CALSTRS

Proposed 2027–28 Annual Budget

California State Teachers' Retirement System

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

Contents

4 Chief financial officer's letter of transmittal

7 About the California State Teachers' Retirement System

13 Strategic plan and performance measurement

22 Long-range financial planning

26 Budget overview

47 Financial summaries

59 Policies

62 Budget development

68 Departmental information

75 Appendix

80 Glossary

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

The California State Teachers' Retirement System

Mission

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

Vision

Your reward—A secure retirement

Our reward—Getting you there

Core values

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

Customer service

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

Accountability

We operate with transparency and accept responsibility for our actions.

Leadership

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

Strength

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

Trust

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

Respect

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

Stewardship

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

CALSTRS

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



November 5, 2026

Chief financial officer's letter of transmittal

As the largest educator-only pension fund, CalSTRS is dedicated to serving more than one million members and their beneficiaries. Guided by our mission and a steadfast commitment to transparency, accountability, and fiduciary responsibility, we manage the retirement system with care and discipline. Our focus remains on delivering sustainable retirement benefits and earning the trust of California's educators by *securing the financial futures of California's public school educators and their beneficiaries.*

CalSTRS' 2025–28 Strategic Plan outlines goals and measurable objectives to guide our priorities, decision-making and resource allocation through June 30, 2028, ensuring resource alignment with broader organizational priorities and support for core business operations. Our strategic plan is a testament to our members that a safe, secure and sound trust fund will be there to serve their needs in retirement. We'll accomplish this by leading innovation and managing change as well as integrating sustainability across our culture, policies and practices. Aligned with these priorities, CalSTRS' 2027–28 budget includes resources to maintain our new pension administration system, expand institutional investment capabilities, and support our enterprise needs. As such, the proposed 2027–28 Operating Budget is $547.2 million, an increase of $100.0 million, or 22.4%, over the adopted 2026–27 budget, and includes 1,655 authorized positions. We recognize the proposed budget represents a significant investment, reflecting the combined funding needs of key organizational priorities. These investments are necessary to strengthen the operational infrastructure behind our member services, including the people, technology, and security needed to operate reliably, manage risk and carry out our strategic priorities.

In support of our new pension administration system, BenefitConnect, the proposed 2027–28 budget includes $42.8 million to sustain a secure, reliable and up-to-date pension administration platform. This includes $8.1 million for 38 authorized positions, and $34.7 million for ongoing system maintenance, enhancements, cloud services, licensing and consulting costs.

To strengthen CalSTRS' institutional investment capabilities, support an increasingly complex portfolio, and advance modernization in operations, governance, and technology, this budget includes funding for a two-year investment management plan. The two-year investment management plan totals $57.8 million and 162 authorized positions across fiscal years 2027–28 and 2028–29. The proposed 2027–28 Operating Budget includes $31.0 million and 90 positions for the first year of the plan. The remaining $26.8 million and 72 authorized positions are planned for inclusion in the 2028–29 Operating Budget.

Moreover, this budget includes an increase of $7.5 million for enterprise support needs. Of this amount, $6.4 million is to establish 36 additional authorized positions, and $1.1 million supports service contracts for physical security, mail equipment, Member Service Center maintenance, and related facility costs.

Lastly, the proposed budget also includes $18.7 million for employee compensation adjustments and increased statewide administrative assessments.

Our unwavering commitment to prudent spending and excellent service ensures the lasting strength of our retirement system. With discipline, care and trust, we secure the future of California's educators—now and for generations to come.

Respectfully submitted,



Julie Underwood

Chief Financial Officer
CalSTRS



The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the California State Teachers' Retirement System for its Annual Budget for the fiscal year beginning July 1, 2026. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide and as a communications device.

This award is valid for a period of one year only. We believe our *2027–28 Annual Budget* continues to conform to program requirements, and will be submitted to the GFOA to determine its eligibility for another award.

About the California State Teachers' Retirement System

Overview[1]

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

As a global institutional investor with investment portfolio assets of $415.4 billion as of June 30, 2026, we're the largest educator-only pension fund in the world. Headquartered in West Sacramento, California, we serve California's more than 1 million educators and their beneficiaries, who are employed in approximately 1,800 public school districts, community college districts, county offices of education, charter schools, state agencies and regional occupational programs.

