Concur is CalSTRS' travel and expense management system, and HR Link is an all-inclusive system for Human Resources processes that utilizes SAP SuccessFactors modules.

*Software M&O – \$800 thousand*

This request includes \$800 thousand for various software M&O costs. This includes funding for additional network circuits for cloud datacenter accessibility and improve data redundancy,

---

<sup>3</sup> Additional information is provided in the January 2024 Teachers' Retirement Board Item [#16d Contracts Requiring Board Approval](#).

additional Microsoft product support due to increases in application usage, and license fees for new software to access our remote network.

### **Other Budgetary Changes – (\$193.7) million, 15 positions**

Other Budgetary Changes represent adjustments for standard nondiscretionary expenditures that occur routinely each year. These adjustments reflect a decrease of \$193.7 million.

#### *Administrative Expenses – \$7.7 million*

- **Pro Rata Assessment:** CalSTRS is required by the DOF to contribute on a pro rata basis CalSTRS' share of state central administrative services. The Pro Rata Assessment represents General Fund recoveries of shared statewide general administrative costs from departments that benefit from shared services. This proposal requests an increase of \$3.0 million for the 2025–26 assessment, which reflects an increase of \$2.0 million compared to the estimate provided to the board in September.
- **Employee Compensation:** Total employee compensation adjustments reflect an estimated increase of \$4.7 million for salaries and benefits, primarily composed of 3.0% for general salary increases, and 5.0% for merit salary adjustments for eligible employees.<sup>4</sup>

#### *Multi-Year Internal Investment Management Plan – \$4.4 million, 15 positions*

- The Investment Management Plan reflects an increase of \$4.4 million to establish 15 authorized positions for the fifth year of scheduled expenditures for the continued implementation of the Investment Management Plan. The Investment Management Plan was approved as part of the 2021–22 Operating Budget in support of the CalSTRS Collaborative Model, which is our investment cost savings initiative.<sup>5</sup>

#### *Pension Solution Project Budget Adjustment – (\$205.8) million*

- There is a \$205.8 million reduction to the baseline Operating Budget for reversal of one-time project funding for the Pension Solution Project. The budget was approved during the November 2023 board meeting in [Item 8 – Pension Solution Project Update and Contract and Budget Augmentation Approvals](#) to continue system implementation efforts for the Pension Solution Project, as well as support maintenance and operations, and stabilization activities.

---

<sup>4</sup> Employee compensation adjustments are based on the current [collective bargaining agreement](#) between the SEIU Local 1000 and the State.

<sup>5</sup> Collaborative model strategies saved \$428 million in 2022 (\$1.6 billion over 6 years), as provided in the November 2023 Teachers' Retirement Board Item [#4a Annual Investment Cost Report](#).



### **Additional Budget Authority**

Additional budget authority for the proposed 2025–26 Operating Budget is requested for unanticipated expenditures. This authority is requested as part of the Operating Budget each year.

#### *Teachers' Retirement Fund Support Appropriation Savings*

Pursuant to [Appendix III.1 of the Teachers' Retirement Board Governance Manual](#), if CalSTRS ends the year with savings in the Teachers' Retirement Fund (TRF) 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, and would be used for unanticipated system costs and to promote better service to the system's membership. Staff is requesting the board to authorize the availability of up to 3%, or \$10.9 million of the \$362.5 million 2025–26 TRF Support Appropriation. Additional details regarding the TRF are provided in *Appendices 1 and 3*.

#### *Teachers' Deferred Compensation Fund Budget Authority*

The Teachers' Deferred Compensation Fund (TDCF) is used to account for ancillary activities associated with deferred compensation plans and programs to enhance the tax-deferred financial options. CalSTRS is requesting additional budget authority of up to 5%, or \$105.6 thousand over the proposed baseline budget of \$2.1 million, for the expansion of the program and/or unanticipated needs, to the extent the program generates sufficient cash revenues to cover the cost. Additional details regarding the TDCF are provided in *Appendices 1 and 3*.

