

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

2024-25 Annual Budget

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

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

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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.



July 2, 2024

Chief financial officer's letter of transmittal

As the largest educator-only pension fund in the world, with more than 1 million members and beneficiaries, we remain committed to creating sustainable retirement benefits for California public school teachers. As trusted fiduciaries, understanding and adapting to the changing economic environment is imperative to the success of our mission: *Securing the financial future and sustaining the trust of California's educators.*

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. The plan has three goals that embody the organization's commitment to being a well-governed, financially sound trust fund; leading innovation and managing change; and continuing to integrate sustainability throughout the organization's culture, policies and practices. Aligned with these objectives, CalSTRS' 2024–25 budget includes resources to address our strategic priorities and support our core business functions. As such, our total 2024–25 budget is \$611 million, including funding for 1,401 authorized positions.

We continue to make progress toward implementation of the new pension administration system with modern functionality through the Pension Solution Project. Modernizing our pension administration system is a critical component of delivering quality service to CalSTRS members, employers and various stakeholder communities. Our 2024–25 budget includes a one-time funding increase of \$205.8 million for internal and external resources to complete the Pension Solution Project, as well as support maintenance and operations, and stabilization activities. The new system will enhance CalSTRS' ability to respond to customer and business needs, gain long-term operational efficiencies, improve internal controls, and enrich services for our more than 1 million members and their beneficiaries.

By ensuring the organization is adequately resourced, we continue making progress toward our longer-term vision and strategy, as well as building a strong, adaptable and diverse workforce to serve our members. Our 2024–25 budget includes an increase of \$1.9 million for 12 additional authorized positions. These resources will help advance our long-term strategic objectives while supporting operational and compliance and risk management activities across the organization, which is essential as our organization grows.

Maintaining a financially sound retirement system is a top priority. We ended fiscal year 2022–23 with an investment return of 6.3%, slightly below the assumed investment rate of 7.0%. However, with the exceptional 27.2% investment return earned in fiscal year 2020–21, we remain slightly ahead of schedule of our goal of reaching full funding by 2046.

We've made measurable progress to ensure a well-governed, financially sound trust fund through the continued execution of the CalSTRS Collaborative Model. The Collaborative Model is an investment strategy to manage more assets internally to reduce costs, control risks and increase expected returns, while leveraging our external partnerships to achieve similar benefits. To highlight our success in this endeavor, we've achieved average annual cost savings of

\$243.6 million and \$1.6 billion in total cost savings since 2017. To continue our progress, our 2024–25 budget includes \$6.6 million for 19 additional authorized positions to continue implementation of the Collaborative Model.

For the fiscal years 2024–25 and 2025–26, the State of California is projecting significant budget shortfalls. To help mitigate the multiyear budget deficits, the state will be undertaking several budgetary reduction measures. While we're cognizant that the state's challenging fiscal outlook may impact our budget, we remain committed to delivering excellent service to our members and strengthening our system through prudent financial and budgetary planning practices.

As trusted fiscal stewards, we remain committed to diligent spending practices, while continuing to improve our financial position, enhance services to our members and employers, safeguard our assets, and remain agile in responding to fiscal uncertainties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Julie Underwood".

Julie Underwood
Chief Financial Officer
CalSTRS



The Government Finance Officers Association
of the United States and Canada

presents this

CERTIFICATE OF RECOGNITION FOR BUDGET PREPARATION

to

**Finance Department
California State Teachers' Retirement System, California**



The Certificate of Recognition for Budget Preparation is presented by the Government Finance Officers Association to those individuals who have been instrumental in their government unit achieving a Distinguished Budget Presentation Award. The Distinguished Budget Presentation Award, which is the highest award in governmental budgeting, is presented to those government units whose budgets are judged to adhere to program standards.

Executive Director

Christopher P. Merrill

Date: **August 28, 2023**

The Government Finance Officers Association of the United States and Canada presented a Distinguished Budget Presentation Award to the **California State Teachers' Retirement System** for its Annual Budget for the fiscal year beginning **July 1, 2023**. 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 2024–25 Annual Budget Report continues to conform to program requirements and are submitting it to the GFOA to determine its eligibility for another award.

About the California State Teachers' Retirement System

CalSTRS overview¹

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, and certain other employees of the public school system. We also administer a post-employment health benefit program.

As a global institutional investor with investment portfolio assets of \$315.6 billion as of June 30, 2023, 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, employed by approximately 1,800 school districts, community college districts, county offices of education and other public education employers.

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

CalSTRS is governed 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.

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

CalSTRS history

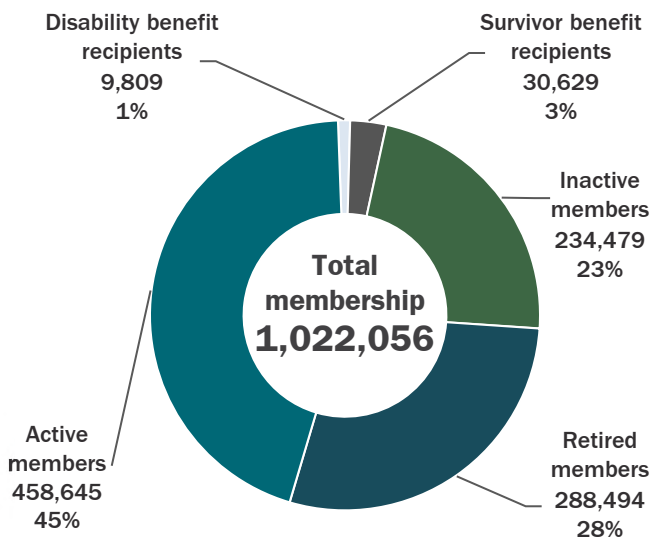
We've helped secure the financial future of California's educators for more than a century. From our humble beginnings in 1913 with only 120 retired and 15,000 active members, we now serve more than 1 million public school educators and their beneficiaries.

- 1913** Public School Teachers' Retirement Salary Fund is established on July 1, 1913, with 120 retired members and 15,000 active members. Annual member pension is \$500.
- 1935** School districts begin contributing to CalSTRS for the first time.
- 1944** CalSTRS vesting changes from 30 years to 10 years.
- 1956** Benefits calculated based on a fixed percentage of final compensation, rather than a fixed value.
- 1958** Vesting is reduced from 10 years to its present 5-year minimum.
- 1963** First tax-sheltered annuity program is established.
- 1970** CalSTRS begins investing in real estate and equity investments.
- 1987** CalSTRS begins managing fixed income assets internally.
- 1991** CalSTRS begins global diversification of the portfolio.
- 2007** Portfolio posts a 21% return, which places CalSTRS in the top 1% of all U.S. pension plans at \$175 billion.
- 2009** CalSTRS moves to its current headquarters location, which included the opening of the first California CalSTRS member service center in West Sacramento.
- 2013** CalSTRS celebrates 100 years.
- 2019** CalSTRS announces the opening of the seventh California member service center and commences construction of the headquarters expansion in West Sacramento.
- 2020** CalSTRS embarks on a low-carbon economy transition work plan that seeks to reduce climate-related risk and identify opportunities to invest in climate-related solutions for maximum benefit to our members.
- 2021** CalSTRS adopts a pledge to achieve net zero greenhouse gas emissions across the CalSTRS Investment Portfolio by 2050 or sooner.
- 2022** For the first time, CalSTRS serves more than 1 million members and their beneficiaries.

Services to members and employers

CalSTRS' vision is to ensure our members understand their retirement benefits and make informed decisions to secure their financial futures. Consistent with the **2022–25 Strategic Plan**, we're committed to providing exceptional service to our members and their employers. We strategically allocate resources throughout the organization to advance our ability to deliver promised retirement benefits to our members.

2023 membership by the numbers



Member service centers¹

We operate seven member service centers throughout California, with locations in Fresno, Glendale, Irvine, Riverside, San Diego, Santa Clara and West Sacramento (headquarters). As part of advancing the organization's ability to deliver promised retirement benefits, member service centers offer financial and retirement education through webinars, workshops, benefits planning sessions, outreach and telephone and in-office assistance. Members have the opportunity to meet benefit specialists by appointment or seek assistance with general information questions on a walk-in basis. Member service center staff also receive and review forms and provide CalSTRS forms and publications.

Member outreach and communication

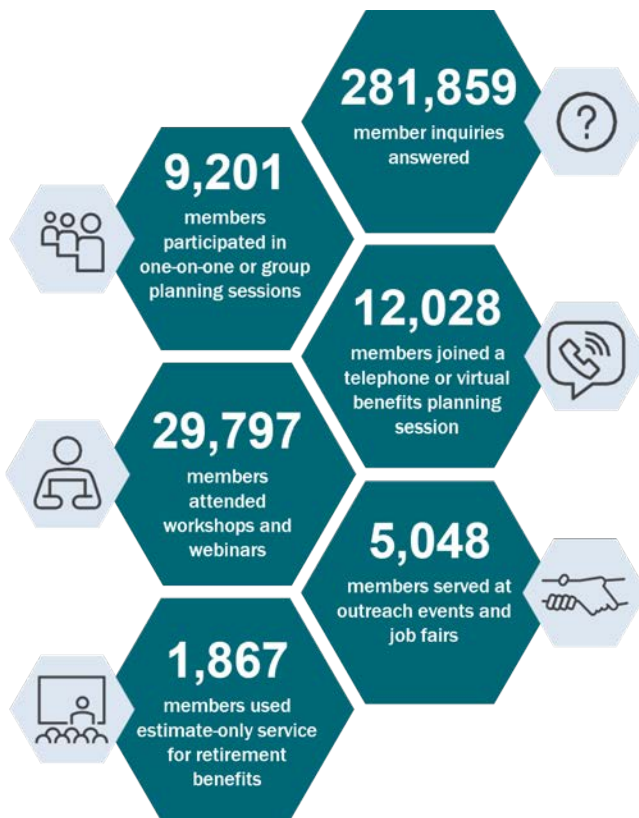
Every year, tens of thousands of members take advantage of these services, as well as the opportunity to walk into our member service centers and receive personal assistance related to their retirement benefits. Members may contact a CalSTRS Contact Center agent by phone, secure online message or written correspondence. By providing financial awareness and retirement planning tools, we aim to empower our members as they embark on a well-thought-out plan and identify steps they can take to meet their future income needs.



Watch this video tour of the **San Diego Member Service Center** to learn about the services offered.

¹ Refer to our **member service centers** webpage for information on locations and current hours of operation.

Connecting with members to engage and inform in 2022-23



In fiscal year 2022–23, 51,026 members attended individual or group benefits planning sessions, workshops or webinars. An additional 5,048 members received services at outreach events and job fairs.

Another convenient offering for members is the estimate-only service, which during fiscal year 2022–23 provided 1,867 participants with updated retirement benefit estimates. We continue to focus on providing services that increase accessibility, reflect individual needs and improve member self-education.

We communicate with our active and retired members through a variety of channels, including four websites—CalSTRS.com, myCalSTRS, Pension2.com and 403bCompare.com—to support member interactions and active involvement in retirement planning.

Employer Services

We provide training, guidance and real-time support to all California counties and their school districts, including support for the receipt of more than 13 million lines of contribution data per year. This data becomes the foundation of our members' retirement benefit calculations.



Changes on social media platforms in 2022-23



5%

+1,606 Facebook followers
36,905 total followers



-2%

-189 X followers
10,274 total followers



21%

+2,070 LinkedIn followers
11,402 total followers



9%

+204 Instagram followers
2,352 total followers

We provide a balanced mix of feature-oriented, informative and industry-focused messaging across social media platforms. By regularly posting informative content, we encourage member and stakeholder engagement on Facebook, X, LinkedIn, Instagram and YouTube.

Service to members does not stop at customer contact. Staff also conduct intensive research to understand our members' satisfaction and retirement preparedness, which helps us provide them with useful products and services. We monitor member satisfaction through regular surveys to ensure they receive accurate, timely and thorough answers to their questions. These surveys allow us to monitor overall trends in our programs that help us meet our members' needs. Additional membership statistics are provided in Appendix 1.



Institutional investing

Investment overview

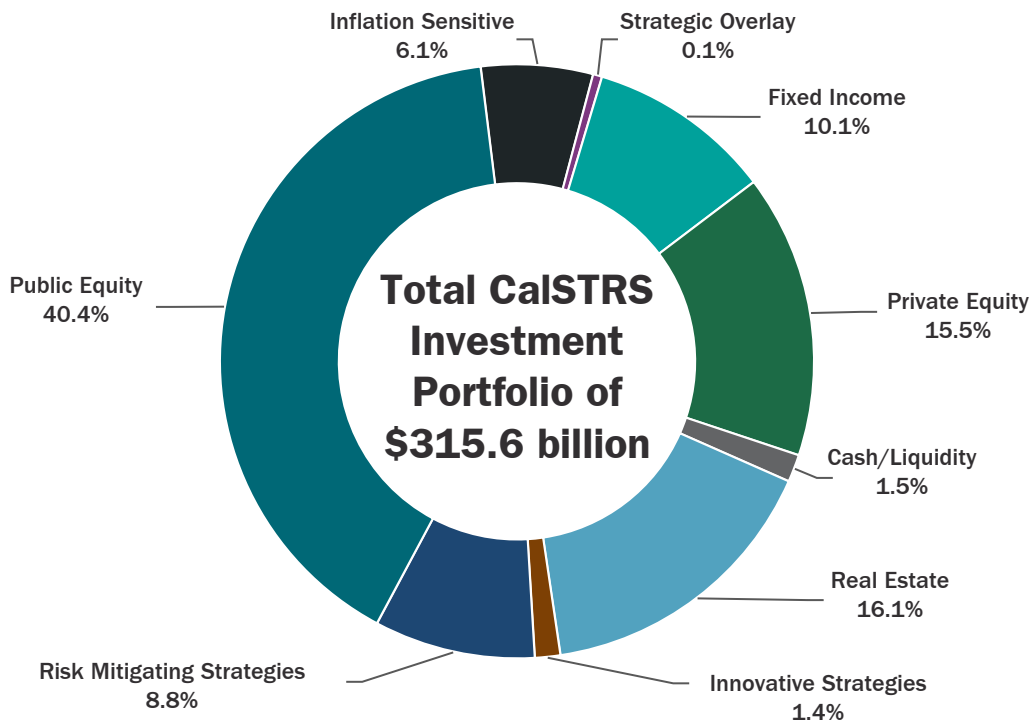
CalSTRS is a long-term investor, and ultimately, our goal is to generate returns to meet the retirement benefits of our members and their beneficiaries. We honor this responsibility with diligence and integrity. Consistent with this vision, and as the trusted fiduciaries of the system, we strive to derive 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 \$315.6 billion as of June 30, 2023, 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, 2023, is provided in the chart below.

Asset allocation as of June 30, 2023¹



¹ Public Equity, Private Equity and Innovative Strategies include Sustainable Investment and Stewardship Strategies and private investments.

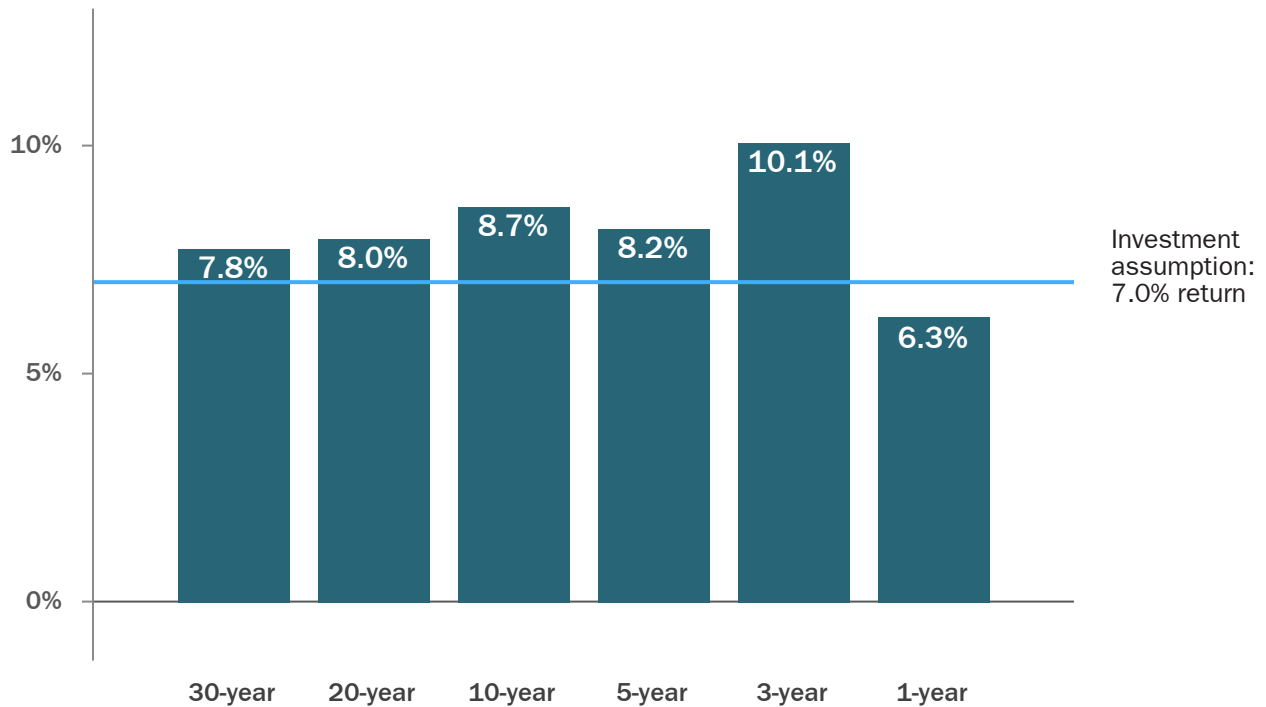
Investment performance

The portfolio generated a time-weighted investment return of 6.3% net-of-fees, which was slightly below the 7.0% assumed actuarial rate of return for funding purposes for the fiscal year ended June 30, 2023. The portfolio increased by \$14.1 billion over the prior fiscal year, ending with a fund value of \$315.6 billion. However, CalSTRS' investment returns are consistently ranked in the top quartile of all public pension plans in the

United States, over the three and five years ended June 30, 2023.

We're 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. Our net time-weighted returns over a 30-year period are provided below.

Net time-weighted returns as of June 30, 2023



Transforming business strategies through the CalSTRS Collaborative Model

In alignment with our longer-term strategic initiatives and consistent with the first goal of CalSTRS' strategic plan—to ensure a well-governed, financially sound trust fund—we implemented the second phase of the CalSTRS Collaborative Model.

The Collaborative Model is an investment strategy to manage more assets internally to reduce costs, control risks, increase expected returns and leverage our external partnerships to achieve similar benefits. The main strategy is to search for long-term cost savings by leveraging strategic relationships in designing flexible investment structures from separately managed accounts to our direct ownership. These efforts are projected to reduce costs and generate higher returns to support a strong portfolio that aligns with our mission.