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

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

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

Institutional investing

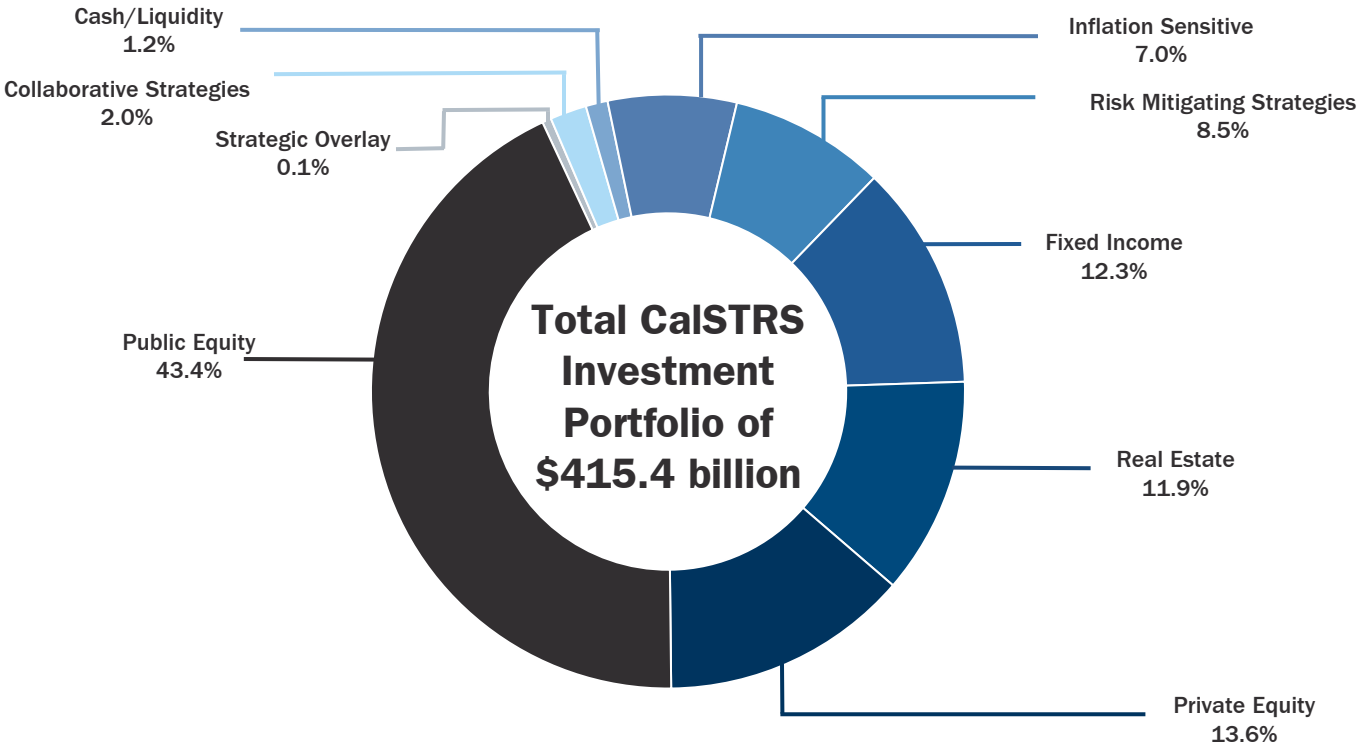
Investment overview

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

As a global institutional investor, we take steps to balance risk with opportunity to preserve the integrity and strength of the fund. Managing the CalSTRS Investment Portfolio, with assets of $415.4 billion as of June 30, 2026, 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, 2026, is provided in the chart below.

Asset allocation as of June 30, 2026[1,2]



[1] Public Equity, Private Equity and Collaborative Strategies include Sustainable Investment and Stewardship Strategies public and private investments of $3.9 billion.

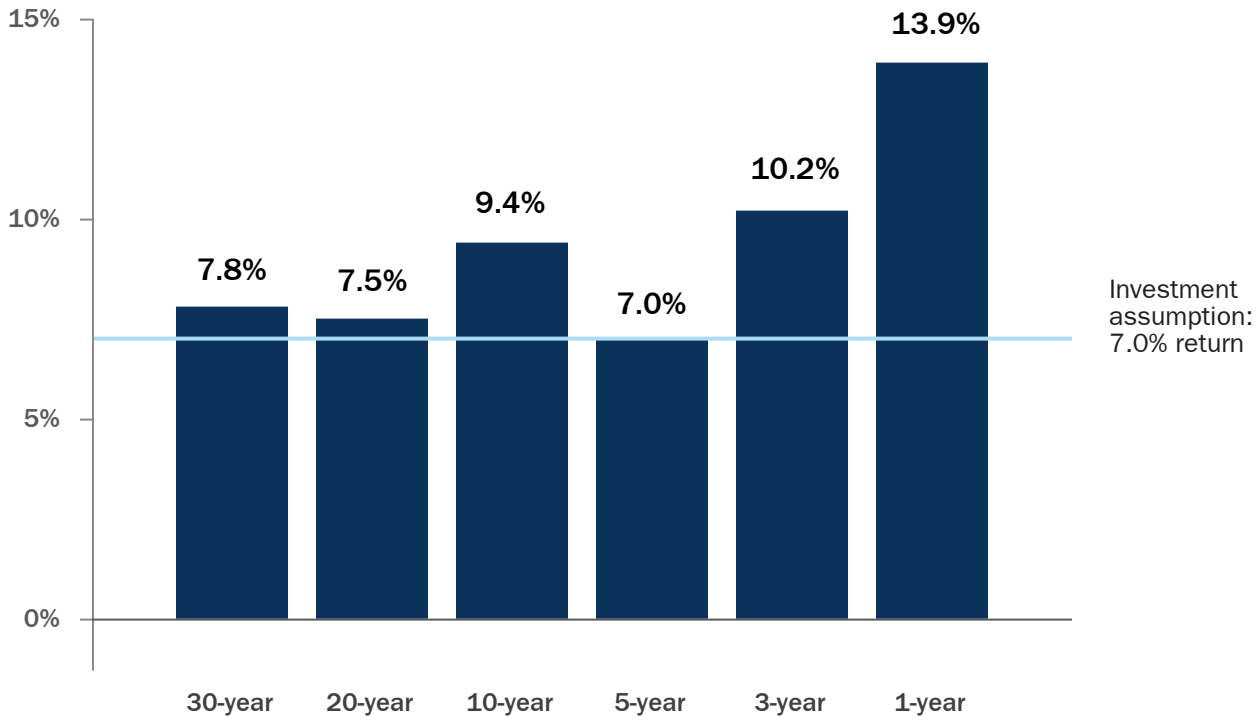
[2] Strategic Overlay consists of the Currency Management Program and Derivative Overlay.