#### *Proposed 2025–26 Operating Budget Revision Authority*

If the 2025–26 Operating Budget requires revision for required adjustments to statewide administrative expenditures, or as required by the Administration, staff is requesting authorization to revise the 2025–26 Operating Budget for such adjustments. Since these revisions would be required, staff is seeking the board's authorization to adjust the Operating Budget without further board action. In the event the 2025–26 Operating Budget is revised, staff will inform the board outlining the revisions.

**Appendices**

In addition to the analyses provided in the agenda, the following appendices are attached to provide supplemental information about CalSTRS’ prior year expenditures, the revised 2024–25 and the proposed 2025–26 Operating Budgets.

**Appendix 1**

*Operating Budget by Fund*

CalSTRS administers a hybrid retirement system consisting of a defined benefit plan, cash balance and two defined contribution plans, a postemployment 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. Accordingly, the proposed 2025–26 Operating Budget is administered through the TRF, TDCF and the Teachers’ Health Benefits Fund (THBF).

**Teachers’ Retirement Fund**

The TRF was established by California Education Code section 22400 and is the largest fund CalSTRS administers. It is a multiple-employer, cost-sharing defined benefit plan composed of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, and the Purchasing Power Protection program. The majority of CalSTRS’ operational expenses are sourced from the TRF, which includes 1,421 authorized positions.

**Teachers’ Retirement Fund<sup>6</sup>**  
*(dollars in thousands)*

| Budget Category                  | Actual<br>2023–24 | Revised<br>2024–25 | Proposed<br>2025–26 | \$ Change          | % Change     |
|----------------------------------|-------------------|--------------------|---------------------|--------------------|--------------|
| Salaries                         | \$160,879         | \$230,052          | \$198,167           | (\$31,885)         | (14%)        |
| Benefits                         | 78,966            | 107,039            | 86,793              | (20,246)           | (19%)        |
| Operating Expenses and Equipment | 169,003           | 268,311            | 133,104             | (135,207)          | (50%)        |
| <b>Total Budget</b>              | <b>\$408,848</b>  | <b>\$605,402</b>   | <b>\$418,064</b>    | <b>(\$187,338)</b> | <b>(31%)</b> |

**Teachers’ Deferred Compensation Fund**

The TDCF 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 includes eight authorized positions.

---

<sup>6</sup> The projected net decrease in the TRF is due to the reversal of one-time budget authority for the Pension Solution Project. This is partially offset with additional funding for 30 authorized positions, technology services contracts, and Other Budgetary Changes.

**Teachers’ Deferred Compensation Fund**  
*(dollars in thousands)*

| <b>Budget Category</b>           | <b>Actual<br/>2023–24</b> | <b>Revised<br/>2024–25</b> | <b>Proposed<br/>2025–26</b> | <b>\$ Change</b> | <b>% Change</b> |
|----------------------------------|---------------------------|----------------------------|-----------------------------|------------------|-----------------|
| Salaries                         | \$728                     | \$884                      | \$907                       | \$23             | 3%              |
| Benefits                         | 433                       | 533                        | 548                         | 15               | 3%              |
| Operating Expenses and Equipment | 397                       | 694                        | 658                         | (36)             | (5%)            |
| <b>Total Budget</b>              | <b>\$1,558</b>            | <b>\$2,111</b>             | <b>\$2,113</b>              | <b>\$2</b>       | <b>0%</b>       |

Teachers’ Health Benefits Fund

The THBF is used to administer a cost-sharing, multiple-employer other postemployment benefit plan known as the Medicare Premium Payment (MPP) 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 enrolled in Medicare after July 1, 2012, are not eligible for CalSTRS’ payment of late enrollment surcharges. Also, members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program. The THBF includes two authorized positions.