The first phase of the Collaborative Model was supported by the Pillars Project, which was completed in December 2022. The goal of the Pillars Project was to create a nimble organization that competes on a global scale. These efforts enhanced and streamlined aspects of our daily operations, including creating an environment for better collaboration and consistency by assigning attorneys to asset classes; successfully sponsoring procurement legislation; enhancing oversight controls of fair value market measurement and reporting; and establishing a succession plan that expands beyond critical positions.

To support this effort, we are implementing the fourth year of our multiyear internal investment

management plan, which provided \$40.9 million to establish 109 authorized positions scheduled to be dispersed across fiscal years 2021–22 through 2025–26. Additional information on the Collaborative Model is provided in the “Budget Overview” section.

Commitment to net zero¹

The Teachers' Retirement Board committed CalSTRS to a net zero investment portfolio by 2050 or sooner to guard against the worst impacts of climate change, preserve a livable planet and enhance the long-term value of our investments. Our pledge represents a holistic, enduring commitment to help ensure a responsible transition to a net zero economy consistent with the Paris Agreement and the broad climate goals of the State of California.

In August 2022, the board approved a package of investment actions to enhance our efforts. To achieve our goal, we are increasing investments in climate solutions, escalating our involvement in climate-related strategies, engaging corporations in our portfolio, influencing changes in public policies, and advancing sustainable business and investment practices. Our actions to address climate risk are rooted in our promise to secure the financial future of California's public educators.

We continue to expand our engagement efforts to drive positive change within our portfolio. Each year, we cast approximately 100,000 proxy votes at more than 10,000 company shareholder meetings. Our proxy votes are an important part of our engagement strategy to assess risk and influence portfolio companies.

¹ Refer to our [sustainable investing](#) webpage for additional information on the path to net zero.

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 six standing committees: Appeals, Audits and Risk Management, Benefits and Services, 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.
Benefits and Services	The Benefits and Services Committee develops and oversees the execution of prudent policies relating to levels of benefits and the delivery of services to CalSTRS active members, retirees and their beneficiaries.
Board Governance	The Board Governance Committee supports the board in promoting the best interests of CalSTRS and CalSTRS members, retirees and their beneficiaries through the implementation of sound board governance policies and practices that enhance 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 administers all matters relating to the investment of assets and investment management. The committee is charged with administering the investment of assets for the exclusive purpose of providing benefits to members and their beneficiaries and maximizing CalSTRS’ financial stability in an efficient and cost-effective manner.

Teachers' Retirement Board¹



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



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



MALIA M. COHEN
State Controller
Ex Officio Member



MICHAEL GUNNING
Public Representative
 Term: April 26, 2022 –
 December 31, 2025



SHARON HENDRICKS
Community College
Instructor
 Term: January 1, 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



WILLIAM PREZANT
Public Representative
 Term: January 20, 2023 –
 December 31, 2026



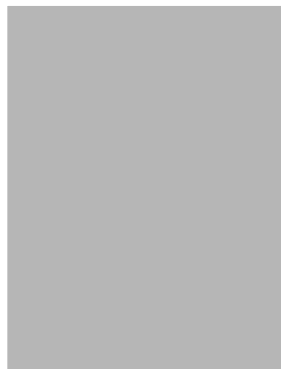
JOE STEPHENSHAW
Director of Finance
Ex Officio Member



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



TONY THURMOND
State Superintendent of
Public Instruction
Ex Officio Member



VACANT
Public Representative

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

CalSTRS executive staff¹

Executive



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.

CASSANDRA LICHNOCK
Chief Executive Officer

Investments



SCOTT CHAN
Chief Investment Officer

Financial Services

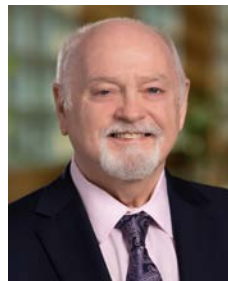


LISA BLATNICK
Chief Operating Officer



JULIE UNDERWOOD
Chief Financial Officer

General Counsel



BRIAN J. BARTOW
General Counsel

Administrative Services



VACANT
Deputy Chief Investment Officer



MELISSA NORCIA
Chief Administrative Officer

Benefits and Services



WILLIAM PEREZ
Chief Benefits Officer

Public Affairs



TERESA SCHILLING
Chief Public Affairs Officer

Technology Services



ASHISH JAIN
Chief Technology Officer

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

Strategic plan and performance measurement

2022–25 Strategic Plan

The **2022–25 CalSTRS Strategic Plan** demonstrates how our mission and vision will be advanced over the three-year strategic plan cycle. Our strategic plan is the product of more than a year of rigorous research, environmental scans, including a stakeholder survey, and intensive discussions between executive staff and the board. We're proud of the wide-ranging work completed in the development of this plan that fuels our forward momentum and guides our future direction, while reaffirming our commitment to sustaining the trust of California's educators as we focus on plan funding and evolve the customer experience.

This plan established three overarching goals and supporting objectives to guide our collective direction. The objectives for each goal are implemented through our annual business plan with initiatives and key activities.

Unlike prior strategic plans, the 2022–25 Strategic Plan was intentionally published without associated measures and targets. The theme of the current plan is “Assess and build capabilities.” The work supporting the goals of the current plan includes exploration and assessment of our innovation readiness; the current state of diversity, equity and inclusion at CalSTRS; our risk and compliance programs; and our cost-conscious culture. The three-year plan will result in roadmaps to becoming leaders in these and other priority areas. Through those assessments and the plans that evolve from them, we can develop benchmarks and goals for our next phase toward the board's 10-year vision of success, beginning in 2025, when the strategic plan will be themed “Engage and act.”

Meanwhile, we continue to monitor multiple key statistics over time through our performance and business reviews and report to the board periodically.

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

Operationalize sustainable investment beliefs to create long-term value.

Objective C

Execute the CalSTRS Collaborative Model 2.0 phase of the continuum.

Objective D

Grow strategic relationships with policymakers, stakeholders and partner organizations.

Objective E

Enhance how risks are defined, viewed and managed.

Goal 2: Leading innovation and managing change

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

Objective A

Implement and integrate a highly adaptive pension administration system to modernize transactional capabilities.

Objective B

Grow capabilities and culture to support a strategic and innovative mindset.

Objective C

Enhance the customer experience to improve engagement and reduce effort.

Objective D

Explore advanced technology to securely gain business agility and enhance user interface experience.

Objective E

Innovate, streamline and automate processes to increase efficiency.

Objective F

Transform business processes and drive digital adoption.

Goal 3: Sustainable organization

Fully integrate a unified environmental, social and governance ethos in all we do.

Objective A

Shape a resilient, sustainable, blended workforce that reflects fully-integrated diversity, equity and inclusion practices.

Objective B

Integrate and align environmental, social and governance principles across the organization.

Objective C

Complete headquarters expansion and transition activities.

Objective D

Strengthen preparedness capabilities to address change and disruptions.

CalSTRS business plan

Guided by the strategic plan, executive staff develop and implement annual business plans describing how we'll accomplish the 2022–25 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.

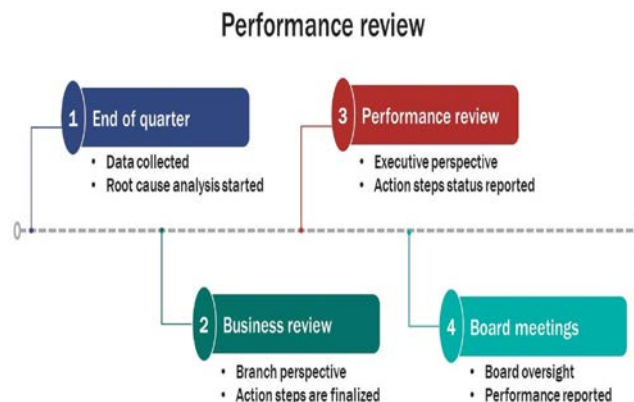
Performance measurement

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:

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 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, 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.

2023–24 significant accomplishments

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.

- Revised the board policy related to the lump-sum death benefit for active and retired members.
- Delivered second report to the California Legislature on the progress of the CalSTRS Funding Plan.
- Performed a review of the actuarial assumptions used in the funding of the system.

Objective B: Operationalize sustainable investment beliefs to create long-term value.

- Established interim goals to measure greenhouse gas emission reduction progress along the path to net zero.
- Researched, identified, offered and implemented diversity, equity and inclusion practices within asset classes, programs and the Investments Branch.
- Expanded engagement and outreach opportunities through the CalSTRS Diversity Forum and Beyond Talk Program.

Objective C: Execute the CalSTRS Collaborative Model 2.0 phase of the continuum.

- Optimized cost and savings reporting related to the Collaborative Model.
- Developed and implemented a Collaborative Model Pillar transition plan to operationalize across the organization.

Objective D: Grow strategic relationships with policymakers, stakeholders and partner organizations.

- Developed a primer that defines our target audiences, the roles they play in advancing our mission, and the mediums in which we reach and communicate with them.
- Modeled economic impacts by Senate, Assembly and Congressional district.
- Identified core audiences, including CalSTRS members and the sustainability business community, and associated key messages for sustainability program communications.

Objective E: Enhance how risks are defined, viewed and managed.

- Assessed the mandate and scope of the Enterprise Risk Management and Enterprise Compliance Services programs and identified opportunities to mature the programs.

Goal 2 — Leading innovation and managing change: Innovate to grow resiliency and efficiency in service of our members.

Objective A: Implement and integrate a highly adaptive pension administration system to modernize transactional capabilities.

- Reassessed critical success factors for the project.
- Adjusted risk response strategy to strengthen risk mitigation.

Objective B: Grow capabilities and culture to support a strategic and innovative mindset.

- Engaged an innovation expert to assess our current stage in the innovation maturity spectrum.
- Evaluated the future of work and retirement.
- Prepared a multiyear capital expenditure plan.

Objective C: Enhance the customer experience to improve engagement and reduce effort.

- Piloted the quality management program in Employer Services.
- Migrated to cloud-based telephony platform.
- Redesigned interactive voice response system.

Objective D: Explore advanced technology to securely gain business agility and enhance user interface experience.

- Built business intelligence and data warehouse platform.
- Evaluated existing enterprise resource planning system roadmap for current state and identified gaps.
- Implemented additional human capital management system capabilities.

Objective E: Innovate, streamline and automate processes to increase efficiency.

- Conducted research to identify strategies to promote efficiency in key process improvement projects.

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

- Defined structures to facilitate updated information technology governance framework.
- Evaluated organizational change management capabilities and identified opportunities for improvement.
- Increased digital adoption of newly implemented technologies.

Goal 3 — Sustainable organization: Fully integrate a unified environmental, social and governance ethos in all we do.

Objective A: Shape a resilient, sustainable, blended workforce that reflects fully-integrated diversity, equity and inclusion practices.

- Promoted diversity, equity and inclusion principles and activities on Central intranet and CalSTRS.com.
- Updated Investments Branch structure with new investment management classifications in support of the CalSTRS Collaborative Model.
- Assessed current state and developed roadmap to mature strategic plan resource analysis process.

Objective B: Integrate and align environmental, social and governance principles across the organization.

- Prepared a plan to integrate and align environmental, social and governance principles throughout the organization.
- Established measures and metrics to advance sustainability using standardized industry frameworks.

Objective C: Complete headquarters expansion and transition activities.

- Allocated staff seating in new facility.

Objective D: Strengthen preparedness capabilities to address change and disruptions.

- Implemented a new Emergency Mass Notification System.

Key performance indicators

Key performance indicators serve as overall representations of CalSTRS' performance in member service delivery. CalSTRS sets performance indicators that are balanced—measuring efficiency against effectiveness and cost against quality, as well as member perception and satisfaction. KPIs are considered 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.

KPI performance is reviewed quarterly with executives and directors during the customer service performance review where discussions are open to gain understanding and knowledge of business areas that perform member-facing transactions. 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 2023–24 (as of the second quarter) as well as our planned 2023–24 and 2024–25 targets.

Business area	Key performance indicators	Target 2023–24	YTD 2023–24	Target 2024–25
CalSTRS	Members expressing a high level of satisfaction with CalSTRS overall (annual measure)	75%	¹	75%
	Member online self-service for account transactions	65%	67%	65%
Service Retirement	Members expressing a high level of satisfaction with their Service Retirement experience	75%	85%	75%
	Benefits established within 30 calendar days of benefit effective date or date of last application (whichever is later)	90%	98%	90%
Disability	Eligible applications processed within 150 calendar days of receipt	90%	95%	90%
	Approved disability applicants expressing a high level of satisfaction with the overall process ²	75%	69%	75%
	Approved disability applicants expressing a high level of satisfaction with service received from the disability analyst overall	75%	81%	75%
Survivor Benefits	Applications processed within 30 calendar days of receipt of all necessary information	90%	92%	90%
	Ongoing allowances established within 10 calendar days of receipt of all necessary information	90%	92%	90%
	Beneficiaries expressing a high level of satisfaction with the Survivor Benefits process overall	N/A ³	N/A	75%
Customer Service	Contact Center calls answered within 30 seconds	75%	75%	75%
	Members expressing a high level of satisfaction with service during their most recent Contact Center experience (calls) ⁴	75%	95%	75%
	Average number of business days to respond to online messages	< 2 Days	0.62	=< 2 Days
	Members expressing a high level of satisfaction with service during their most recent Contact Center experience (messages) ⁴	75%	77%	75%

¹ Data will not be available until after the end of the 2023–24 fiscal year.

² Monthly results based on survey responses from previous month.

³ New key performance indicator target added for fiscal year 2024–25.

⁴ Quarterly survey results are based on surveyed responses from one month out of the quarter.

Business area	Key performance indicators	Target 2023–24	YTD 2023–24	Target 2024–25
Customer Service	Paper account maintenance transactions processed within 10 business days of receipt	85%	95%	85%
	Abandoned calls	3%	2.3%	3%
Financial Services	Service credit purchase requests completed within 25 business days	100%	100%	100%
	Refund applications processed within 25 business days of receipt	100%	99%	95%
Employer Reporting and Contributions	(FS) Percentage of contributions submitted prior to the delinquent date (95%/5th day)	100%	98%	100%
	(ES) Percentage of employer reporting submitted prior to the delinquent date, by unit	100%	98%	100%
	(ES) Complete cases of all new retirees that meet threshold within 75 calendar days of the benefit effective date report	N/A ¹	N/A	95%
	(ES) Total quality score of employer inquiries meeting review parameters	N/A ¹	N/A	85%
	(ES) Employer satisfaction after a service interaction	N/A ¹	N/A	75%
	(ES) Employer satisfaction after a training event	N/A ¹	N/A	75%
Community Property	Acceptable court orders implemented to member's accounts within 15 calendar days of receipt of all required documentation	85%	96%	85%
	Community Property estimates provided to a member, nonmember or legal representative within 17 calendar days of receipt	90%	96%	90%
	Member-submitted draft court orders reviewed and responded to within 10 calendar days of receipt	90%	91%	90%
	Members expressing a high level of satisfaction with Community Property estimate services ²	75%	78%	75%
	Members expressing a high level of satisfaction with Community Property representatives overall	75%	83%	75%
Retirement Readiness	Members expressing a high level of satisfaction with their benefits planning session	75%	92%	75%
	Members expressing a high level of satisfaction with the length of time between scheduling an appointment and attending a benefits planning session	75%	78%	75%
	Members age 44 and younger who receive educational services (annual measure)	3%	³	4%
	Participants expressing a high level of satisfaction with Pension ² overall (annual measure)	75%	³	75%
	Annual Pension ² contributions (millions)	\$108	³	5 yr avg +5%
	Number of new 457(b) and 403(b) plan adoptions (annual measure)	52	³	5 yr avg +5%
	New account growth	5,083	³	5 yr avg +5%

¹ New key performance indicator target added for fiscal year 2024–25.

² Monthly results based on survey responses from previous month.

³ Data will not be available until after the end of the 2023–24 fiscal year.

Long-range financial planning

Integrated financial management

CalSTRS' primary goal is to maintain a well-governed, financially sound retirement system, which is the cornerstone of the organization's long-term financial planning. Our long-range financial plan evaluates our overall funded status, considering impacts to total revenues and expenditures relative to legislative, economic and demographic changes. The long-term financial planning process assesses current funding levels to determine whether member, employer and state contribution rates are sufficient to meet the current and future obligations of the Defined Benefit Program. The key objective is to ensure our long-term sustainability and to pay benefits to CalSTRS members and their beneficiaries.

The CalSTRS Funding Plan reflects a shared commitment by members, employers and the state to incrementally adjust contributions in a predictable manner to fully fund the Defined Benefit Program and ensure the long-term sustainability of the fund. The contribution rates established in the funding plan at the time it was designed in 2014 were set with the goal of achieving full funding by 2046. Additionally, the funding plan provides the Teachers' Retirement Board with limited authority to increase or decrease both the state and employer contribution rates to ensure the plan remains on track and can respond, as necessary, to unexpected changes in CalSTRS' economic and demographic situation.

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 indicated long-term system revenues were insufficient to fund future retirement obligations and absent any changes to contribution rates, the CalSTRS Defined Benefit Program would run out of assets within 30 years. Consistent with our mission, we committed to promoting the development of a comprehensive strategy to address the long-term funding needs of the system.

Key highlights

Addressing the existing unfunded actuarial obligation remains at the forefront of our strategic plan as we continue to make progress toward reducing the funding shortfall. The current long-range financial plan is based on the June 30, 2023, (released in May 2024) actuarial valuation of the CalSTRS Defined Benefit Program, which reflects a steady improvement in the funded status. The funded ratio—the amount of assets on hand to pay for obligations—improved from 74.4% to 75.9%, and the unfunded actuarial obligation decreased from \$88.6 billion as of June 30, 2022, to \$86.6 billion as of June 30, 2023. Long-term projections assume an actuarial rate of return of 7.0% for investment performance and a 3.25% annual payroll growth rate.

The CalSTRS Defined Benefit Program continues to mature, with the ratio of active members to retirees steadily declining in recent years. The largest risk we face in reaching full funding is future investment returns falling short of the assumed actuarial rate of return. Other risks include longevity risk and lower than anticipated growth in future payroll, possibly as a result of a potential decrease in the size of the active membership.

Significant events in the past year

The significant events experienced in the past year include the review and adoption of new actuarial assumptions by the board, and us earning just below our 7.0% assumed investment return with a 6.3% time-weighted investment return in 2022–23. Additionally, there was a notable increase in active members for the second year in a row, bringing the number of active members to the highest level since 2009. This resulted in a total payroll increase of approximately 6%, which is more than the assumed 3.25% annual growth.

Overall, we remain slightly ahead of schedule in our goal of reaching full funding by 2046. In May 2024, the board voted to keep both the state and employer contribution rates at existing levels to keep the funding plan on track.

Investment return

The CalSTRS Investment Portfolio generated a time-weighted rate of return of 6.3% as of June 30, 2023.

The investment return keeps us on track long term, as the three-, five-, 10-, 20- and 30-year returns, including the 10.1% three-year return, all surpass the actuarial assumption of 7.0% despite inflation, rising interest rates and global sociopolitical uncertainty. Due in part to 2020–21's record-breaking 27.2% return, we remain in a position to be fully funded by 2046.