Investment performance

CalSTRS' diversified portfolio generated a time-weighted investment return of 13.9% net-of-fees, which exceeded the 7.0% assumed actuarial rate of return for funding purposes for the fiscal year ended June 30, 2026. The portfolio increased by $47.7 billion over the prior fiscal year, to reach a fund value of $415.4 billion as of June 30, 2026.

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

Net time-weighted returns as of June 30, 2026



Organizational governance and leadership structure

Teachers' Retirement Board

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

The board is composed of 12 members:

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

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

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

Teachers' Retirement Board[1]



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



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



MALIA M. COHEN
State Controller
Ex Officio Member



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



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



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



FIONA MA
State Treasurer
Ex Officio Member



JOE STEPHENSHAW
Director of Finance
Ex Officio Member



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



TONY THURMOND
State Superintendent of Public Instruction
Ex Officio Member



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

VACANT
Public Representative

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

CalSTRS executive staff[1]

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

Executive



CASSANDRA LICHNOCK
Chief Executive Officer

Investments



SCOTT CHAN
Chief Investment Officer

Chief Operating Officer



LISA BLATNICK
Chief Operating Officer

General Counsel



BRIAN J. BARTOW
General Counsel

Financial Services



JULIE UNDERWOOD
Chief Financial Officer

Administrative Services



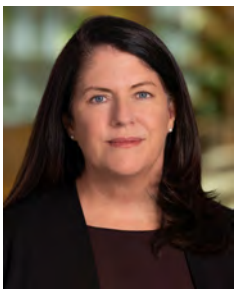
MELISSA NORCIA
Chief Administrative Officer

Benefits and Services



JEFF ZIMMER
Chief Benefits Officer

Public Affairs



TERESA SCHILLING
Chief Public Affairs Officer

Technology Services



ASHISH JAIN
Chief Technology Officer

Actuarial Resources



DAVID LAMOUREUX
Chief Actuary

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

Strategic plan and performance measurement

2025–28 Strategic Plan

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

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

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

Goal 1: Trusted stewards

Ensure a well-governed, financially sound trust fund.

Objective A

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

Objective B

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

Objective C

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

Objective D

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

Objective E

Enhance board practices to evolve excellence in governance.

Goal 2: Leading innovation and managing change

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

Objective A

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

Objective B

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

Objective C

Enhance the customer experience.

Objective D

Enhance operational agility, efficiency and effectiveness.

Objective E

Leverage relevant opportunities in disruptive technologies.

Goal 3: Sustainable organization

Fully integrate sustainability in all we do.

Objective A

Shape a resilient, sustainable workforce.

Objective B

Advance sustainability efforts across the organization.

Objective C

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

Objective D

Strengthen preparedness capabilities.

Objective E

Mature cybersecurity program to further anticipate risks.