**Teachers’ Health Benefits Fund**  
*(dollars in thousands)*

| <b>Budget Category</b>           | <b>Actual<br/>2023–24</b> | <b>Revised<br/>2024–25</b> | <b>Proposed<br/>2025–26</b> | <b>\$ Change</b> | <b>% Change</b> |
|----------------------------------|---------------------------|----------------------------|-----------------------------|------------------|-----------------|
| Salaries                         | \$221                     | \$382                      | \$368                       | (\$14)           | (4%)            |
| Benefits                         | 118                       | 244                        | 242                         | (2)              | (1%)            |
| Operating Expenses and Equipment | 199                       | 388                        | 334                         | (54)             | (14%)           |
| <b>Total Budget</b>              | <b>\$538</b>              | <b>\$1,014</b>             | <b>\$944</b>                | <b>(\$70)</b>    | <b>(7%)</b>     |

## Appendix 2

### Operating Budget and Authorized Positions by Branch

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 following chart displays CalSTRS’ actuals for the 2023–24, the revised 2024–25 and the proposed 2025–26 Operating Budgets. This includes salaries, benefits, and operating expenses and equipment.

#### Operating Budget by Branch<sup>7</sup>

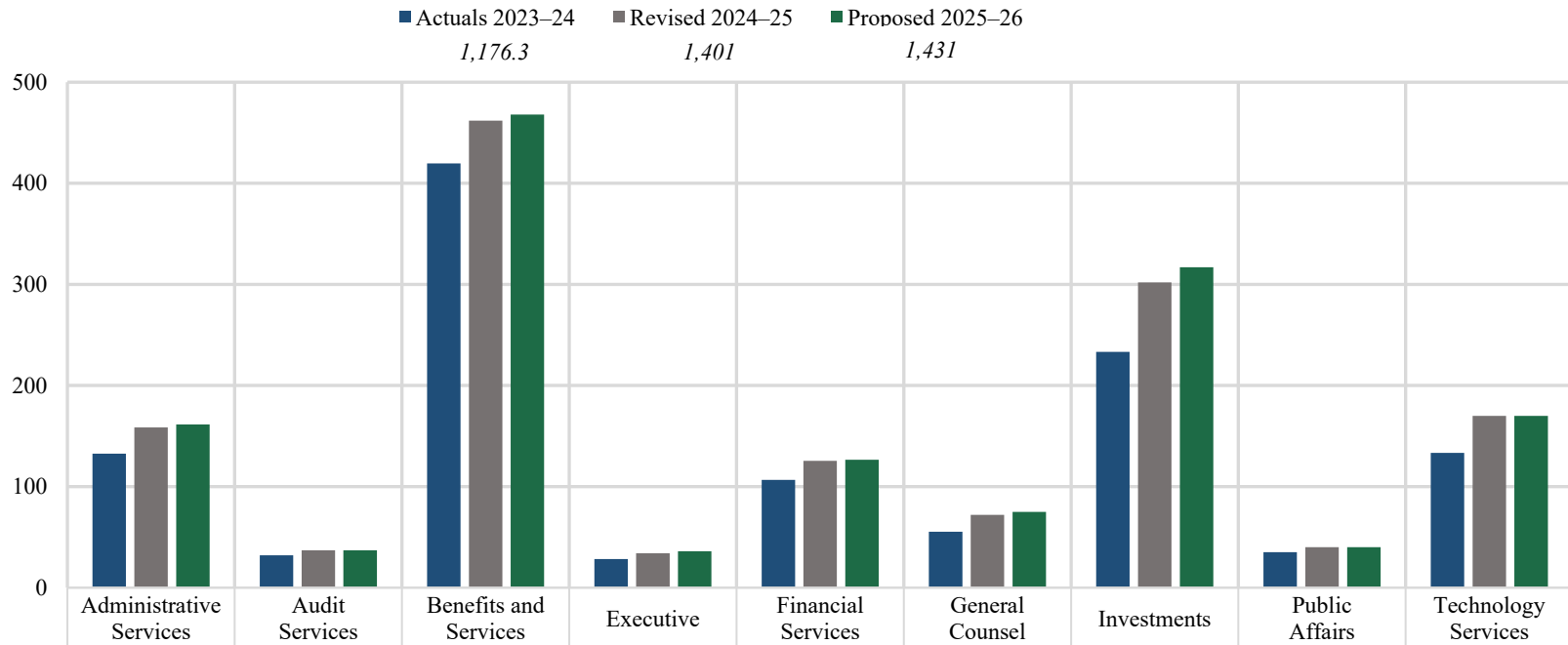
*(dollars in millions)*



<sup>7</sup> The Technology Services branch budget for 2025–26 includes a reversal of \$205.8 million for one-time Pension Solution Project budget authority for 2024–25.