Contribution rates

The CalSTRS Funding Plan provides the board with the ability to adjust the state's contribution rate by 0.5% of payroll each year. For the third year in a row, at the May 2024 meeting, the board voted to keep the state supplemental contribution rate at the existing level of 6.311% of payroll, keeping the total state contribution rate to 10.828% of payroll. This provides rate stability, improves funding levels, and reduces risk in the event of future adverse investment outcomes, ensuring the state remains on the path to eliminate its share of CalSTRS' unfunded actuarial obligation by 2046.

Effective fiscal year 2021–22, the board has authority to adjust the employer supplemental contribution rate pursuant to the CalSTRS Funding Plan. The board can adjust the employer supplemental contribution rate up or down by a maximum of 1% of payroll in a single year. At the May 2024 board meeting, the board voted to keep the supplemental employer contribution rate at 10.850% for the fourth year in a row to maintain stability in the employer contribution rate going forward, improve funding levels more quickly and reduce the likelihood the board may have to raise the employer rate in the future.

Under the California Public Employees' Pension Reform Act of 2013, CalSTRS 2% at 62 members are required to pay at least one-half of the normal cost of their Defined Benefit Program benefit, rounded to the nearest quarter of one percent. The member contribution rate must be adjusted if the normal cost changes by more than 1.0% since the last time the contribution rate was adjusted.

The normal cost has increased by 0.5% since the last adjustment on July 1, 2018. Currently, CalSTRS 2% at 62 members are paying 9% toward the normal cost and are contributing an additional 1.205% per the CalSTRS Funding Plan, for a total contribution rate of 10.205%. Furthermore, the member contribution rate for CalSTRS 2% at 60 members is set in statute at 10.250%.

Member demographics

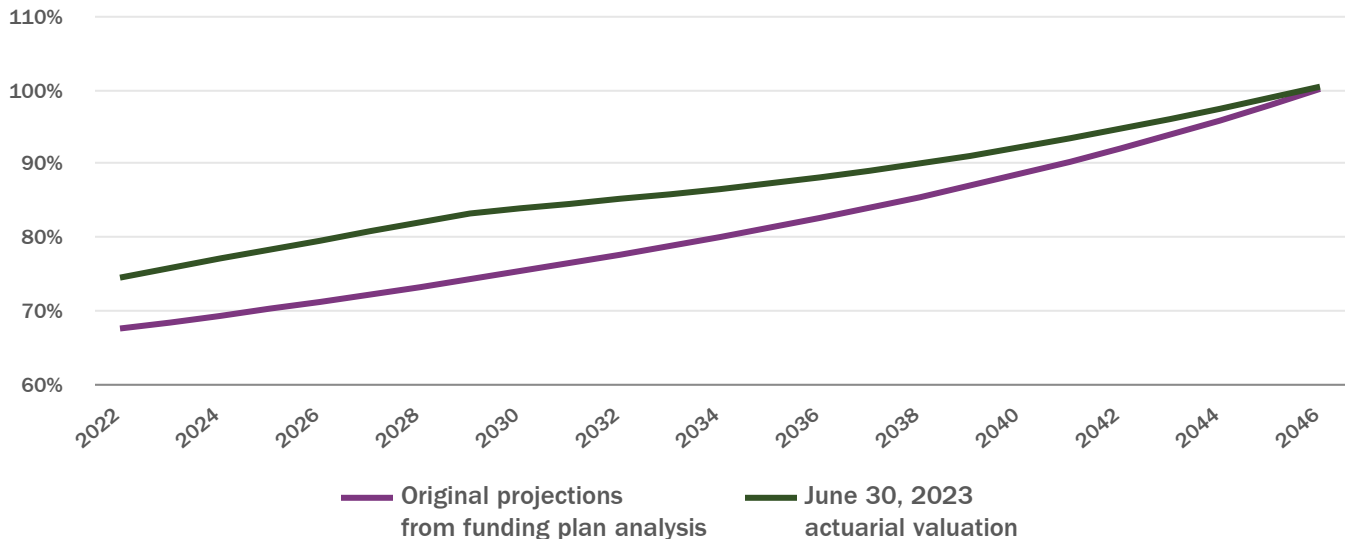
After a significant decline in the number of active teachers participating in the Defined Benefit Program during the COVID-19 pandemic, the number of active teachers increased for the second year in a row, by about 9,000 in 2022–23. The number of active members on June 30, 2023, was approximately 458,000—the highest since 2009. Combined with larger than anticipated salary increases for active members, the total payroll increased by about 6%, more than the previously assumed 3.25% annual growth. We continue to monitor the situation, especially since the last few years have experienced declines in the number of children enrolled in K–12 public schools, and projected enrollment declines in the future may result in a

need for fewer teachers in California. The reduction could affect the number of active teachers participating in the Defined Benefit Program and future growth in the payroll.

Revised projected funding levels

The chart below compares projected funding levels that were expected when the funding plan was adopted in 2014 to the revised projected funding levels reflecting last year’s investment return as part of the June 30, 2023, actuarial valuation. As shown below, funding levels are now projected to be higher than anticipated, with full funding still expected to occur by 2046. When compared to the original funding level projections at the time the funding plan was adopted in 2014, we’re slightly ahead of schedule. The projections assume that the fund will meet a 7.0% investment return and payroll growth of 3.25% annually through 2046.

Projected funded status



Review of actuarial assumptions

In 2023–24, we completed our review of the actuarial assumptions used in preparing the actuarial valuations. Proposed changes to the assumptions, including lowering the payroll growth rate to 3.25%, were presented to the board and adopted in January 2024. These new assumptions were reflected in the June 30, 2023, actuarial valuations presented to the board in May 2024. When performing actuarial valuations, actuaries rely on the use of various demographic and economic assumptions. It’s important to monitor these assumptions to ensure they are reasonable, reflect the actual experience of the system, and are appropriate for assessing funding levels and determining contribution levels needed to achieve full funding.

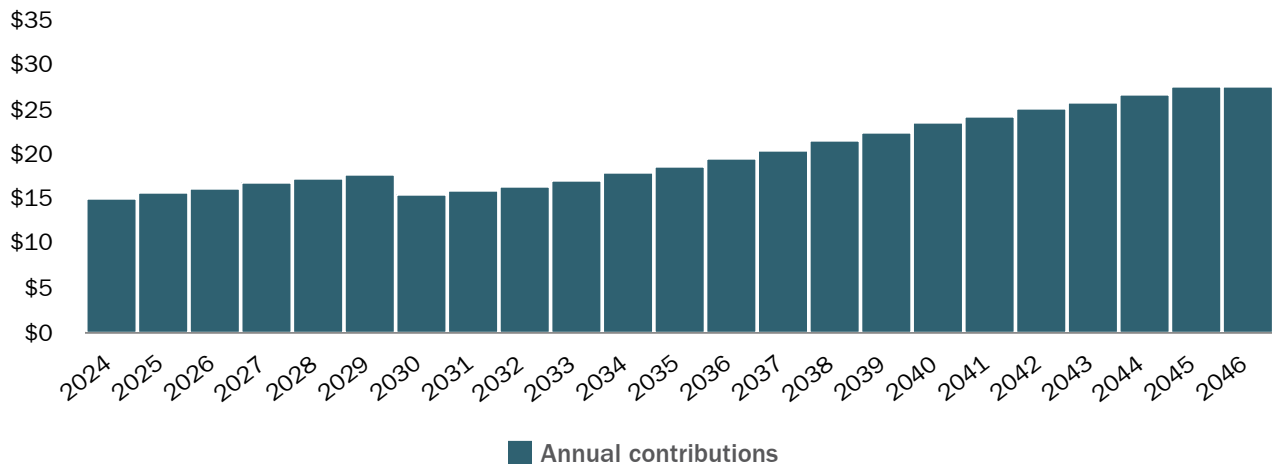
We adopted a policy to perform a formal review of actuarial assumptions every four years. Furthermore, we constantly monitor the appropriateness of the actuarial assumptions adopted by the board. If any events or changes warrant an adjustment to actuarial assumptions, the issue would be brought to the board for discussion, even if it meant such discussion would occur ahead of the normal four-year review cycle.

Revenues

Contributions and investment income

Primary revenue sources for the Teachers’ Retirement Fund are member, employer and state contributions and investment returns. Over the last 30 years, about 61.4% of revenues have come from investment returns. Going forward, we anticipate approximately 60% of future revenues will come from investment returns with the remainder coming from a combination of member, employer and state contributions. These percentages can change over time due to fluctuations in net investment income; adjustments to required member, employer and state contribution rates under the CalSTRS Funding Plan; and impacts of other legislation. Contribution amounts are determined as a percentage of members’ creditable compensation. Investment returns are dependent upon global market conditions. The current revenue estimates assume the fund will earn its assumed actuarial rate of return of 7.0% each year into the future and that payroll will increase each year at a rate of 3.25%. Additional information regarding contribution rates is provided in Appendix 3.

Projected contribution revenue¹
(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 unfunded actuarial obligation is eliminated, which is expected to occur in 2030.

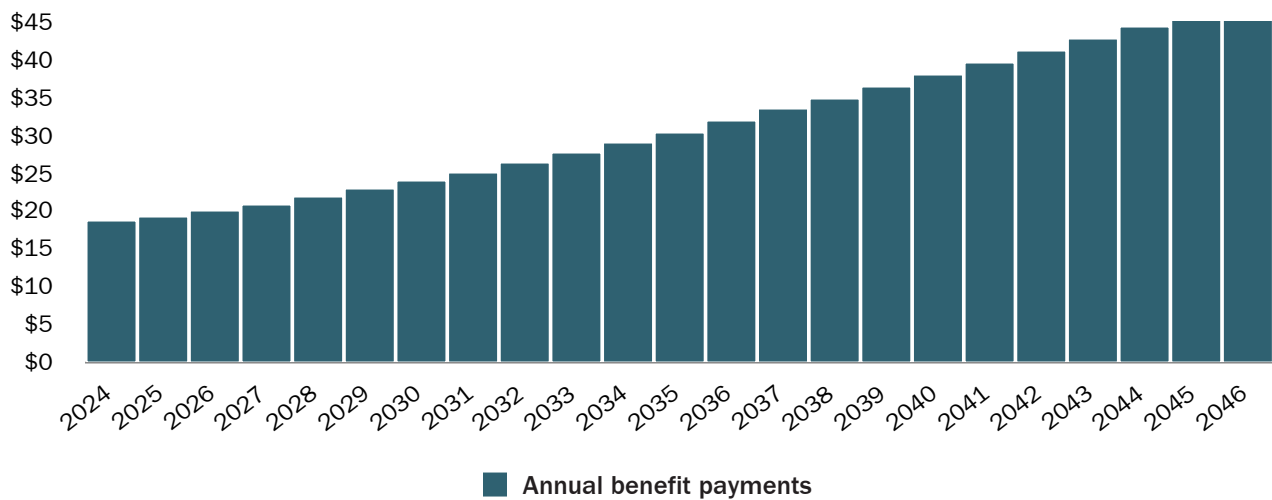
Expenses

Member benefit payments

Expenses for the Teachers' Retirement Fund are primarily composed of pension benefit payments and on average represent the majority of CalSTRS' total expenditures. Changes in long-term projected benefit payments are largely driven by changes in various economic and demographic assumptions such as service retirements,

mortality, creditable compensation, disability and inflation. Member benefit payments are estimated to increase at an average rate of approximately 4.3% annually through 2046. 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)



Budget overview

Budget in brief

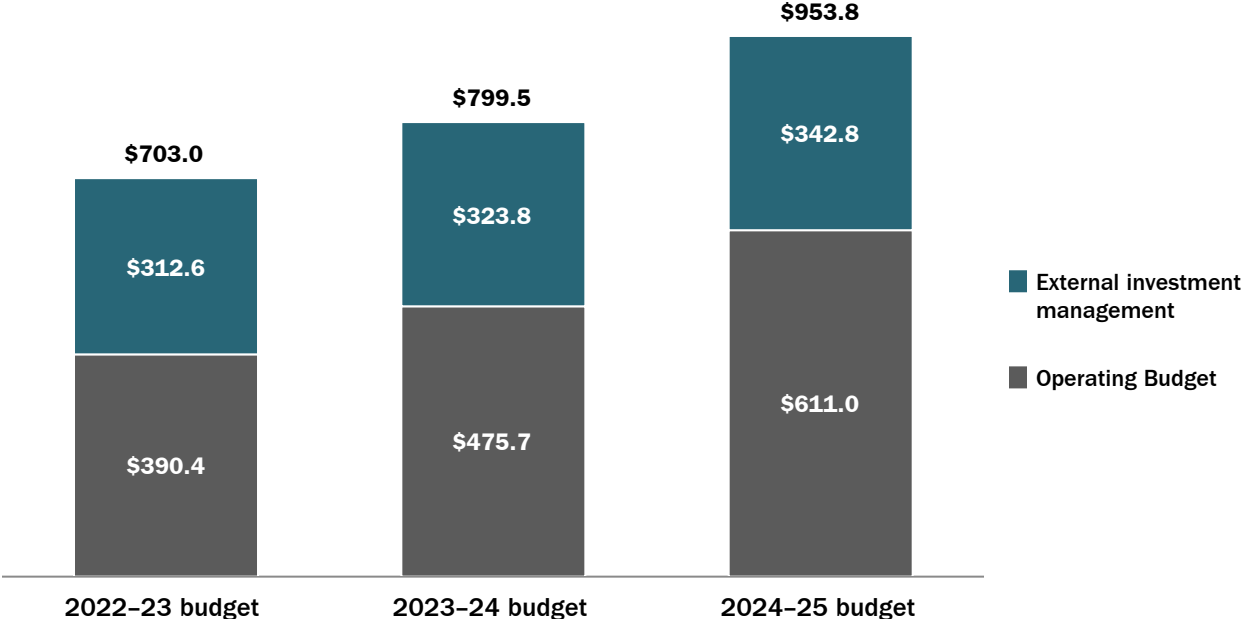
CalSTRS' 2022–25 Strategic Plan lays out a set of goals and measurable objectives that demonstrate how our mission and vision will advance through 2025. This task is a long-term endeavor, requiring comprehensive and sustainable solutions for today and many years to come. The CalSTRS 2024–25 Annual Budget incorporates these goals and objectives by developing a detailed operational and financial plan to deliver on annual and long-term objectives and targets.



The 2024–25 Annual Budget fosters continued implementation efforts to modernize our legacy pension administration system, and operational support and compliance and risk management activities to address CalSTRS’ 2022–25 Strategic Plan priorities and enterprisewide growth. Highlights include funding increases for the Pension Solution Project to continue 2024–25 system implementation activities, as well as support maintenance and operations, and stabilization activities, and 12 authorized positions dispersed across the organization. Moreover, this budget includes a funding increase for the fourth year of scheduled expenditures for the continued implementation of the investment management plan, in support of the CalSTRS Collaborative Model, as we transition more assets to internal management. Additional changes include state-mandated adjustments to employee compensation, a baseline reduction for one-time 2023–24 Pension Solution Project funding authority, and changes to other operational expenditures.

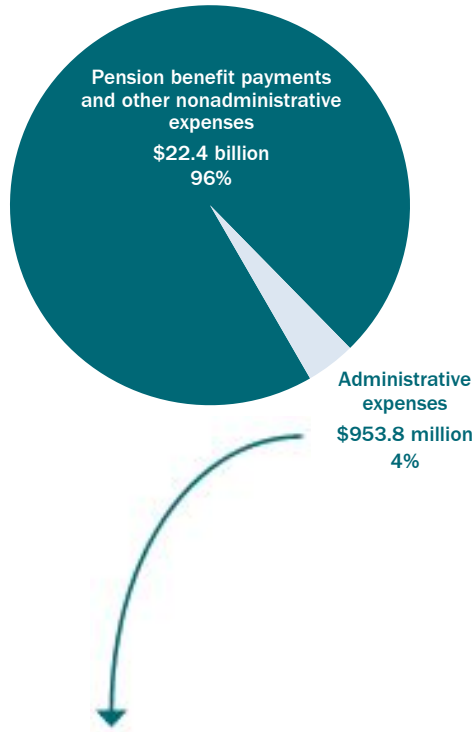
CalSTRS’ 2024–25 total budget is \$953.8 million and includes 1,401 authorized positions. Of this amount, \$342.8 million is for external investment management,¹ and \$611.0 million represents CalSTRS’ Operating Budget. This reflects a total net Operating Budget increase of \$135.3 million, or 28.0%, relative to the 2023–24 Operating Budget.

Fiscal years 2022–23, 2023–24 and 2024–25 total budgets
(dollars in millions)



¹ External investment management fees are largely correlated to the value of assets under management and investment returns and are continuously appropriated. Continuous appropriations represent statutory expenditure authorization that exists from year to year without further legislative or board action.

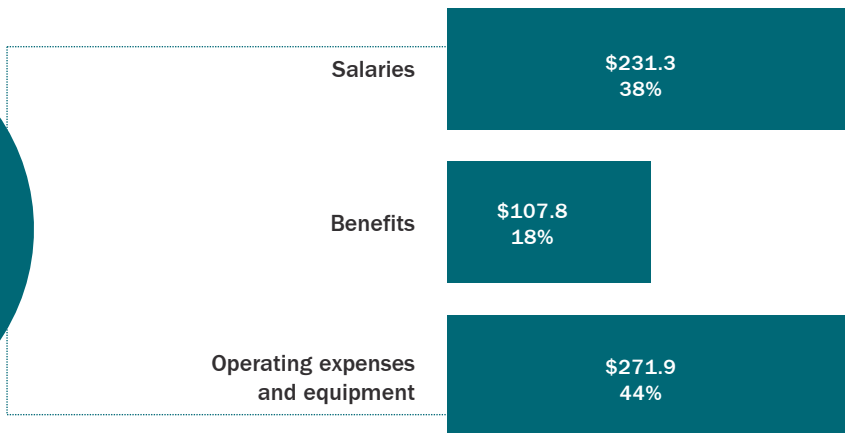
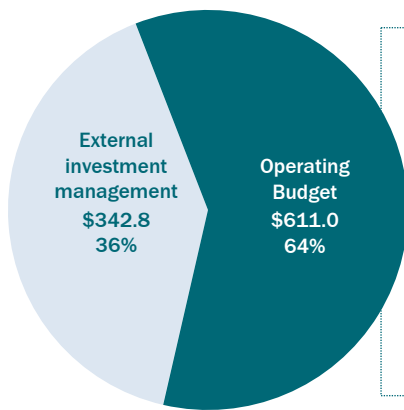
**Fiscal year 2024–25
total budgeted expense breakout**



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

Administrative expenses account for approximately 4% of CalSTRS' total expenses and represent CalSTRS' total budget.

**Total fiscal year 2024–25 budget
(dollars in millions)**



The table below provides a summary of our prior fiscal year actual expenditures, the 2023–24 fiscal year total budget, the 2024–25 total fiscal year budget, and highlights the amount of change by budget category between fiscal years 2023–24 and 2024–25.