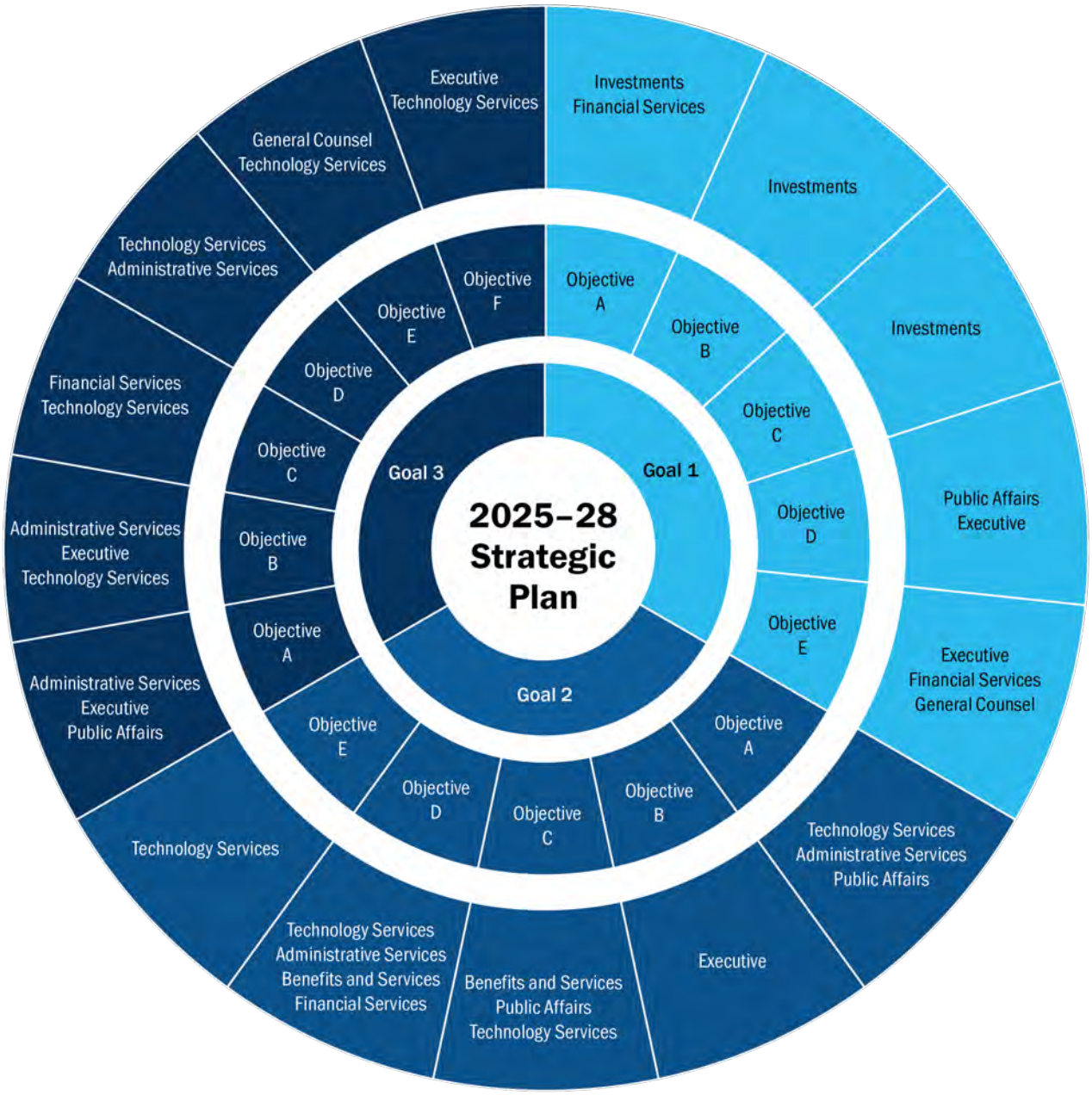
Objective F

Establish and scale centralized approach to resource allocation and reallocation.

2025–28 Strategic Plan goals and objectives by branch

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

This structure ensures high-level goals are linked to actionable plans, with clear ownership across all levels. The diagram below illustrates how each strategic plan goal and objective aligns with the branch responsible for advancing them.



CalSTRS business plan

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

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

Performance measurement

Performance reporting

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



Branch business reviews

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

Customer service performance reviews

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

Operations performance reviews

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

Quarterly performance reviews

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

Teachers' Retirement Board oversight

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

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

2025–26 significant accomplishments and branch sponsors[1]

Goal 1 — Trusted stewards: Ensure a well-governed, financially sound trust fund.	Branch sponsors
Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.	
• Presented the *Funding Levels and Risks Report* to the board.	• Financial Services • Investments
• The CalSTRS Funding Plan remains ahead of schedule to reach full funding by 2046.	• Financial Services • Investments
Objective B: Develop and launch implementation of the Investments Branch's shared vision.	
• Conducted strategic portfolio review.	• Investments
• Conducted outreach to key stakeholders to inform them on the shared vision.	• Investments
Objective C: Deliver on the Investments Branch's long-term fund sustainability efforts.	
• Executed the Diversity in the Management of Investments work plan.	• Investments
Objective D: Strategically evolve relationships with members, employers, policymakers and partner organizations.	
• In progress	• Public Affairs
Objective E: Enhance board practices to evolve excellence in governance.	
• Identified best practices for board oversight of technology and innovation.	• Executive
• Collected baseline survey data from board related to risk communications.	• Financial Services

Goal 2 — Leading innovation and managing change: Innovate to grow resiliency and efficiency in service of our members.	Branch sponsors
Objective A: Transition services and operations to the new pension administration system platform.	• Administrative Services
• Executed training and change management plans.	• Technology Services
• Evaluated preparation activities using the Readiness Scorecard and Cutover Matrix during key checkpoints and dry runs in the pre-implementation stages.	• Technology Services
• Ensured facilities, technology and materials are prepped to support seamless execution of maintenance release and user acceptance testing.	• Technology Services
• Implemented the tactical communications plan for members.	• Public Affairs
Objective B: Expand and extend capabilities and culture to support a strategic and innovation mindset.	• Executive
• Developed our culture of innovation at CalSTRS.	• Technology Services
• Established staffing and structure of the innovation program.	• Executive
Objective C: Enhance the customer experience.	• Benefits and Services • Public Affairs • Technology Services
• Explored and implemented a knowledge management system.	
Objective D: Enhance operational agility, efficiency and effectiveness.	
• Conducted gap analysis and risk assessment of program functions and associated resourcing needs.	• Administrative Services • Technology Services
• Developed framework to ensure permanent workload is supported with appropriate positions.	• Administrative Services • Technology Services

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

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

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

Key performance indicators

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

The KPIs below reflect our performance for 2025–26 and our planned 2026–27 and 2027–28 targets.[1]

Business area	Key performance indicators	Actuals 2025–26	Target 2026–27	Target 2027–28[2]
CalSTRS	Members expressing a high level of satisfaction with CalSTRS overall (annual measure)	61%	75%	75%
	Member online self-service for account transactions	69%	65%	65%
Service Retirement	Members expressing a high level of satisfaction with their service retirement experience	73%	75%	75%
	Payments issued within 45 calendar days of benefit effective date or received date	99%	90%	90%
Disability	Eligible applications processed within 150 calendar days of application received date	68%	90%	90%
	Approved applicants expressing a high level of satisfaction with the overall process	62%	75%	75%
	Approved applicants expressing a high level of satisfaction with service received from the disability analyst	81%	75%	75%
Survivor Benefits	Applications processed within 30 calendar days of receipt of all necessary information	38%	90%	90%
	Ongoing allowances established within 10 calendar days of receipt of all necessary information	47%	90%	90%
	Beneficiaries expressing a high level of satisfaction with the survivor benefits process overall	57%	75%	75%

[1] Several 2025–26 KPIs experienced temporary declines as we transitioned to and stabilized BenefitConnect, our new pension administration system.

[2] At the time of publication, the 2027–28 targets were still under development and may be updated as new information becomes available.