CalSTRS total workforce by branch is displayed in the following chart. The proposed 2025–26 Operating Budget has 1,431 authorized positions, reflecting an increase of 30 positions to CalSTRS’ workforce, or 2%, relative to 2024–25. This includes a request for 15 new authorized positions and 15 positions approved as part of the Investment Management Plan.

**Authorized Positions by Branch**



|                    |       |    |       |      |       |      |       |      |       |
|--------------------|-------|----|-------|------|-------|------|-------|------|-------|
| ■ Actuals 2023–24  | 132.5 | 32 | 419.6 | 28.4 | 106.7 | 55.3 | 233.2 | 35.2 | 133.4 |
| ■ Revised 2024–25  | 158.5 | 37 | 462   | 34   | 125.5 | 72   | 302   | 40   | 170   |
| ■ Proposed 2025–26 | 161.5 | 37 | 468   | 36   | 126.5 | 75   | 317   | 40   | 170   |

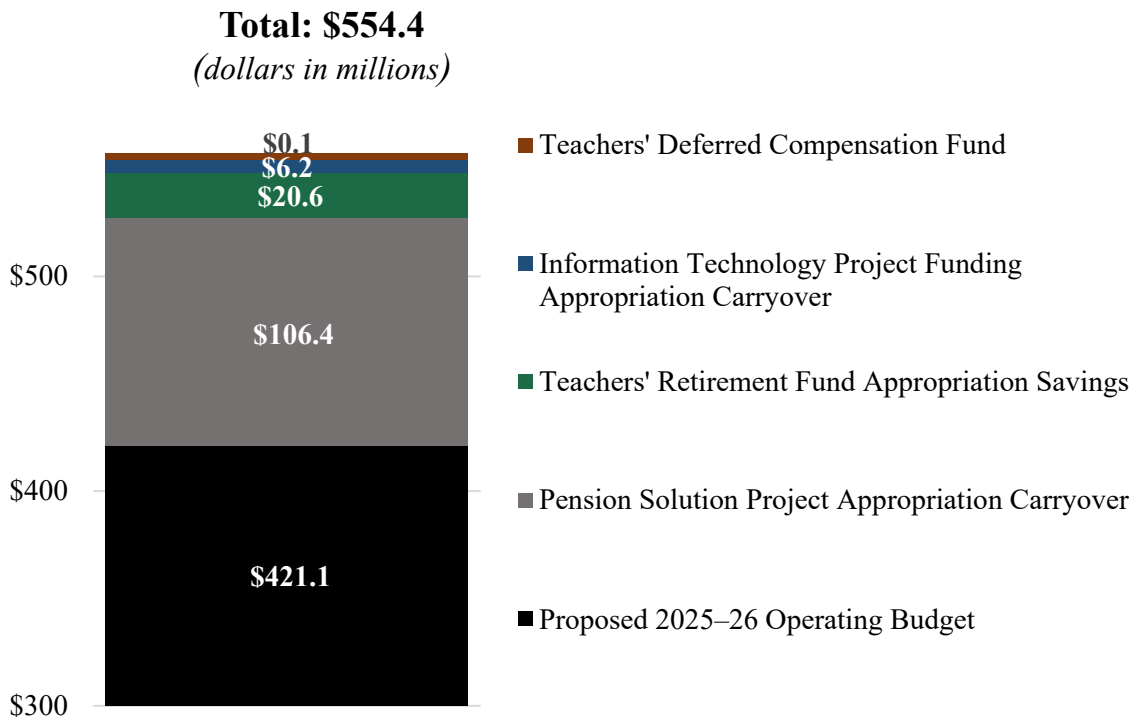
### Appendix 3

#### Other Budget Detail

##### *Sources of Spending Authority above the 2025–26 Operating Budget*

Upon board approval, CalSTRS can expend up to \$421.1 million in fiscal year 2025–26. Moreover, CalSTRS also has available for expenditure in fiscal year 2025–26 additional spending authority resulting from prior board approvals. As a result, CalSTRS can end the year with total expenditures greater than the proposed 2025–26 Operating Budget. The primary sources of additional budget authority are the TDCF, the Information Technology Project Funding (ITPF), the TRF Support Appropriation savings, and the Pension Solution Project appropriation carryovers.

As summarized in the following chart, total estimated spending authority above the 2025–26 Operating Budget is currently projected at \$133.3 million. Based on these estimates, CalSTRS can expend up to \$554.4 million in fiscal year 2025–26. Additional details are provided below.



#### Teachers' Deferred Compensation Fund – \$105,600

As discussed in the *Additional Budget Authority* section, staff requested additional budget authority of up to 5%, currently estimated at \$105.6 thousand for the TDCF in 2025–26, for the expansion of the program and/or unanticipated expenditures. The additional spending authority is only accessible to the extent the program generates sufficient cash revenues to cover the cost.

#### Information Technology Project Funding Appropriation Carryover – \$6.2 million

CalSTRS' baseline Operating Budget includes an annual ITPF appropriation of \$18.5 million for enterprisewide projects as authorized by Enterprise Program Investment Council (EPIC). 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 are carried over for up to two fiscal years and can be designated to projects authorized by EPIC. Based on our current project plans and estimates, \$6.2 million is available to encumber by June 30, 2027, and through June 30, 2029, to liquidate. The funds will be utilized as projects are approved by EPIC.