Three-year overview^{1,2,3}

(dollars in thousands)

Budget category	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Operating Budget				
Salaries	\$145,716	\$191,431	\$231,319	\$39,888
Benefits	69,259	85,623	107,815	22,192
Operating expenses and equipment				
General expenses	16,959	33,241	32,286	(955)
Consulting and professional services	59,162	121,679	193,736	72,057
Facilities operations	38,622	20,478	20,478	—
Central administrative services	14,746	14,723	16,935	2,212
Data processing and storage	9,557	8,528	8,458	(70)
Total Operating Budget	354,021	475,703	611,027	135,324
External investment management	218,532	323,778	342,785	19,007
Total budget	\$572,553	\$799,481	\$953,812	\$154,331
Percentage change				19.3%

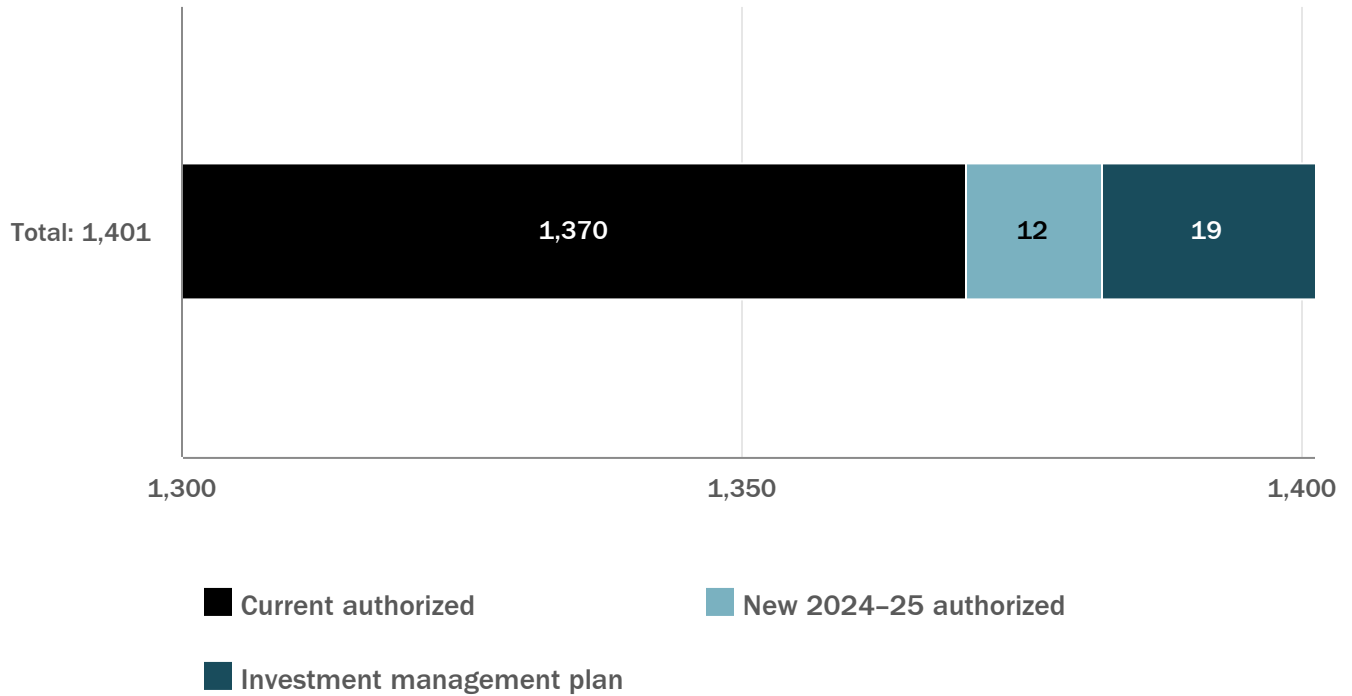
¹ Three-year overview by fund is provided in Appendix 4.

² The 2023–24 fiscal year board-approved Operating Budget was revised in the amount of \$87.2 million for the Pension Solution Project. Additional information is provided in the March 2023 Teacher’s Retirement Board Item #8 - Pension Solution Project Update and Budget Adjustment.

³ Consistent with financial reporting practices, the external investment management fees exclude securities lending, borrowing costs on investment-related master lines of credit and broker commissions.

The 2024–25 Operating Budget includes 1,401 total authorized positions, reflecting an increase of 31 positions to CalSTRS’ workforce,¹ or 2%, relative to 2023–24. This includes 12 positions dispersed across the organization to address strategic priorities and enterprisewide growth and 19 authorized positions previously approved as part of the investment management plan. A breakout of authorized positions by branch is provided in the “Branch information” section.

2024–25 authorized positions



¹ 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.

2024–25 Operating Budget changes

The 2024–25 Operating Budget is \$611.0 million and includes 1,401 authorized positions. This reflects a net increase of \$135.3 million, or 28.0%, relative to the 2023–24 Operating Budget. The overall net budget change is primarily driven by additional funding to continue system implementation efforts for the Pension Solution Project, as well as support maintenance and operations, and stabilization activities, and funding for 12 authorized positions to support operational support and compliance and risk management activities. Additionally, the budget includes adjustments for the fourth year of scheduled expenditures for the continued implementation of the investment management plan, state mandates and a baseline reduction for one-time 2023–24 Pension Solution Project funding. The table below displays the total net change of \$135.3 million by operational category.

2024–25 Operating Budget changes

(dollars in millions)

Operational category	Amount change
Pension Solution Project	\$118.6
State mandates	8.2
Investment management plan	6.6
Operational support and compliance and risk management	1.9
Total	\$135.3

Pension Solution Project: \$118.6 million

Consistent with Strategic Goal 2, Objective A, we continue to make progress to implement and integrate a highly adaptive pension administration system to modernize transactional capabilities.

In alignment with these priorities, the 2024–25 Operating Budget includes \$205.8 million in one-time budget authority to fund internal and external resources to complete system implementation activities, as well as support maintenance and operations, and stabilization activities, for the Pension Solution Project. This brings the total project budget to \$627.8 million—\$523.1 million to complete the system implementation, and the remaining \$104.7 million for maintenance and operations. Funding is effective July 1, 2024, and will be available for encumbrance or expenditure through June 30, 2027, and for liquidation through June 30, 2029. Additionally, the budget authority includes an extension of the existing Pension Solution Project appropriations through June 30, 2027, for encumbrance or expenditure and through June 30, 2029, for liquidation.

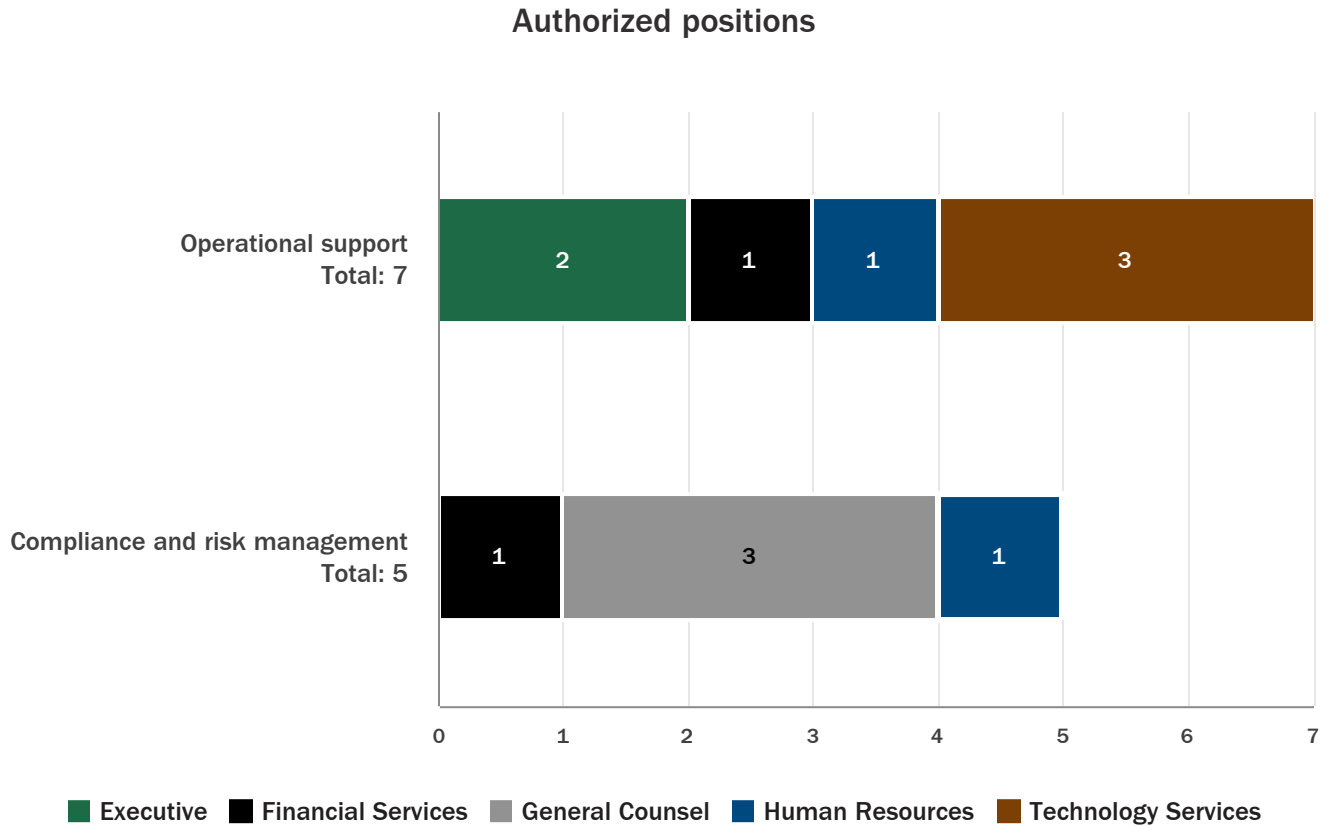
The 2024–25 Operating Budget also includes a \$87.2 million baseline reduction for one-time 2023–24 Pension Solution Project funding approved during the March 2023 board meeting to continue system implementation activities in 2023–24. With this adjustment, the total net increase for 2024–25 is \$118.6 million. Additional information is provided in the “Capital projects” section.

Operational support and compliance and risk management: \$1.9 million

Workload management: \$1.9 million, 12 positions

The 2024–25 Operating Budget includes \$1.9 million to establish 12 authorized positions. Workload for these positions is primarily associated with operational support and compliance and risk management functions, to address strategic priorities and enterprisewide growth.

The chart below displays the 12 authorized positions by function, 2022–25 Strategic Plan goal and enterprisewide growth.



**Operational support:
\$1.1 million, seven positions**

Operational support functions play an integral role in maintaining our core business functions as the enterprise grows. Seven positions will be dispersed across four business areas to support increased operational workload demands and will be performing the following key tasks:

- Provide audio and visual support for the headquarters and member service center locations; process IT service, change and incident requests to support critical business applications; and assist with various project management activities.
- Perform various administrative and clerical support activities, including management and coordination of travel, meetings and trainings.
- Evaluate and enhance enterprisewide performance measurement activities; and develop metrics and reporting to monitor organizational health and performance.
- Review member refund applications; process member refund payments; perform various accounting reconciliation and analysis activities; and review, research and respond to member refund inquiries.
- Enhance leadership onboarding and development programs, including integration of diversity, equity, and inclusion strategies; collect data; develop reports; and perform best practices research.

**Compliance and risk management:
\$800,000, five positions**

It's vital for CalSTRS to have proper resourcing for securing and maintaining the confidentiality and integrity of data and ensuring the organization adheres to compliance requirements, including laws, regulations, policies, processes, procedures and administrative directives. These five positions, for three business areas, will help mitigate information security, operational, financial, legal and reputational risks to the organization by performing the following key tasks:

- Manage information security defense and monitoring activities, including audit life-cycle activities; third-party reviews; and oversight of cloud technology environments to ensure compliance with information security laws, regulations, policies, standards and guidelines.
- Track legal and regulatory requirements, update internal policies and processes, monitor regulatory compliance and risk exposure, test compliance activities, and help with developing risk mitigation plans.
- Administer processing and review of Public Records Act requests, subpoenas, and Form 700 and 600 filings to ensure compliance with laws, regulations, policies, processes, procedures and directives.
- Conduct confidential investigations for Equal Employment Opportunity and performance-related violations; document and report case investigation activities and findings; and provide recommendations to ensure compliance with laws, regulations, policies, and rules in the workplace.

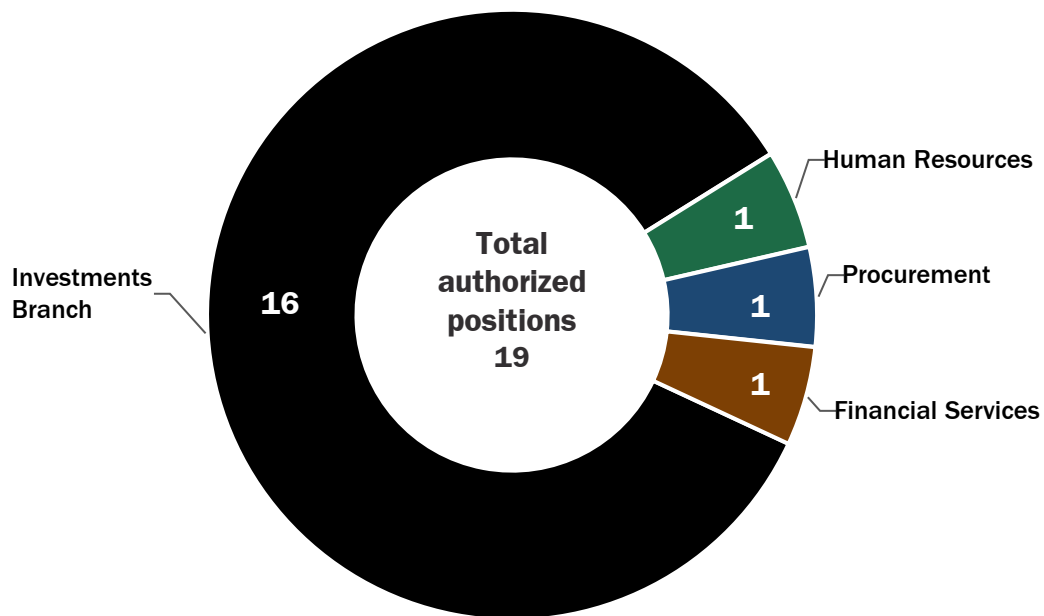
Investment management plan: \$6.6 million, 19 positions

As part of the 2021–22 Operating Budget, the board approved an investment management plan for \$40.9 million to establish 109 authorized positions and funding for external investment audit services, dispersed across fiscal years 2021–22 through 2025–26. This includes resources for the Investments Branch and administrative support areas to effectively administer the growth in investment functions.

The investment management plan is a five-year resource planning strategy to continue successful implementation efforts and growth of the CalSTRS Collaborative Model, as we transition more assets to internal management and manage growth of assets under management. The primary objectives of the Collaborative Model are to reduce costs, control portfolio risk, increase investment returns and leverage our external partnerships—all for the benefit of California educators and their beneficiaries.

Of the total \$40.9 million in funding for the five-year plan, the 2024–25 Operating Budget includes the fourth year of scheduled funding in the amount of \$6.6 million, which includes \$6.5 million for 19 authorized positions and \$60,000 for external investment audit services. The chart below displays the 2024–25 authorized positions by business area.

2024–25 authorized positions by business area



State mandates: \$8.2 million

State mandates include a net increase of \$8.2 million for fiscal year 2024–25. State mandates are largely associated with nondiscretionary costs, including augmentations to employee compensation for existing personnel and the annual pro rata assessment issued by the Department of Finance.

Employee compensation: \$7.2 million

Employee compensation adjustments reflect a net increase of \$7.2 million. This is primarily composed of a general salary increase of 3.0% and merit salary adjustment of 5% for eligible employees.

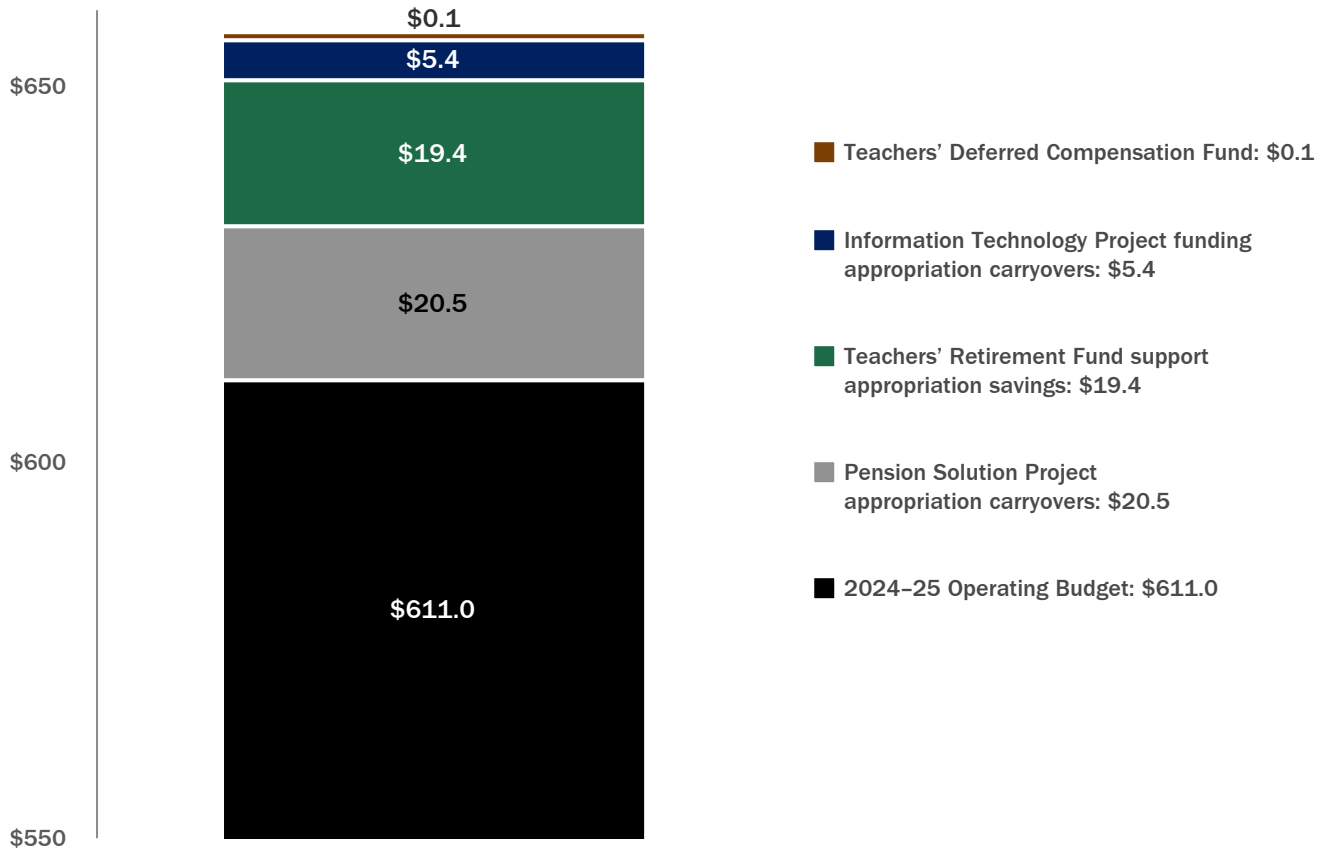
Pro rata assessment: \$1.0 million

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 2024–25, the annual pro rata assessment will increase by \$1.0 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.