Business area	Key performance indicators	Actuals 2025–26	Target 2026–27	Target 2027–28
Customer Service	Contact Center calls answered within 30 seconds	18%	75%	75%
	Paper account maintenance transactions processed within 10 business days of receipt	50%	85%	85%
	Average number of business days to respond to online messages	5.38 Days	< 2 Days	< 2 Days
	Members expressing a high level of satisfaction with service during their most recent Contact Center experience (calls)	95%	75%	75%
Financial Services	Service credit purchase requests completed within 25 business days	17%	100%	100%
	Refund applications processed within 25 business days of receipt	71%	95%	95%
Employer Reporting and Contributions	(Financial Services) Percentage of contributions submitted prior to the delinquent date (95%/5th day)	98%	100%	100%
	(Employer Services) Percentage of employer reporting submitted prior to the delinquent date, by unit	94%	100%	100%
	(Employer Services) Complete cases of all new retirees that meet threshold within 75 calendar days of the retiree report received date	87%	95%	95%
	(Employer Services) Average quality score of employer inquiries meeting review parameters	85%	75%	75%
	(Employer Services) Employers expressing a high level of satisfaction after a service interaction	86%	75%	75%
	(Employer Services) Employers expressing a high level of satisfaction after a training event	80%	75%	75%
Community Property	Acceptable court orders implemented to member's accounts within 15 calendar days of receipt of all required documentation	61%	90%	90%
	Community Property estimates provided to a member, non-member or legal representative within 17 calendar days of receipt	65%	90%	90%
	Member-submitted draft court orders reviewed and responded to within 10 calendar days of receipt	51%	90%	90%
	Members expressing a high level of satisfaction with Community Property estimate services	65%	75%	75%
	Members expressing a high level of satisfaction with Community Property representatives overall	72%	80%	80%
Retirement Readiness	Members expressing a high level of satisfaction with their benefits planning session	95%	75%	75%
	Members expressing a high level of satisfaction with the length of time between scheduling an appointment and attending a benefits planning session	96%	75%	75%
	Members age 44 and younger who receive educational services (annual measure)	6,354	4%	4%
	Participants expressing a high level of satisfaction with defined contribution support service	96%	75%	75%
	Annual Pension2 contributions (millions)	$193	$144	$144
	New account growth	5,372	5,549	5,549

Long-range financial planning

Integrated financial management

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

Path to full funding

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

The CalSTRS Funding Plan established a shared approach in which members, employers and the state gradually increased contributions to fully fund the program by 2046. Our funding progress has benefited over the last few years from contributions received that were above the calculated rates. The "Projected funded status" chart on the next page shows how these contributions have helped move the funding plan ahead of schedule, with full funding projected by 2043.

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

Review of actuarial assumptions

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

Key highlights

Based on the June 30, 2025, actuarial valuation, (released in May 2026), the funded ratio increased from 76.7% to 79.3%, while the unfunded actuarial obligation decreased from $88.7 billion to $82.0 billion. This reflects a steady improvement in the funded status, as we continue to make progress toward reducing the funding shortfall. Reducing the unfunded liability remains a strategic priority. Long-term projections assume a 7.0% investment return and 3.25% annual payroll growth.

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

Significant changes in 2024–25[1]

The board continued to exercise its rate-setting authority through its vote to keep the state contribution rate to the Defined Benefit Program at 8.328% of payroll and the employer contribution rate at 19.1% of payroll, to keep the funding plan on track to reach full funding by 2046. Funding levels improved over 2024–25 mostly as a result of the CalSTRS Investment Portfolio earning a 8.5% time-weighted investment return in 2024–25, exceeding our 7.0% assumed investment return. Additionally, there was an increase of approximately 4,000 active members, reaching an all-time high in membership, and the overall payroll increased by approximately 3.25%, in line with CalSTRS' long-term payroll growth assumption.

Overall, we remain slightly ahead of schedule in our goal of reaching full funding by 2046.