#### Teachers' Retirement Fund Support Appropriation Savings – \$20.6 million

Pursuant to Appendix III.1 of the [\*Teachers' Retirement Board Governance Manual\*](#), if CalSTRS ends the year with savings in the TRF 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 would be used for unanticipated system costs and to promote better service to the system's membership. Upon board approval, the 2023–24 Budget Act provision includes \$10.1 million to be available to encumber by June 30, 2026, and through June 30, 2028, to liquidate; and 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.

#### Pension Solution Project Appropriation Carryover – \$106.4 million

Of the current \$627.8 million Pension Solution Project budget, \$106.4 million represents the carryover budget authority from previously approved Pension Solution Project budget appropriations. The carryover budget authority is available to encumber by June 30, 2027, and through June 30, 2029, to liquidate. The project will use these carryover balances by the liquidation date.

*Operating Budget by Appropriation*

The following table displays the proposed 2025–26 Operating Budget and key differences compared to what is anticipated for inclusion in the Budget Act of 2025. The Budget Act is primarily composed of the annual TRF support and the ITPF appropriations. The Budget Act does not include direct transfers, other continuous appropriations, the TDCF and the THBF budget. Direct transfers include the Pro Rata Assessment and Senate Bill 84 ([Chapter 50, Statutes of 2017](#))<sup>8</sup> loan repayment, which are assessed by the DOF 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.

**Proposed 2025–26 Operating Budget by Appropriation**  
*(dollars in thousands)*

| Category  | \$ Amount        |
|---|------------------|
| <b>Budget Act</b>                               |                  |
| Teachers' Retirement Fund Support Appropriation | \$362,522        |
| Information Technology Project Funding          | 18,500           |
| <b>Total Budget Act</b>                         | <b>381,022</b>   |
| Direct Transfers                                | 22,715           |
| Other Continuous Appropriations                 | 14,327           |
| <b>Total Teachers' Retirement Fund Balance</b>  | <b>418,064</b>   |
| Teachers' Deferred Compensation Fund            | 2,113            |
| Teachers' Health Benefits Fund                  | 944              |
| <b>Total</b>                                    | <b>\$421,121</b> |

---

<sup>8</sup> 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.