2024–25 total estimated spending authority

Total: \$656.4
(dollars in millions)



The Operating Budget provides the authority to expend up to \$611.0 million in fiscal year 2024–25. We have additional spending authority resulting from prior board approvals, available for expenditure in fiscal year 2024–25. As a result, we can end the year with total expenditures greater than the 2024–25 Operating Budget. The primary sources of additional budget authority are the Pension Solution Project appropriation carryovers, Teachers' Retirement Fund support appropriation savings, Information Technology

Project Funding appropriation carryovers and additional budget authority for the Teachers' Deferred Compensation Fund.

As summarized in the chart above, total estimated spending authority above the 2024–25 Operating Budget is currently projected at \$45.4 million. Based on these estimates, we can expend up to \$656.4 million in fiscal year 2024–25. Additional details are provided on the following page.

Pension Solution Project appropriation carryover: \$20.5 million

Of the total \$627.8 million Pension Solution Project budget, \$20.5 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: \$19.4 million

Pursuant to **Appendix III.1 of the Teachers' Retirement Board Governance Manual**, if we end the year with savings in the Teachers' Retirement Fund support appropriation, these savings are available for expenditure for two years after the initial appropriation, upon board approval, and are limited to 3% of that appropriation. These savings would be used for the purpose of meeting unanticipated costs and promoting better service to our members. Upon board approval, the 2022–23 Budget Act provides that \$9.3 million is available to encumber by June 30, 2025, and through June 30, 2027, to liquidate, and the 2023–24 Budget Act provides that \$10.1 million is available to encumber by June 30, 2026, and through June 30, 2028, to liquidate.

Information Technology Project Funding appropriation carryover: \$5.4 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, \$5.4 million is available to encumber by June 30, 2026, and through June 30, 2028, to liquidate. These funds will be used as projects are approved by EPIC.

Teachers' Deferred Compensation Fund: \$105,500

The Teachers' Deferred Compensation Fund 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. Staff monitors the cash revenues received by the fund to ensure it's sufficient to cover expenditures. If sufficient cash revenue is generated, the TDCF has additional budget authority of up to 5%, or \$105,500, over the baseline TDCF budget of \$2.1 million, as needed for unanticipated expenditures or to support expansion of the program.

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. 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.

We currently have two major capital projects underway. The first is the Pension Solution Project, with a project budget of \$627.8 million. The second is the CalSTRS Headquarters Expansion Project, with a project budget of \$321.4 million.¹

Pension Solution Project

The Pension Solution Project is an ongoing effort to modernize the legacy pension administration system. The project is the largest technology effort in our history and encompasses the implementation of a new benefits program management system to support program and policy changes, incorporate automated internal controls and improve processing times. It will interface with multiple systems, including our financial and imaging systems, and will provide upgraded secure portals for members and employers. The new system, BenefitConnect, will administer member and beneficiary account information, employer reporting, benefit calculations and case management activities into a single integrated solution. This multiyear project will enhance our ability to respond to customer and business needs; gain long-term operational efficiencies; improve internal controls; and enhance services to more than 1 million members and their beneficiaries, as well as the school employer community.

Pension Solution Project objectives

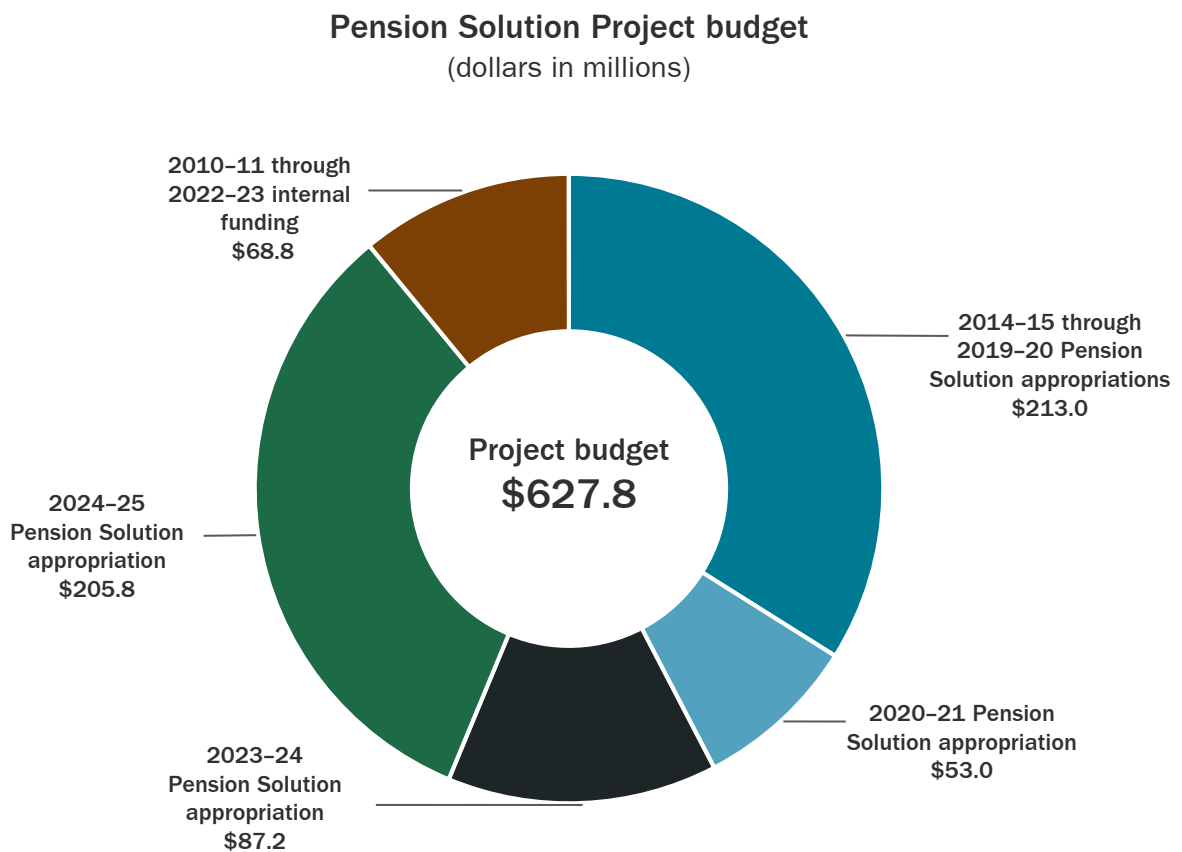


¹ Excludes the cost of bond financing.

Pension Solution Project budget: \$627.8 million

In November 2023, the Teachers' Retirement Board approved a Pension Solution Project budget of \$627.8 million. 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.



The table below summarizes the Pension Solution Project budget and the budgeted and consumed amounts by funding source as of December 31, 2023.

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	\$212,878	\$122
2020–21 Pension Solution appropriation	53,000	52,825	175
2023–24 Pension Solution appropriation	87,173	52,905	34,268
2024–25 Pension Solution appropriation	205,837	—	205,837
2010–11 through 2022–23 internal funding	68,834	68,774	60
Total	\$627,844	\$387,382	\$240,462

Pension Solution Project schedule

We continue to make notable progress toward implementing the new pension administration system to modernize transactional capabilities. We completed the interim services period and executed our path forward implementation strategy which will bring the project to a successful implementation planned for fall 2025. With the procurement and onboarding of several new implementation support services vendors to augment the CalSTRS team with experienced resources, the recruitment of crucial staff roles, a plan for cloud migration, and increased communications and engagement activities, the project is in a strong position for successful deployment. In addition, we prepared an updated project schedule and cost estimates, which were approved by the board in November 2023. We remain committed to delivering a quality pension administration system that meets our goals and the needs of our stakeholders.

CalSTRS Headquarters Expansion Project

In fall 2019, we began to expand our headquarters located in West Sacramento, California. The expansion allows us to meet the long-term space needs resulting from the projected increase in size and complexity of the organization. The new 10-story tower includes 260,000 square feet of additional office space, which were financed through conduit tax-exempt lease revenue green bonds.

Our long-term employee growth projections forecast an increase of approximately 4.5% annually through the next decade before growth declines to approximately 2.5% per annum. The expanded headquarters space allows the organization to grow over the long term to meet the needs of our changing business models and growth expectations. The new building is an investment for CalSTRS' future, one we anticipate will meet the organization's needs for the next 30 years.

CalSTRS Headquarters Expansion Project budget: \$321.4 million

Prior to approving the Headquarters Expansion Project, the Teachers' Retirement Board reviewed a variety of scenarios to accommodate our long-term growth strategy, including developing a second structure at the current headquarters campus, acquiring an existing building or leasing office space in the region. After careful consideration of all options, in November 2018, the board unanimously approved the development of a second structure using tax-exempt lease revenue

green bond financing with a total budget not to exceed \$300 million (excluding the cost of financing) for construction of the building. The \$300 million budget includes \$8 million, which was approved as a part of the fiscal year 2016–17 Operating Budget, for preconstruction activities, including design, and to provide cost estimates for various facility alternatives. The remaining \$292 million was used for the construction and development of the building and was included as a one-time augmentation of budget authority in the fiscal year 2018–19 Operating Budget. The total cost of construction was recognized in fiscal years 2016–17 and 2018–19 when the funds were encumbered from a budgetary basis.

Due to impacts of extended project schedules, permitting delays, cost escalations associated with supply chain shortages and safety measures associated with the prolonged COVID-19 pandemic, the board approved additional funding not to exceed \$18.5 million in January 2022, using tax-exempt lease revenue green bonds to complete the Headquarters Expansion Project. Due to delays of the inspection process, increased costs from inspection fees, insurance and temporary power, the board approved additional funding of \$2.9 million in November 2023, which will be funded by excess interest earned from the tax-exempt lease revenue bonds, and to the extent that is not sufficient, the balance will be funded by the Teachers' Retirement Fund. This brings the current project budget to \$321.4 million.

As of March 7, 2024, construction was approximately 99% complete. The anticipated move-in date will be summer 2024.



Bond financing

Of the \$321.4 million project budget, \$300 million is financed with Series 2019 tax-exempt lease revenue green bonds, which state and local governments commonly use to finance capital improvements, such as infrastructure. Using tax-exempt lease revenue green bond financing to fund the Headquarters Expansion Project provided the most economic and long-term value to finance the cost of the building. This alternative offers a rationale for spreading the infrastructure costs over time, as opposed to a significant and immediate one-time cash outlay of \$300 million directly from the fund. The total borrowing cost was finalized at 3.25%, leaving CalSTRS' assets invested in diversified markets at the current expected actuarial rate of return of 7.0%.

The board approved an additional \$18.5 million to fund the project in January 2022, which will cover costs through completion. Financing for the additional project costs was secured through the issuance of Series 2022 tax-exempt lease revenue green bonds in December 2022. Proceeds from the 2022 bonds are placed in the trust and will be utilized to pay for the costs necessary to complete the HQE Project upon the exhaustion of the proceeds from the Series 2019 bonds. The payment terms of the Series 2022 bonds are aligned with the payment terms of the Series 2019 bonds. Principal payments will be made annually while interest payments will be made semiannually commencing in fiscal year 2023–24, with final payments to be made in fiscal year 2049–50. The total borrowing cost, including the costs of issuance and premium, for the Series 2022 bonds was finalized at 4.06%. Bond financing allows us to continue investing in diversified markets at the current expected actuarial rate of return of 7%.

Green bonds

Our vision and guiding beliefs support advancing sustainability. As such, the headquarters expansion is being 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. In November 2022, we received notification from the Climate Bond Initiative that our Series 2022 lease revenue bonds also met the criteria for certification by the Climate Bonds Standard Board.

Credit rating agencies

Credit rating is a critical component of assessing an organization's fiscal health. Rating agencies view sound fiscal health favorably, thus improving an organization's agency rating and its ability to obtain low-cost financing for important projects. We received the following bond ratings at the time the Series 2019 bonds were issued. The bonds are subject to annual rating assessments. Fitch, Moody's and S&P reaffirmed the original bond ratings during calendar year 2023, which are noted below.

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

In November 2022, we received the following ratings for its Series 2022 bonds, which are the same ratings we received from the two rating agencies on the Series 2019 bonds:

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

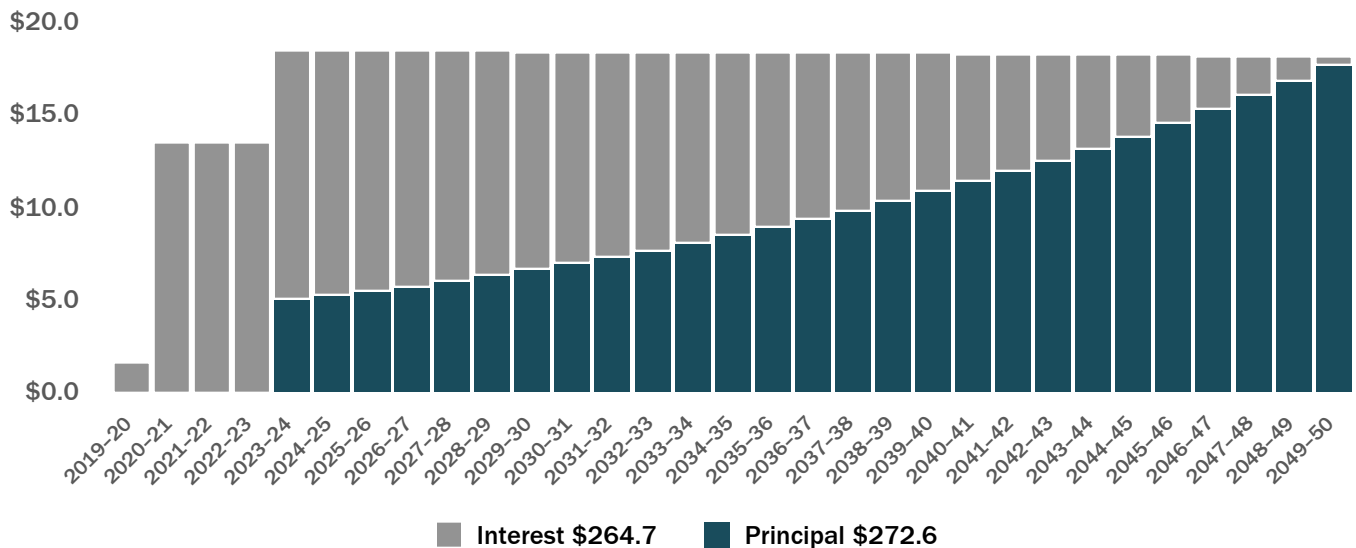
These ratings demonstrate that our prudent financial management and fiscal strength are viewed most favorably by credit agencies.

Long-term debt obligations

Series 2019 – \$340.6 million

As discussed earlier, in December 2019, the 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 bonds on behalf of CalSTRS. The bond proceeds are used to fund the construction of the CalSTRS HQE Project and pay the cost of bond issuance and capitalized interest¹ during the construction period. Principal and interest payments will be paid over 30 years. CalSTRS commenced annual principal and interest debt service payments in 2023–24 to fulfill its semi-annual 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.

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



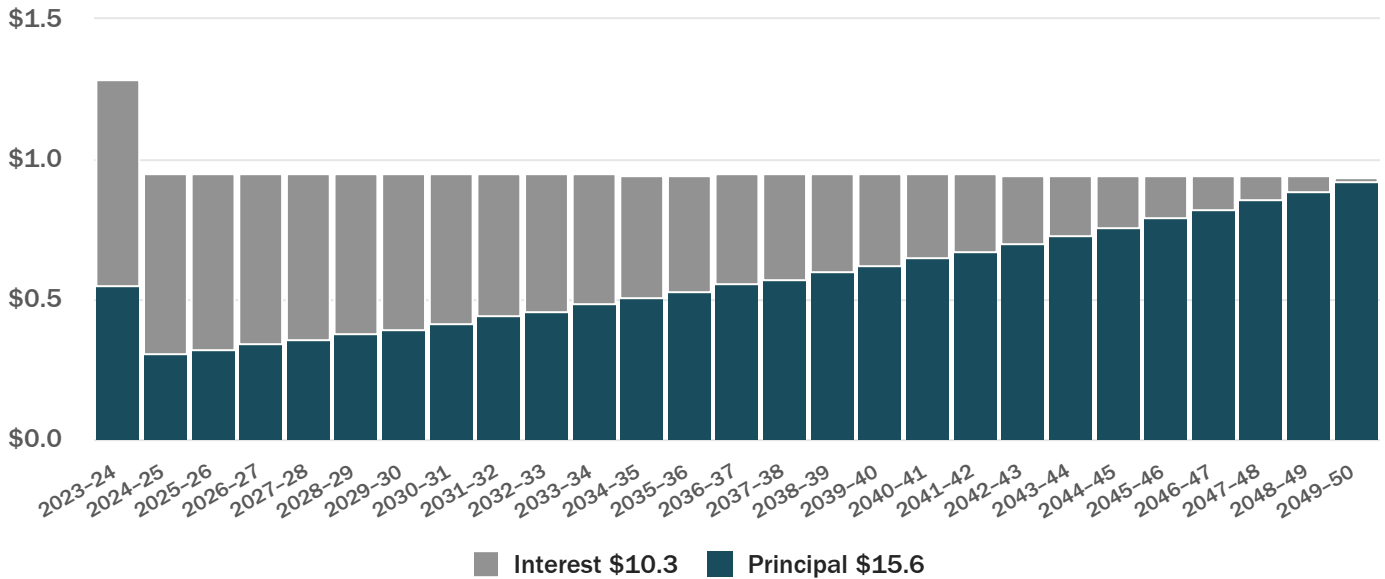
Series 2022 – \$16.2 million

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 bonds on behalf of CalSTRS. The annual principal and interest debt service payments commenced in 2023–24, and will be paid 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 following diagram.

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 will consist of capitalized interest payments while the building is 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 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. 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.