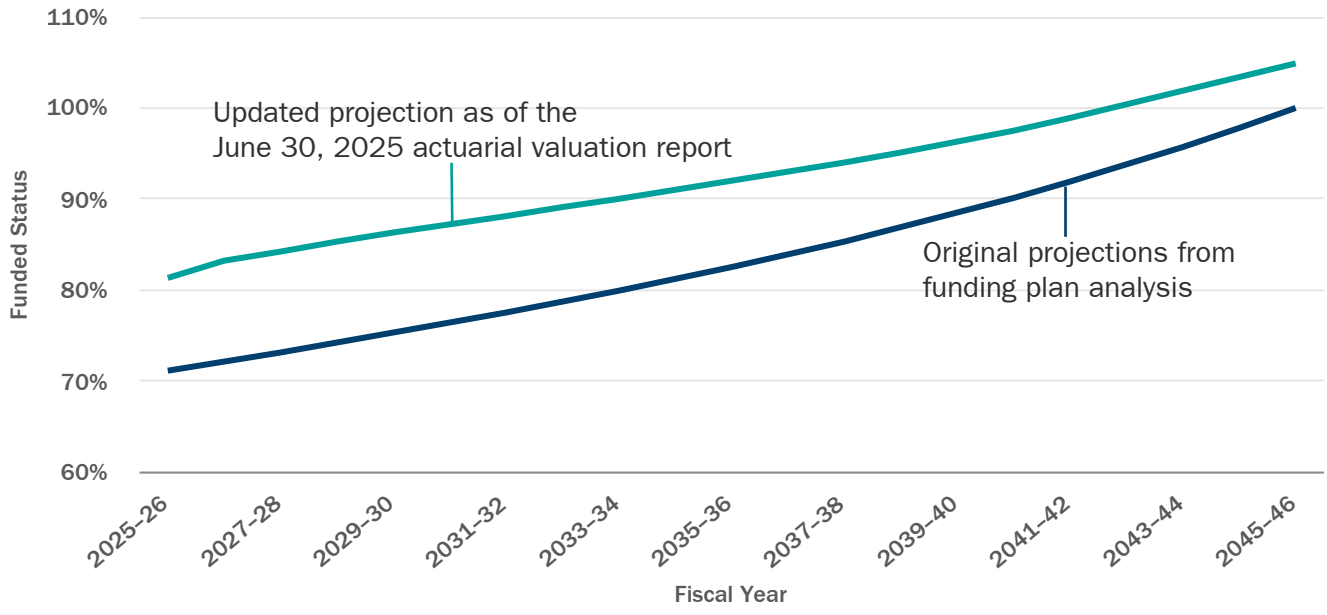
Member demographics

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

Revised projected funding levels

Updated projections based on the June 30, 2025, valuation show full funding is now projected to occur in 2043, three years ahead of schedule. The projections assume that the fund will meet a 7.0% investment return and 3.25% payroll growth annually through 2046. Actual results could be materially impacted if the portfolio experienced a return well below its assumed 7.0% return assumption. In addition, the projections do not reflect the investment return earned in 2025–26.

Projected funded status



[1] This section reflects the most current information available at the time of publication.

Revenues

Contributions

The Teachers' Retirement Fund is funded through investment returns and contributions from members, employers and the state. Over the past 30 years, investments returns accounted for approximately 62.7% of total revenues. Projections for contribution revenue are shown in the chart on the next page.

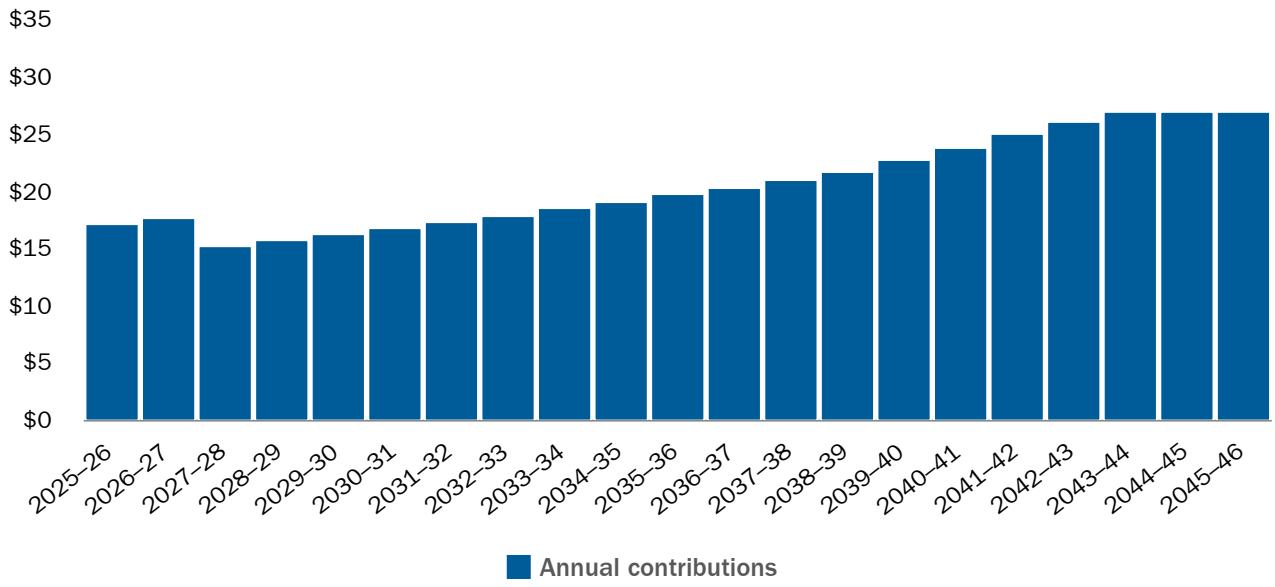
Contribution rates

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

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

Projected contribution revenue[1, 2]

(dollars in billions)



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

[2] For Defined Benefit Program only.