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 <i>Annual and Continuous</i>	<ul style="list-style-type: none"> • Defined Benefit • Defined Benefit Supplement • Cash Balance Benefit • Supplemental Benefit Maintenance Account
Teachers' Replacement Benefits Program Fund <i>Continuous</i>	<ul style="list-style-type: none"> • Replacement Benefits
CalSTRS Pension2 Personal Wealth Plan <i>Continuous</i>	<ul style="list-style-type: none"> • Pension2 403(b) and Roth 403(b) • Pension2 457(b) and Roth 457(b)
Teachers' Deferred Compensation Fund <i>Continuous</i>	<ul style="list-style-type: none"> • 403bCompare
Teachers' Health Benefits Fund <i>Continuous</i>	<ul style="list-style-type: none"> • 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:

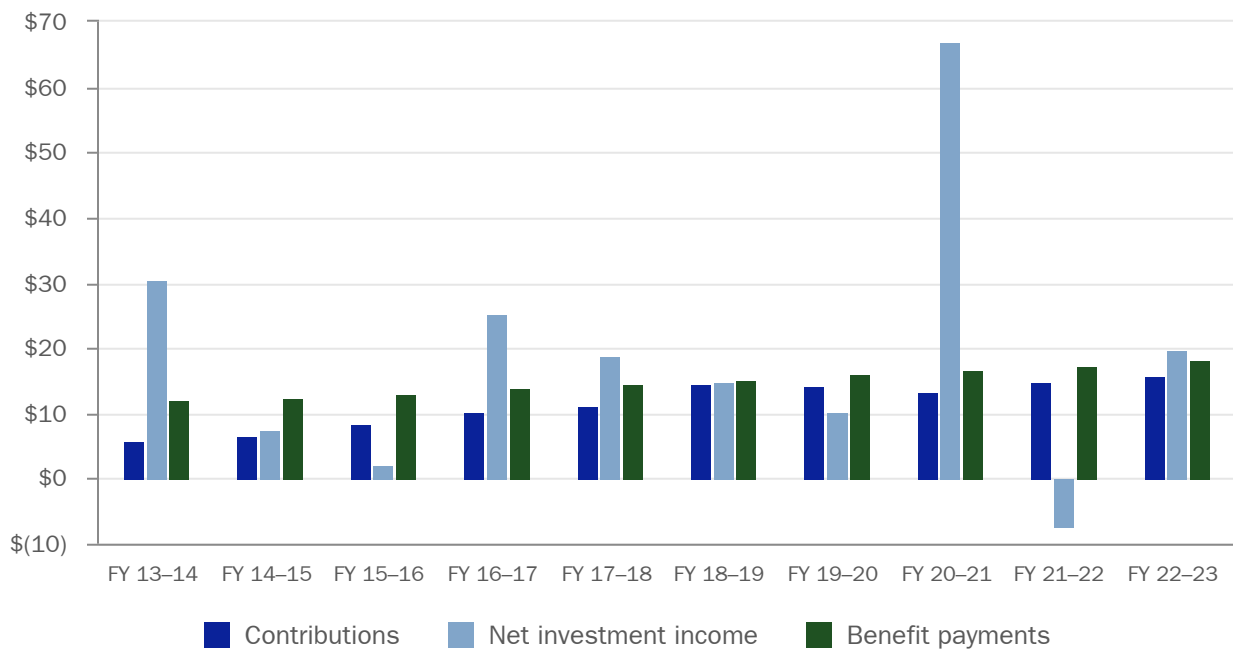
“The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.”

Our revenues and expenses include all financial activities of the organization. CalSTRS’ 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 Plan¹ 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 fund balance for all funds and programs, sources of revenues and expenses, and ending fund balance for the 2022–23 fiscal year.

2022–23 fiscal year fund balance: All funds¹

(dollars in thousands)

Beginning fund balance	\$302,497,807
Revenues	
Investment income	21,313,934
Employer contributions	7,774,897
Member contributions	4,555,378
State contributions	3,719,874
Other income	305,398
Total fund revenues	37,669,481
Expenses	
Pension benefit payments	17,764,384
External investment management	218,531
Administrative expenditures	354,021
Contribution refunds	143,067
Other benefit payments	621,384
Other expenditures	1,342,582
Debt service payment	11,520
Total fund expenses	20,455,489
Ending fund balance	\$319,711,799

Revenues

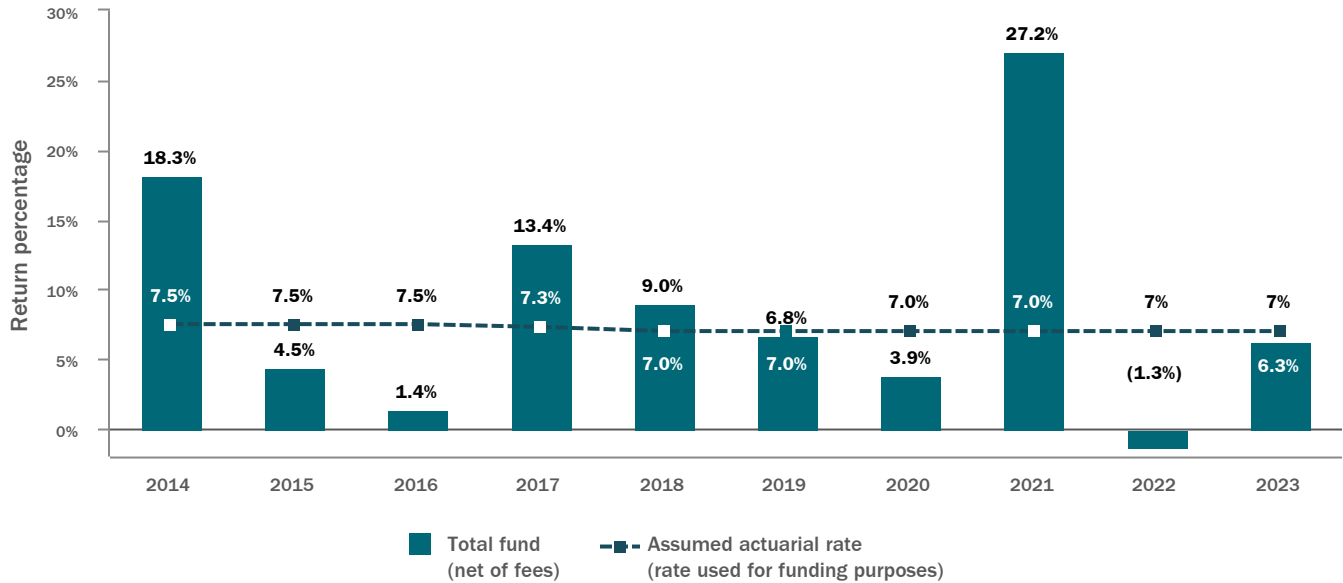
CalSTRS' primary sources of revenue are member, employer and state contributions and investment income. The majority of the revenues derive from the State Teachers' Retirement Plan. Contribution amounts are determined as a percentage rate of members' creditable compensation. Creditable compensation is 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. Investment returns are generated by the CalSTRS Investment Portfolio, which produced a time-weighted investment return of 6.3% net-of-fees for the fiscal year ended June 30, 2023, which fell just short of the 7% investment return assumption. We're well positioned to withstand future challenges due to the exceptional investment return of 27.2% earned in fiscal year 2020–21, while

keeping the funding plan on track to achieve full funding by 2046.

Over the last 30 years, investment income funded approximately 61.4% of retirement benefits, with employer, state and member contributions providing 15.9%, 9.5% and 13.2% of the funding, respectively. These percentages can change over time due to fluctuations in net investment income; adjustments to required member, 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 Appendix 3.

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, 2023, which are prepared using Generally Accepted Accounting Principles. Additional details are provided in the "Policies" section.

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. Our largest expense for CalSTRS is retirement benefit payments for the State Teachers’ Retirement Plan.¹ In the 2022–23 fiscal year, retirement benefit and supplemental purchasing power benefit payments for the STRP were approximately \$18.2 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 2022–23 fiscal year were staff salary and benefits,² implementation of the multiyear internal investment management plan, capital projects, property management and technology-related services. Other drivers consisted of state-mandated 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.

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.

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 below 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 the 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 state-mandated expenditures, organizational growth, one-time project funding and variations in investment-related expenses.

Three-year overview and projected fund balances: All funds¹ (dollars in thousands)

	Actual 2022-23	Budget 2023-24	Budget 2024-25	Amount change
Beginning fund balance	\$302,497,807	\$319,711,799	\$337,929,292	\$18,217,493
Revenues				
Investment income	21,313,934	23,652,381	25,282,481	1,630,100
Employer contributions	7,774,897	7,992,346	8,200,403	208,057
Member contributions	4,555,378	4,665,472	4,787,672	122,200
State contributions	3,719,874	3,945,928	4,264,395	318,467
Other income	305,398	340,483	340,739	256
Total fund revenues	37,669,481	40,596,610	42,875,690	2,279,080
Expenses				
Pension benefit payments	17,764,384	18,926,507	19,698,795	772,288
External investment management	218,531	323,778	342,785	19,007
Administrative expenditures	354,021	475,703	611,027	135,324
Contribution refunds	143,067	153,928	163,195	9,267
Other benefit payments	621,384	774,720	844,374	69,654
Other expenditures	1,342,582	1,712,796	1,724,302	11,506
Debt service payments	11,520	11,685	11,387	(298)
Total fund expenses	20,455,489	22,379,117	23,395,865	1,016,748
Ending fund balance	\$319,711,799	\$337,929,292	\$357,409,117	\$19,479,825
Percent change				5.8%

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.

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 2024–25, changes in budgeted revenues are primarily due to projected growth in investment returns based on the assumed actuarial rate of return of 7% and increases in state, employer and member contributions¹ 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.

The overall increase in administrative expenditures is primarily driven by one-time funding for the Pension Solution Project, staffing increases to address workload management, the fourth year of scheduled expenditures for the continued implementation of the investment management plan in support of the CalSTRS Collaborative Model,² and state-mandated adjustments to employee compensation and benefits.

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 mainly composed of depreciation and portfolio-related expenses, which are projected to increase due to master line of credit interest expense and increase in securities lending rebates and fees. Depreciation increase is based on the capitalization of our Headquarters Expansion Project upon construction completion.

¹ Additional information regarding contribution rates is provided in Appendix 3.

² The investment management plan was approved as part of the 2021–22 Operating Budget.

Teachers' Retirement Fund

(dollars in thousands)

	Actual 2022-23	Budget 2023-24	Budget 2024-25	Amount change
Beginning fund balance	\$300,726,741	\$317,634,885	\$335,559,079	\$17,924,194
Revenues				
Investment income	21,138,071	23,496,446	25,115,875	1,619,429
Employer contributions	7,737,769	7,954,084	8,161,084	207,000
Member contributions	4,304,648	4,401,000	4,513,000	112,000
State contributions	3,719,874	3,945,928	4,264,395	318,467
Other income	303,090	338,000	338,000	—
Total fund revenues	37,203,452	40,135,458	42,392,354	2,256,896
Expenses				
Pension benefit payments	17,755,957	18,919,000	19,691,481	772,481
External investment management	218,531	323,778	342,785	19,007
Administrative expenditures	352,009	472,488	607,902	135,414
Contribution refunds	138,940	147,276	156,113	8,837
Other benefit payments	481,023	630,204	676,000	45,796
Other expenditures ¹	1,337,328	1,706,833	1,717,861	11,028
Debt service payments	11,520	11,685	11,387	(298)
Total fund expenses	20,295,308	22,211,264	23,203,529	992,265
Ending fund balance	\$317,634,885	\$335,559,079	\$354,747,904	\$19,188,825
Percent change				5.7%

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 IRC 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 2023, 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 \$225,213. 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 2024–25, budgeted employer contributions and pension benefit payments remain relatively flat based on historical trends. Additionally, CalSTRS 2% at 62 members are not eligible to receive benefits from the Teachers' Replacement Benefits Program Fund and are not expected to earn benefits that would exceed the federal limit as a result of limits on creditable compensation under the California Public Employees' Pension Reform Act of 2013.

Teachers' Replacement Benefits Program Fund¹

(dollars in thousands)

	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Beginning fund balance	\$—	\$—	\$—	\$—
Revenues				
Employer contributions	8,427	7,507	7,314	(193)
Total fund revenues	8,427	7,507	7,314	(193)
Expenses				
Pension benefit payments	8,427	7,507	7,314	(193)
Total fund expenses	8,427	7,507	7,314	(193)
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 paid by the Teachers' Retirement Fund but are 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 low-cost, flexible 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 we determine the investment options offered to plan participants.

Our marketing of the Pension2 Program has increased member enrollments in the IRC 403(b) and 457(b) plans. The program experienced overall membership growth of 10.1% in the 2022–23 fiscal year. For fiscal year 2024–25, based on the current member growth trajectory, contributions 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.

Pension2

(dollars in thousands)

	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Beginning fund balance	\$1,767,869	\$2,072,944	\$2,366,338	\$293,394
Revenues				
Investment income	175,747	155,899	166,442	10,543
Employer contributions	2,889	4,883	6,927	2,044
Member contributions	250,730	264,472	274,672	10,200
Other income	348	515	515	—
Total fund revenues	429,714	425,769	448,556	22,787
Expenses				
Contribution refunds	4,127	6,652	7,082	430
Other benefit payments	115,258	119,760	144,265	24,505
Other expenditures	5,254	5,963	6,441	478
Total fund expenses	124,639	132,375	157,788	25,413
Ending fund balance	\$2,072,944	\$2,366,338	\$2,657,106	\$290,768
Percent change				12.3%

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 2024–25, the budgeted revenues are projected to increase due to high interest rates generating additional investment income. In addition, other income is projected to increase due to growth in asset base from more individuals participating in the Pension2 Program and an increase in vendor maintenance fees collected from the 403bCompare website. Administrative expenditures are also projected to increase due to increases in state-mandated adjustments to employee compensation.

Teachers' Deferred Compensation Fund

(dollars in thousands)

	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Beginning fund balance	\$2,966	\$3,672	\$3,575	(\$97)
Revenues				
Investment income	83	18	119	101
Other income	1,960	1,968	2,224	256
Total fund revenues	2,043	1,986	2,343	357
Expenses				
Administrative expenditures	1,337	2,083	2,111	28
Total fund expenditures	1,337	2,083	2,111	28
Ending fund balance	\$3,672	\$3,575	\$3,807	\$232
Percent Change				6.5%

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. Also, 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 2024–25, employer contributions and other benefit payments are projected to decrease due to declining membership in the program. Administrative expenditures are projected to decrease largely due to changes in operating expenses.

Teachers' Health Benefits Fund

(dollars in thousands)

	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Beginning fund balance	\$231	\$298	\$300	\$2
Revenues				
Investment income	33	18	45	27
Employer contributions	25,812	25,872	25,078	(794)
Total fund revenues	25,845	25,890	25,123	(767)
Expenses				
Administrative expenditures	675	1,132	1,014	(118)
Other benefit payments	25,103	24,756	24,109	(647)
Total fund expenses	\$25,778	\$25,888	\$25,123	(\$765)
Ending fund balance	\$298	\$300	\$300	\$—
Percent change				—%

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 policy¹

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 (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 Policy Manual* 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.

Benefits and Services Policy

CalSTRS desires to expand and improve, in a prudent manner, the benefits and services provided through the funds it administers as appropriate for public retirement plans.

Pursuant to Proposition 162, the Teachers' Retirement Board shall have the sole and exclusive fiduciary responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to participants and their beneficiaries. Consistent with this responsibility, one of the goals of the board is that the system's members are served in a prompt, accurate and efficient manner.

Investment Policy Statement

Our primary goal is to maintain a financially sound retirement system. Within this context, the following general investment objectives are designed in consideration of the CalSTRS Investment Beliefs to establish a framework for the operation of the CalSTRS Investment Portfolio. General investment objectives related to the portfolio, as stated in the **Investment Policy Statement**, include:

Provide for present and future benefit payments: Provide liquidity to pay benefits to CalSTRS members and their beneficiaries in the amounts and at the times called for through the investment of contributions and other fund assets, aim to meet the assumptions built into the actuarial model and strive to maintain a fully funded pension system.

Diversify assets: Seek to diversify assets to achieve the desired rate of return at a prudent level of risk. The asset structure must provide for diversification of risk between asset classes to manage the risk/return relationship through strategic asset allocation.

Reduce funding costs: Within prudent levels of risk, the reduction of CalSTRS' funding costs shall be a consideration in the organization and structure of the portfolio.

Maintain the trust of our members and the public: Manage the CalSTRS Investment

Program in such a manner that will enhance the members' and the public's confidence in the program.

Establish policy and objective review process:

A formal review of the CalSTRS *Investment Policy Statement* will be conducted annually, with an updated financial projection developed every two years.

Create reasonable pension investments relative to other pension funds: The selection of investment vehicles and policies will be judged against other private and public pension funds. Investment performance, asset management costs, staffing and overall expenses will be compared to other public and corporate pension plans, with special emphasis on comparisons with other large public funds.

Minimize costs: Management fees, trading costs and other expenses will be diligently monitored and controlled.

Compliance with state and federal laws: The CalSTRS Investment Program must operate in compliance with all applicable state and federal laws and regulations concerning the investment of pension assets.

Budget Policy

We maintain the 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.

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.

Budgetary funds period of availability: 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: The business area and branch are responsible for charging to the correct appropriations at the time of purchase. Approval of all budgeted expenses is subject to the availability of funds within each appropriation. This policy helps ensure the correct appropriations are being charged at the time of purchase.

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, 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: The statutory source for revenue policy regarding contributions is Education Code section 22002. 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, which are the default U.S. accounting standards. 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.

Cash Balance Benefit administrative transfer: Describes our approach to perform administrative transfers of funds from the Cash Balance Benefit Program to the Defined Benefit Program. The authority for such action was granted by legislation and subsequent board action. CalSTRS members may be eligible to participate in the Cash Balance Benefit Program rather than the Defined Benefit Program. If they later become eligible for the Defined Benefit Program, there is a provision to transfer funds from the

Cash Balance Benefit Program into the Defined Benefit Program.

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

Receivable collections and write-off: We collect all amounts due to the fund to the fullest extent allowed by law and records receivables for amounts due to the Teachers’ Retirement Fund and other funds as soon as they are identified. With respect to write-offs, we report all discharged debts to the Teachers’ Retirement Board semiannually. Additionally, we submit the *Accounts Receivable Report* annually to the State Controller’s Office. The report includes all receivable activities, collections, aged receivables, write-offs and account balances, which are published on a quarterly basis on CalSTRS.com.

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.

Financial data objects: Defines the guidelines and requirements that must be followed to administer and manage Financial Data Objects in BusinessDirect, our Enterprise Resource Planning system, and establishes internal controls to mitigate the risk of unauthorized

changes to Financial Master Data and/or mapping tables. This policy outlines the assessment of impact of the proposed change as well as establishes the roles and responsibilities required for administering and managing Financial Data Object changes.

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 Benefit Fund and credited to the MPP Program to fund monthly program benefits and administrative costs.

Budget development

Budget management and development process

The Budget Office oversees and manages the organization's total budget through collaboration with branch and business area managers. The roles and responsibilities of this process are illustrated below.

We use a decentralized budgeting system in accordance with our budget policy, in addition

to maintaining a balanced budget. A balanced budget ensures the organization's use of resources for operating purposes 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 initial estimated amounts.