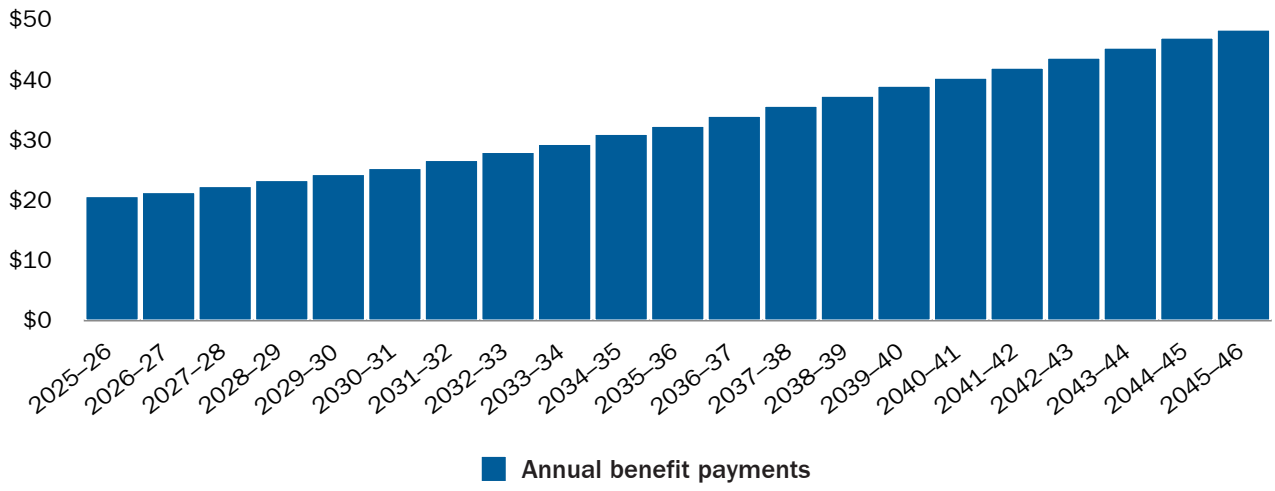
Expenses

Member benefit payments

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

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

Projected member benefit payments[1]
(dollars in billions)



[1] For Defined Benefit Program only.

Budget overview

Budget in brief

The 2025–28 *Strategic Plan* establishes the goals and measurable objectives that guide organizational priorities through June 30, 2028. In support of our plan, resource planning is integrated with the strategic planning process to align financial and staffing resources with the capabilities needed to administer the system, deliver services and advance CalSTRS' strategic priorities. The proposed 2027–28 Operating Budget reflects this alignment and provides the resources necessary to support the organization's operational and strategic objectives in the upcoming fiscal year.[1]

Aligned with these objectives, CalSTRS' proposed 2027–28 budget includes three major operating budget proposals: BenefitConnect system support to maintain the new pension administration system; a two-year investment management plan to expand institutional investment capabilities; and enterprise support to advance the 2025–28 *Strategic Plan,* technology modernization, and information security and compliance needs.

Moreover, this budget includes routine annual adjustments to nondiscretionary administrative costs. This includes employee compensation adjustments and the pro rata assessment issued by the Department of Finance for the cost of providing central administrative services.

The proposed 2027–28 Operating Budget is $547.2 million, an increase of $100.0 million, or 22.4%, compared with the 2026–27 adopted budget. The proposal also adds 164 authorized positions, representing an 11.0% increase.

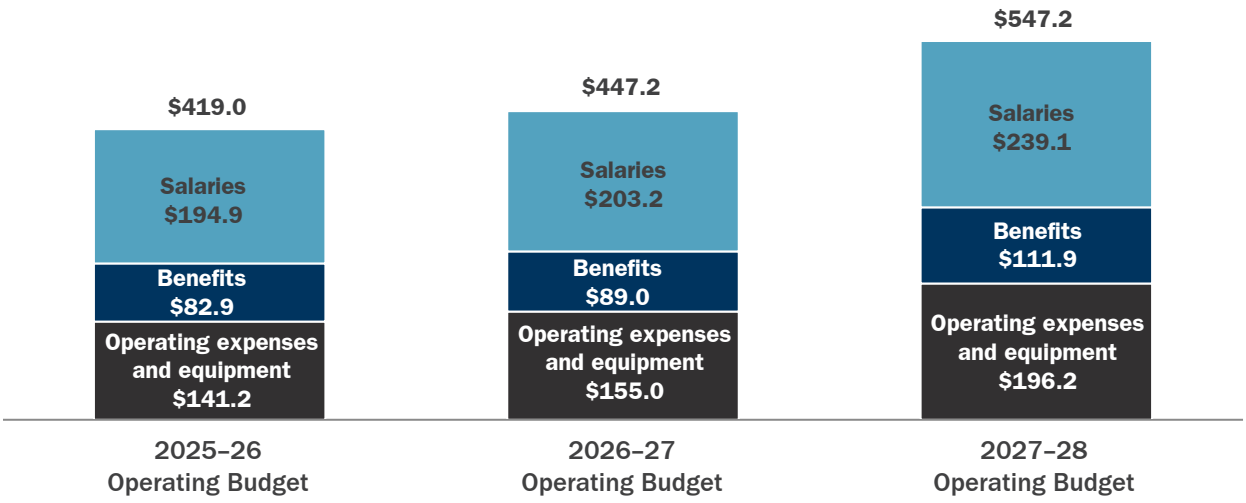
Over the past five years, CalSTRS' Operating Budget grew by an average of approximately 8.5% annually, while authorized positions grew by an average of 3.9% annually. The proposed 2027–28 increase is higher than these historical averages, reflecting the combined funding requirements for BenefitConnect system support, the first year of the two-year investment management plan, and enterprise priorities.

The chart on the next page illustrates how our Operating Budget has changed from 2025–26 to 2027–28 across the three budget categories: salaries, benefits, and operating expenses and equipment.

[1] The Operating Budget does not represent all of CalSTRS' expenditures, such as benefit payments, external investment advisor fees, and certain other continuously appropriated costs, which are authorized through constitutional or statutory authority and do not require board approval. Additional detail regarding CalSTRS' total expenditures is provided in the **Financial summaries** section.

Three-year Operating Budget overview

(dollars in millions)



The table below summarizes our prior fiscal year actual expenditures, the 2026–27 adopted Operating Budget, and the proposed 2027–28 Operating Budget, and highlights the amount of change by budget category between fiscal years 2026–27 and 2027–28.