Budget development and management – Roles and responsibilities

Business area managers

- Create spending plans
- Monitor budget allotments
- Research and report discrepancies to the Budget Office

Budget Office

- Build the budget and present it to the board
- Provide managers with tools to estimate annual expenditures
- 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 what has been appropriated for the year. 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 CEM 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.

The budget process commences more than a year in advance of the final adoption of the budget. This process begins with an analysis of resource needs for the upcoming budget year to address strategic initiatives, enterprise priorities, enterprise risk and compliance landscapes, as well as maintaining core business functions.

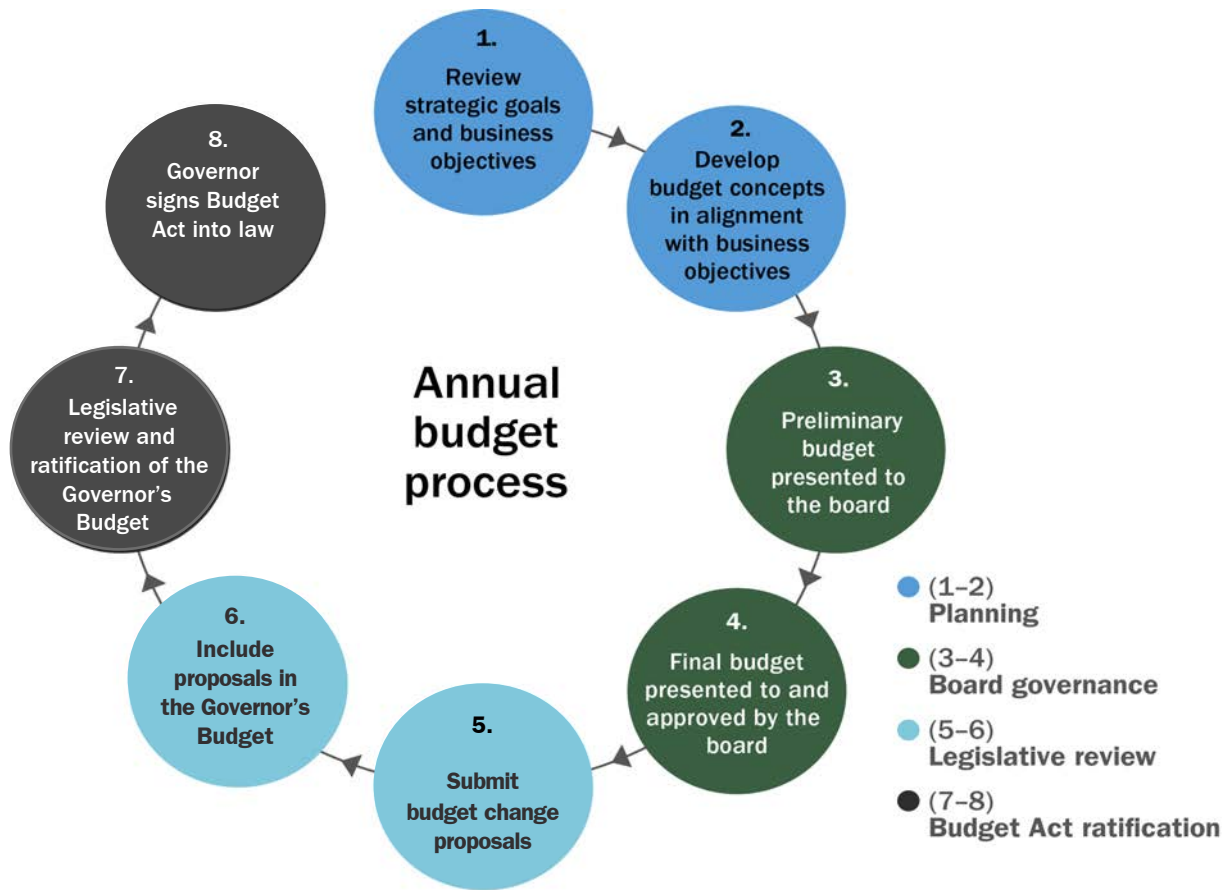
The process advances with the Teachers' Retirement Board's final review and approval.

After the board's review and approval, the budget moves through the state budget process, which commences with legislative review and 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 funds that are annually appropriated require ratification from the Legislature and the Governor and include specific spending limits that are overseen by the Department of Finance and the State Controller's Office. Augmentations to funds that are continuously appropriated do not require legislative approval, and expenditures are limited only by the resources available within the funding source. The following diagram provides an overview of the annual budget cycle. Details for each phase of the process are provided on the next page.



Planning

March—June

- The process commences with the review of strategic plan goals and business objectives, and the potential funding needs to successfully achieve those goals.
- Budget staff work with each business area to prepare augmentation requests for significant changes to the baseline budget that address strategic initiatives and other enterprise priorities. Budget augmentation requests are summarized and reviewed by staff and presented to the chief financial officer and executive leadership for consideration. The budget augmentation requests can include, but are not limited to, funding associated with resource augmentations for both internal and external resources driven by new or expanded work scope, ongoing facilities maintenance, enhanced technology capabilities and other project-based costs.

- The budget development process also includes an evaluation of incremental baseline changes for state-mandated expenditures associated with employee compensation pursuant to collectively bargained union agreements, including changes for general salary increases, merit salary adjustments and the associated impact on benefits; costs for implementing new legislation; and assessments from the Department of Finance.

July—August

- The CFO reviews the funding needs for the organization with executive leadership. These funding requests are then approved by the CEO.
- Staff refines the proposed funding requests and compiles a preliminary budget for board review.

Board governance

September—November

- The CFO presents a preliminary budget, with a summary of significant budget changes, to the board in September.
- After the September meeting, staff refine estimates as needed based on feedback received from the board, supplemental information received from the Department of Finance and additional requests for funding from the business areas deemed prudent by executive leadership.
- The refined estimates are incorporated into a final budget and presented to the board for review and approval in November.
- After the board approves the budget, staff commence preparation of Budget Change Proposals for submission to the Department of Finance, Government Operations Agency and Legislature. This includes any augmentations requested to the annual appropriation.

Legislative review

December—May

- The board-approved budget is submitted to the Department of Finance for inclusion in the Governor's proposed budget. This includes Budget Change Proposal(s) for any augmentations to annual appropriations. Pursuant to Proposition 162 and by

longstanding mutual agreement with the Department of Finance, the Operating Budget is submitted for inclusion in the Governor's proposed budget without change. The Governor's proposed budget is released to the public by January 10.

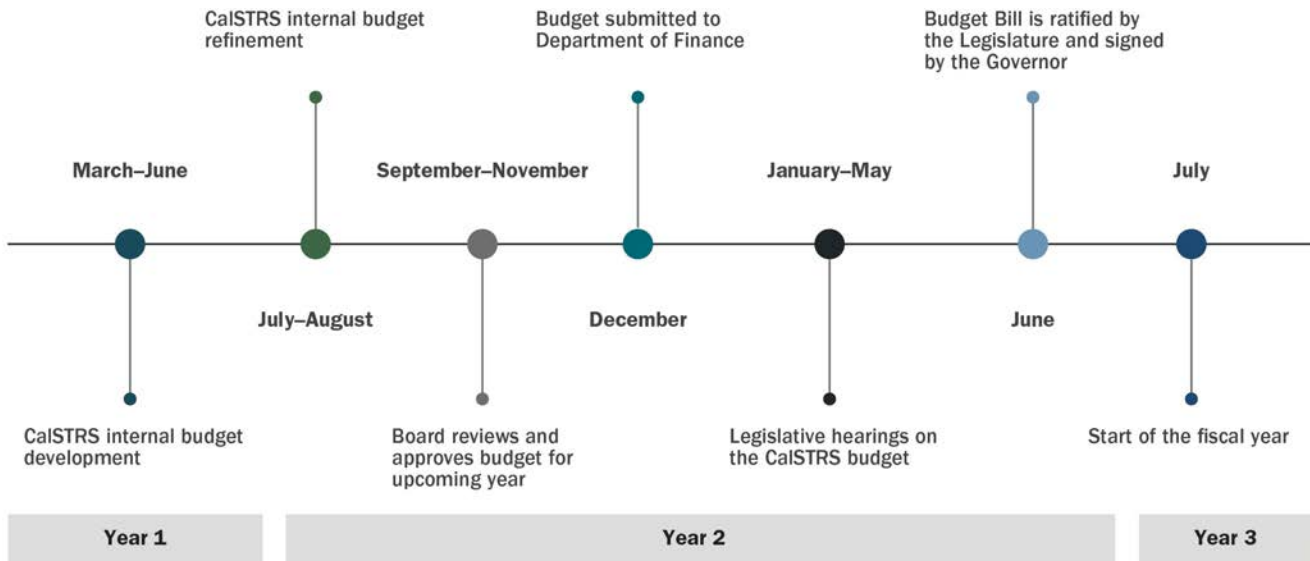
- Legislative subcommittees hold hearings to review the Governor's proposed budget. During these hearings, CalSTRS' Budget Change Proposal(s) are reviewed by each house—Senate and Assembly—and each vote on the proposal(s). If requested, the CFO and other executive leadership, as appropriate, may be asked to testify before the Legislature on behalf of CalSTRS to provide information on the board approved BCP(s).
- In mid-May, the Governor releases a revision of the proposed budget. The Legislature then 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 is illustrated below.



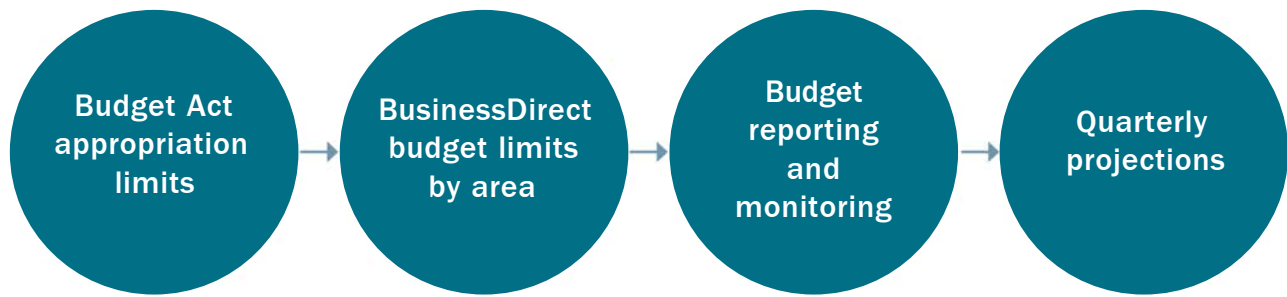
Budget controls and monitoring

After the Budget Act is passed, we maintain multiple layers of control and monitoring activities throughout the organization to ensure the adopted budgets are appropriately managed. From a control perspective, the budget is recorded in our enterprise resource planning system, BusinessDirect, which establishes expenditure limits by fund and branch. Additionally, the budget is recorded in both the State Controller's and Department of Finance's statewide budgeting and fiscal systems, providing overlapping layers of control and reconciliation.

On a monthly basis, staff reconciles budgetary information to SCO records and reviews budget

consumption to ensure transactions are recorded accurately and usage is consistent with projections. Revenues and expenditures are also forecasted and monitored monthly to prevent exceeding the established budget authority. These analyses are presented to executive management on a monthly and quarterly basis. The board then receives quarterly reports comparing our budget-to-actual expenditures, which are published on CalSTRS.com. These reports present performance against budgeted amounts and summarize any changes to the budget.

Budget controls and monitoring



If a business area anticipates a funding shortfall during the year, there are sequential steps to address the deficit. First, the business area must look within its existing budget to evaluate whether funds can be redirected from other sources within each budget category. If the existing budget does not have sufficient funds, then available funding from other business areas within the branch are considered. If funding is not available from within the branch, the Budget Office works to identify available funding from other business areas outside of the branch. The Budget Office works with management in areas with surplus funding to redirect those funds to the business area in need.

When additional funding cannot be identified within existing budgetary allotments, the business area may request the use of internal reserves. Internal reserves are maintained within the approved budget for unanticipated expenses and/or economic uncertainties that cannot be delayed until the next budget cycle. Use of internal reserves depend on approval by both the CFO and the COO.

We prepare reports on actual spending and remaining budgetary spending authority annually and provide these reports to the Department of Finance.

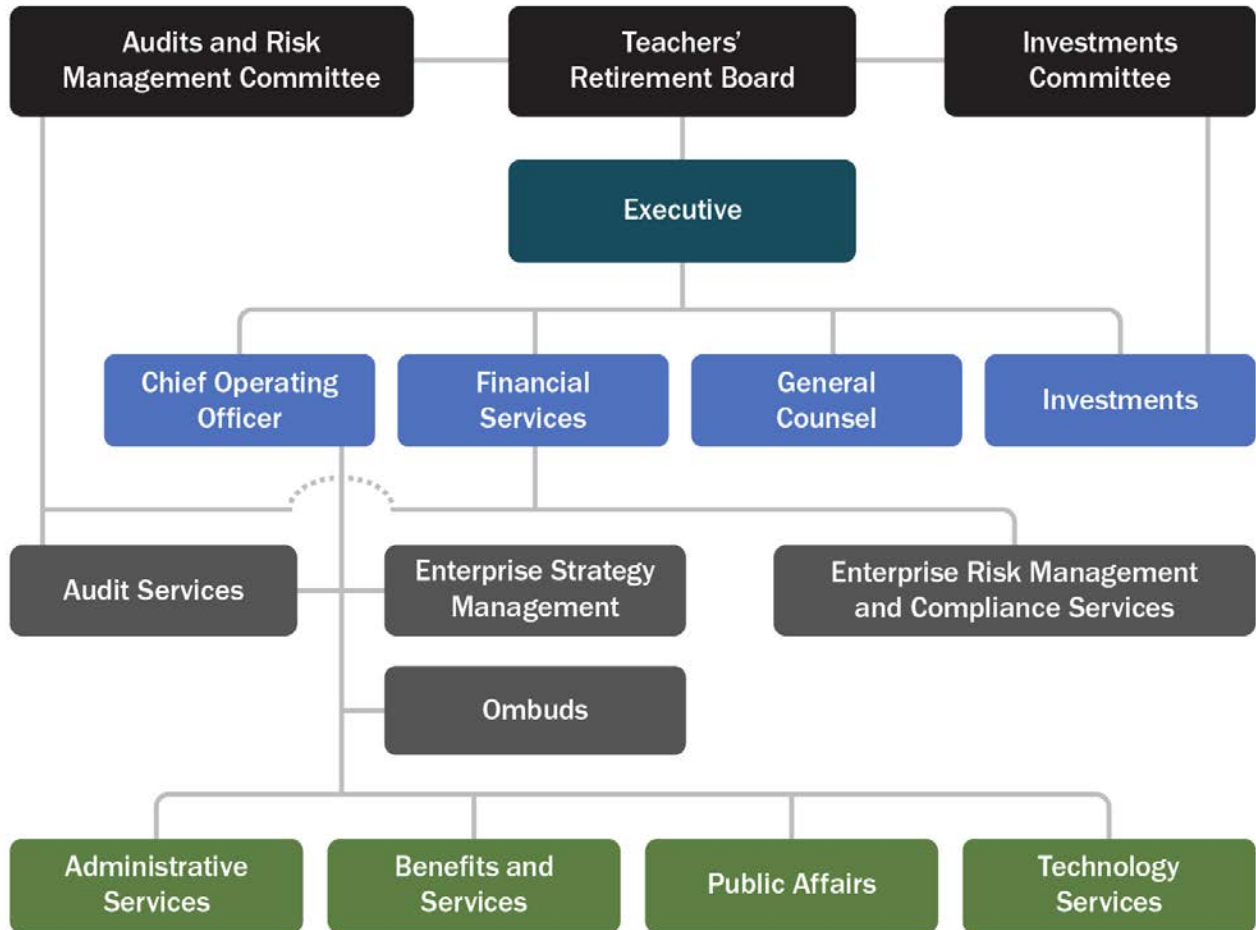
Position control

Generally, augmentations to authorized positions follow the standard budget process and must be ratified by the Legislature. Once established, authorized positions are recorded into BusinessDirect and monitored monthly. Upgrades or downgrades to existing positions are documented in BusinessDirect and reconciled monthly to approved personnel change documents. Positions that are upgraded past the threshold of \$12,668 per month require authorization from the Department of Finance. The board sets the salary and incentive packages for certain executives and investment staff, and other 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 authority to establish additional full-time positions above the authorized limit to the extent that funding is available. This process entails executive review and approval.

Departmental information

The CalSTRS organization¹



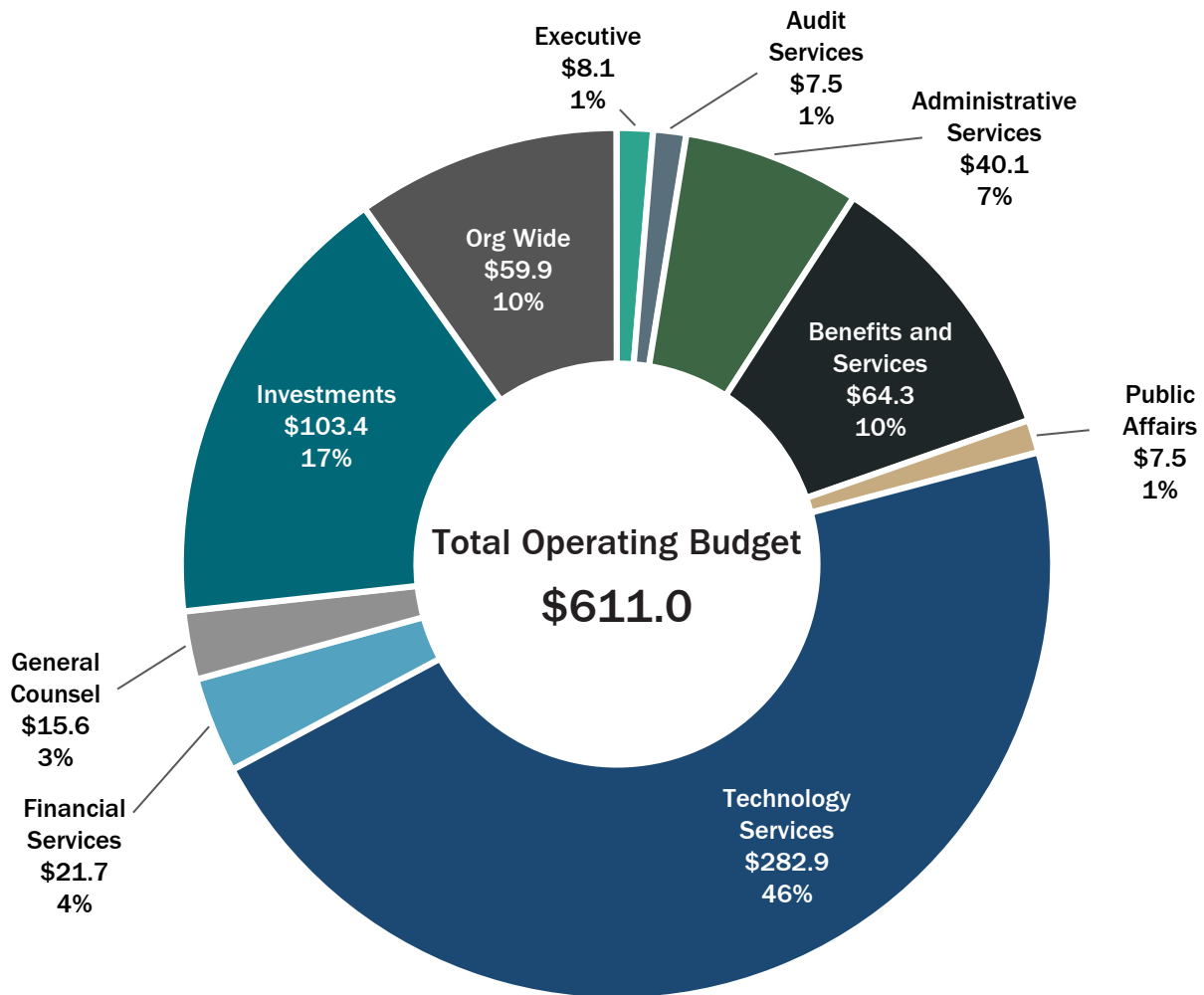
¹ In addition to the Audits and Risk Management and Investment committees, the board also has the Appeals, Benefits and Services, Board Governance, and Compensation committees. Additional information is provided in the “About the California State Teachers’ Retirement System” section.

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' 2024–25 total functional budget by branch, which includes salaries, benefits and operating expenses and equipment.

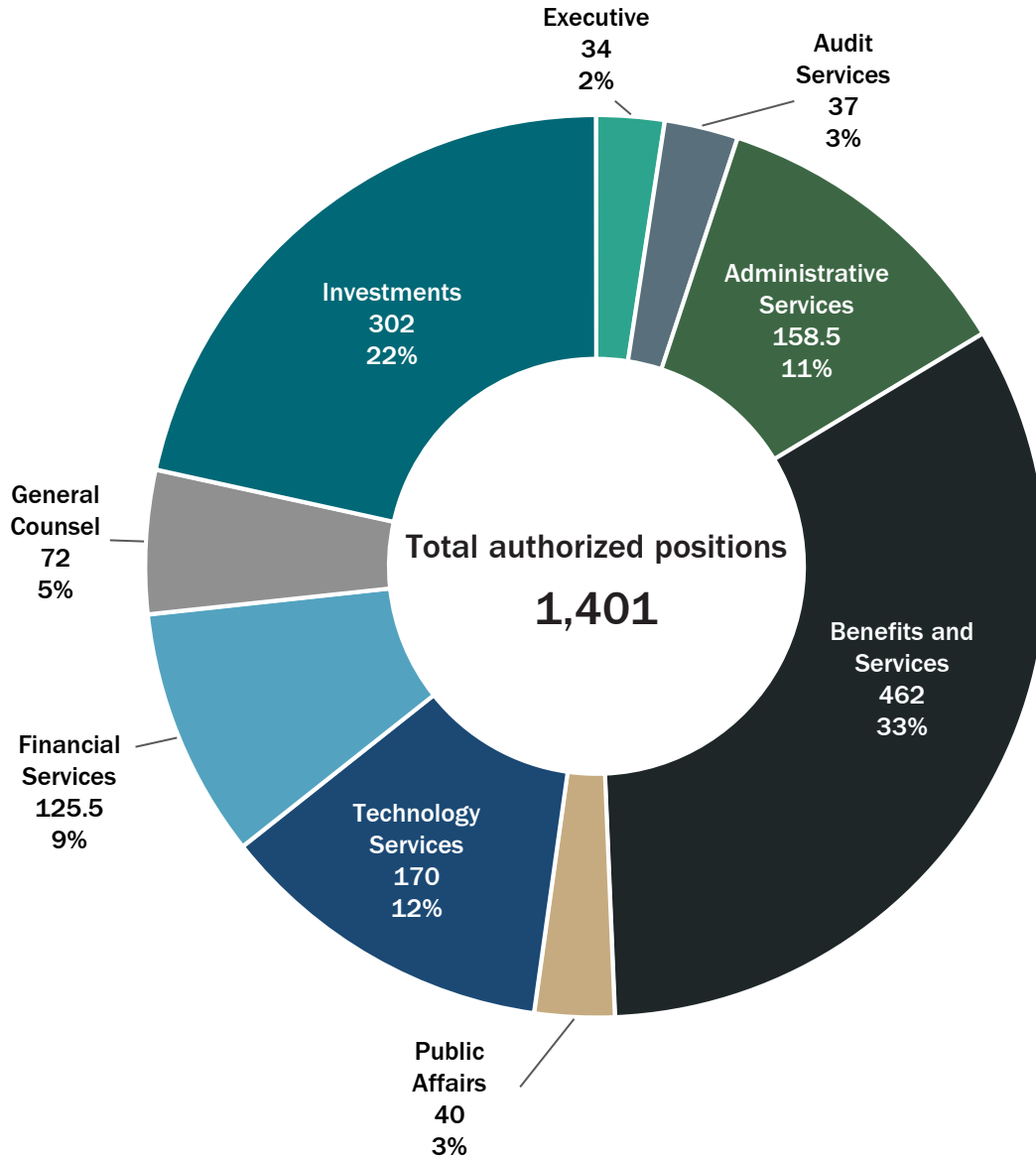
Total 2024–25 Operating Budget by branch¹
(dollars in millions)



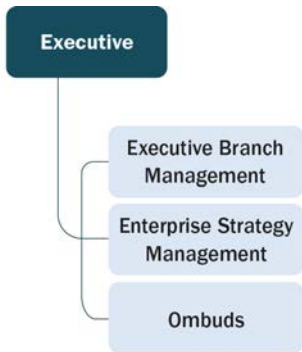
¹ The Org Wide budget is for expenses, including office supplies, contracts and internal reserves, that occur throughout the organization.

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

Total 2024–25 authorized positions by branch



A description of each branch and the corresponding actual, budget and position information for fiscal years 2022–23, 2023–24 and 2024–25 is provided on the following pages.¹



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 2022–23	Budget 2023–24	Budget 2024–25
Authorized positions	26.4	32	34
(dollars in thousands)	\$7,791	\$7,856	\$8,115



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 2022–23	Budget 2023–24	Budget 2024–25
Authorized positions	31.5	37	37
(dollars in thousands)	\$9,772	\$7,454	\$7,514

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

Administrative Services

Facilities Management

Human Resources

Procurement Management

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 2022-23	Budget 2023-24	Budget 2024-25
Authorized positions	124.4	154.5	158.5
(dollars in thousands)	\$55,982	\$39,620	\$40,128

Benefits and Services

Customer Service

Disability and Survivor Benefits

Employer Services

Retirement Readiness

Service Retirement

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 2022-23	Budget 2023-24	Budget 2024-25
Authorized positions	404.2	462	462
(dollars in thousands)	\$61,542	\$64,289	\$64,289

Public Affairs

Communications

External Affairs

Governmental Relations

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. In addition, the branch actively engages in the legislative and rulemaking processes to shape statutory and regulatory issues impacting the organization.

	Actual 2022-23	Budget 2023-24	Budget 2024-25
Authorized positions	34.5	40	40
(dollars in thousands)	\$6,991	\$7,507	\$7,507

Technology Services

Enterprise IT Governance

Enterprise IT Solutions and Innovation

IT Infrastructure and Operations

Pension Solution

Project Management Program

Technology Services

Technology Services 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 2022-23	Budget 2023-24	Budget 2024-25
Authorized positions	128.5	167	170
(dollars in thousands)	\$78,119	\$163,681	\$282,971

Financial Services

Accounting

Actuarial Resources

Enterprise Risk and Financial System Support

Financial Planning, Accounting and Reporting

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 2022-23	Budget 2023-24	Budget 2024-25
Authorized positions	101.4	122.5	125.5
(dollars in thousands)	\$20,458	\$21,255	\$21,680

General Counsel

Enterprise Information Management and Operations

Information Security

Investment Counsel

Legal Services

Litigation Services

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 2022-23	Budget 2023-24	Budget 2024-25
Authorized positions	49.6	69	72
(dollars in thousands)	\$14,438	\$15,075	\$15,556

Investments

The Investments Branch oversees and manages the CalSTRS Investment Portfolio, which was valued at approximately \$315.6 billion as of June 30, 2023. The Investments 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 2022-23	Budget 2023-24	Budget 2024-25
Authorized positions	217.5	286	302
(dollars in thousands)	\$71,873	\$97,284	\$103,350

Appendix

Appendix 1

Members and beneficiaries at a glance

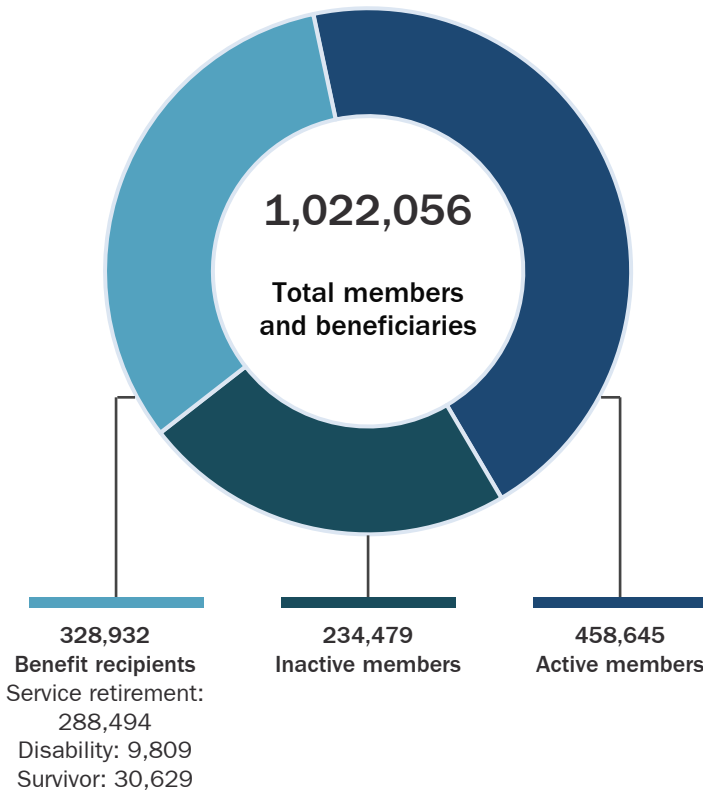
CalSTRS is the largest educator-only pension fund in the world. A summary of key statistics about our members and retirees is below.



\$18.2 billion

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

\$5,141 Average monthly Member-Only Benefit for those retiring in 2022–23



10,369

Service retirements during the fiscal year

24.6

Average years of member service credit

62.9

Average member age at retirement



60.0%

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 \$13.95 billion in benefits to 238,274 retirees living in California during fiscal year 2022–23. The map below and chart to the right show the number of retired members living in each county and a range of the amount of benefits paid to those members, as well as the locations of the seven CalSTRS member service centers.



County	Number of retirees	Estimated benefits paid in FY 2022–23 ¹
Alameda	7,707	\$451,853,860
Alpine	12	570,024
Amador	454	22,265,895
Butte	2,257	114,742,187
Calaveras	616	31,036,662
Colusa	115	5,707,116
Contra Costa	7,736	430,437,350
Del Norte	264	12,771,361
El Dorado	2,388	131,073,389
Fresno	6,772	382,025,176
Glenn	138	7,135,346
Humboldt	1,458	63,955,529
Imperial	900	58,293,931
Inyo	161	7,311,643
Kern	4,570	269,789,206
Kings	629	36,325,801
Lake	499	23,253,894
Lassen	225	11,112,767
Los Angeles	44,568	2,727,795,687
Madera	1,445	77,181,297
Marin	2,356	122,571,614
Mariposa	262	12,324,397
Mendocino	1,140	53,772,760
Merced	1,617	96,237,855
Modoc	90	3,596,134
Mono	194	10,257,629
Monterey	3,336	188,690,948
Napa	1,415	78,429,421
Nevada	1,640	82,319,002
Orange	21,979	1,471,601,239
Placer	4,681	263,013,367
Plumas	318	14,493,006
Riverside	14,129	833,423,086
Sacramento	9,774	527,832,864
San Benito	331	19,578,261
San Bernardino	10,264	614,600,305
San Diego	22,381	1,303,450,896
San Francisco	2,975	163,802,275
San Joaquin	4,214	244,815,470
San Luis Obispo	4,716	251,485,051
San Mateo	3,794	237,099,834
Santa Barbara	3,120	172,211,495
Santa Clara	9,162	574,857,024
Santa Cruz	3,055	163,625,473
Shasta	1,709	84,349,310
Sierra	62	2,973,119
Siskiyou	640	28,631,246
Solano	3,263	175,838,803
Sonoma	4,669	247,975,213
Stanislaus	3,354	203,868,277
Sutter	781	45,253,994
Tehama	786	39,945,427
Trinity	118	4,976,363
Tulare	3,201	189,039,931
Tuolumne	717	36,702,493
Ventura	7,483	441,647,645
Yuba	352	17,600,785
Total	238,274	\$13,953,154,560

¹ The annualized benefits based on the June 2023 monthly benefits, which also include purchasing power protection payments from the Supplemental Benefit Maintenance Account.

Appendix 3

Contributions

The parameters for member, employer and state contribution rates are set by the California Legislature and the Governor and detailed in the Teachers' Retirement Law. The enactment of AB 1469, the CalSTRS Funding Plan, established a schedule of contribution rate increases shared among members, employers and the state to bring CalSTRS toward full funding by 2046.

Members

The member contribution rates differ depending on the initial hire date to perform services that could be creditable to CalSTRS. If hired before January 1, 2013, members are eligible for full retirement at age 60, whereas those hired on or after this date are eligible at age 62.

The member contribution rate for CalSTRS 2% at 60 members is set in statute at 10.25%, while CalSTRS 2% at 62 members are required to pay at least one-half of the normal cost of their Defined Benefit Program benefit (rounded to the nearest quarter of 1%).

For fiscal year 2024–25, CalSTRS 2% at 62 members pay 9% toward the normal cost and an additional 1.205% pursuant to the CalSTRS Funding Plan for a total member contribution rate of 10.205%. The contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1% since the last time the member contribution rate was set.

Effective July 1, 2024, the CalSTRS 2% at 60 member contribution rate is 10.25%, and the CalSTRS 2% at 62 member contribution rate is 10.205%.

Member contribution rates

Effective date	CalSTRS 2% at 60 members	CalSTRS 2% at 62 members
July 1, 2023	10.250%	10.205%
July 1, 2024	10.250%	10.205%

Employers

Employers are required to contribute a base contribution rate set in statute at 8.25%. Pursuant to the CalSTRS Funding Plan, employers also have a supplemental contribution rate to eliminate their share of the CalSTRS unfunded actuarial obligation by 2046. The funding plan authorizes the board to adjust the employer supplemental contribution rate up or down. Those adjustments are limited to 1% for a total rate of no higher than 20.25% total and no lower than 8.25%.

Effective July 1, 2024, the employer supplemental contribution rate is 10.85% for fiscal year 2024–25 for a total employer contribution rate of 19.10%.

Employer contribution rates

Effective date	Rate
July 1, 2023	19.100%
July 1, 2024	19.100%
July 1, 2025, to June 30, 2046	Subject to board determination
July 1, 2046 and thereafter	Revert to pre-funding plan level ¹

State

The state is required to contribute a base contribution rate set in statute at 2.017%. Pursuant to the CalSTRS Funding Plan, the state also has a supplemental contribution rate, which the board can increase by no more than 0.5% each fiscal year to help eliminate the state's share of the CalSTRS unfunded actuarial obligation by 2046. If there is no unfunded actuarial obligation, the supplemental contribution rate would be reduced to 0%.

The total state contribution rate also includes a portion to fund the Supplemental Benefit Maintenance Account, which provides inflation protection to CalSTRS members whose current purchasing power has fallen below 85% of the purchasing power of their initial benefit. The SBMA is funded through a continuous appropriation from the state's General Fund in an amount equal to 2.5% of the total creditable compensation of the fiscal year ended in the immediately preceding calendar year, reduced by \$72.0 million, pursuant to Education Code section 22954.

Effective July 1, 2024, the total state contribution rate is 10.828%.

State contribution rates

Effective date	Rate
July 1, 2023	10.828%
July 1, 2024	10.828%
July 1, 2025, to June 30, 2046	Subject to board determination
July 1, 2046 and thereafter	Revert to pre-funding plan level ²

¹ The rate as a percentage of teacher payroll that employers were statutorily required to pay prior to the implementation of the CalSTRS Funding Plan.

² From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining unfunded actuarial obligation.

Appendix 4

Operating Budget by fund¹

CalSTRS administers 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 2024–25 Operating Budget is administered through the TRF, TDCF and THBF.

Teachers' Retirement Fund²

(dollars in thousands)

Budget category	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Salaries	\$144,719	\$190,167	\$230,052	\$39,885
Benefits	68,694	84,835	107,039	22,204
OE&E	138,596	197,486	270,811	73,325
Total	\$352,009	\$472,488	\$607,902	\$135,414

Teachers' Deferred Compensation Fund

(dollars in thousands)

Budget category	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Salaries	\$684	\$846	\$884	\$38
Benefits	387	518	533	15
OE&E	266	719	694	(25)
Total	\$1,337	\$2,083	\$2,111	\$28

Teachers' Health Benefits Fund

(dollars in thousands)

Budget category	Actual 2022–23	Budget 2023–24	Budget 2024–25	Amount change
Salaries	\$314	\$417	\$382	(\$35)
Benefits	178	271	244	(27)
OE&E	183	444	388	(56)
Total	\$675	\$1,132	\$1,014	(\$118)

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

² The Teachers' Replacement Benefits Program Fund is an extension of the DB Program. Therefore, expenditures for the TRBPF are paid by the TRF but are continuously appropriated.

Appendix 5

Operating Budget by appropriation

The table below displays the 2024–25 Operating Budget and key differences compared to the annual Budget Act.¹ The Budget Act is primarily composed of the annual Teachers’ Retirement Fund appropriation and the annual Information Technology Project Funding appropriation.

The Budget Act does not include direct transfers, other continuous appropriations, the Teachers’ Deferred Compensation Fund or 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 and the Sustainable Investment and Stewardship Strategies business area.

Operating Budget by appropriation

(dollars in thousands)

	2024–25
Budget Act	
Teachers’ Retirement Fund support appropriation	\$350,582
Information Technology Project Funding appropriation	224,337
Total Budget Act	574,919
Direct transfers	19,612
Other continuous appropriations	13,371
Total Teachers’ Retirement Fund Budget	607,902
Teachers’ Deferred Compensation Fund	2,111
Teachers’ Health Benefits Fund	1,014
Total 2024–25 Operating Budget	\$611,027

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 that 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 DOF 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.

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 salary range of 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.

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.

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?