Three-year overview[1]

(dollars in thousands)

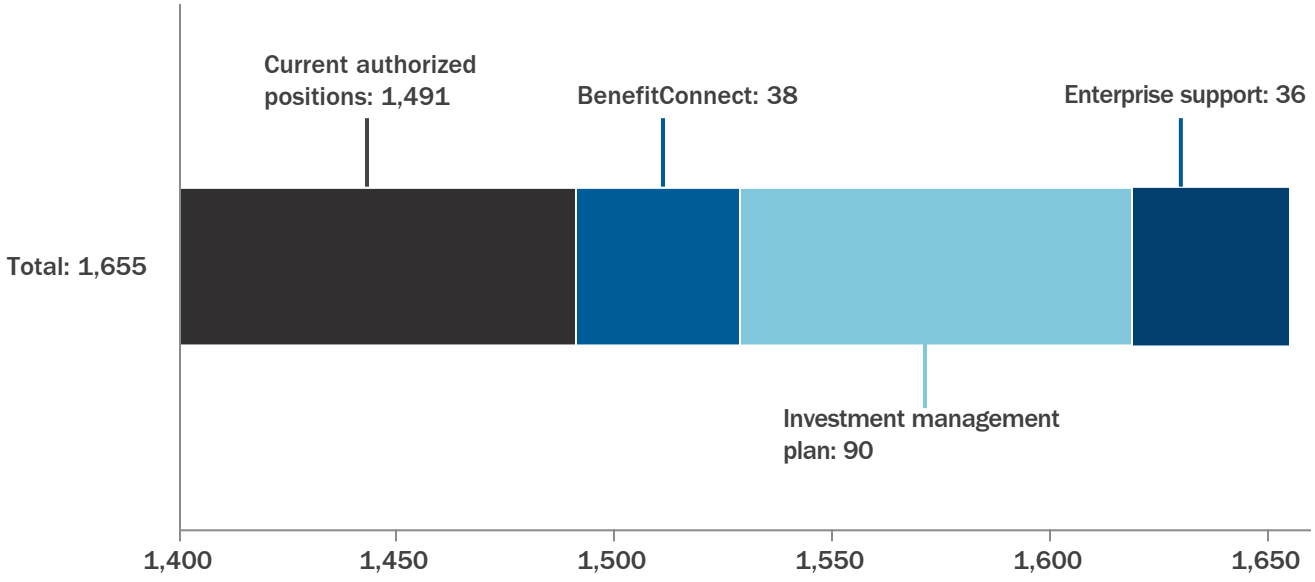
Budget category	Actual 2025–26	Adopted 2026–27	Proposed 2027–28[2]	Amount change
Operating Budget				
Salaries	$170,935	$203,160	$239,121	$35,961
Benefits	84,474	89,032	111,831	22,799
Operating expenses and equipment				
General expenses	19,111	39,975	41,911	1,936
Consulting and professional services	32,053	56,469	57,304	835
Facilities operations	21,784	21,234	21,404	170
Central administrative services	20,004	22,104	25,604	3,500
Data processing and storage	18,160	15,250	50,009	34,759
Total Operating Budget	**$366,521**	**$447,224**	**$547,184**	**$99,960**
Percentage change				***22.4%***

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

[2] The proposed 2027–28 Operating Budget reflects currently identified funding needs and is subject to change based on pending items requiring board review and approval, legislative changes, and other emerging operational or programmatic needs. Accordingly, the amounts presented may not reflect all funding requirements for the fiscal year. Additional information is provided in **Additional budgetary considerations** in this report.

The proposed 2027–28 Operating Budget includes 1,655 total authorized positions,[1] reflecting an increase of 164 positions to CalSTRS' workforce, or 11.0%, relative to 2026–27. The additional positions support the BenefitConnect system, investment management plan, and enterprise support proposals and are aligned with CalSTRS' strategic and operational priorities. A breakout of authorized positions by branch is provided in the **Branch information** section of this report.

2027–28 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 of this report.

2027–28 Operating Budget changes

The proposed 2027–28 Operating Budget totals $547.2 million, an increase of $100.0 million, or 22.4%, over the adopted 2026–27 budget, and includes 1,655 authorized positions. The increase supports three major proposals: ongoing BenefitConnect system support, including 38 new authorized positions; the first year of the two-year investment management plan, including 90 new authorized positions; and enterprise support, including 36 new authorized positions to advance the 2025–28 *Strategic Plan*, technology modernization, and information security and compliance. These proposals include funding for staffing, service contracts, and related operating expenses and equipment. The remaining increase is for other budgetary changes, which reflect routine annual adjustments to nondiscretionary administrative costs, including employee compensation and the Department of Finance's pro rata assessment. The table below summarizes the $100.0 million increase by category.

2027–28 Operating Budget changes

(dollars in millions)

Operational category	Amount change
BenefitConnect system support	$42.8
Investment management plan	31.0
Enterprise support	7.5
Other budgetary changes	18.7
Total	**$100.0**

BenefitConnect system support: $42.8 million

This proposal includes $42.8 million to transition BenefitConnect maintenance and operations from temporary project funding to ongoing operational support and establish the resources necessary to sustain a secure, reliable and up-to-date pension administration platform. This proposal will provide funding to establish a dedicated BenefitConnect support division, within the Technology Services branch, and provide ongoing resources for consulting services, cloud infrastructure, licensing, and other system operating costs.

Of the $42.8 million, $8.1 million is to establish 38 authorized positions, and $34.7 million supports ongoing system maintenance, enhancements, cloud services, licensing and consulting costs.

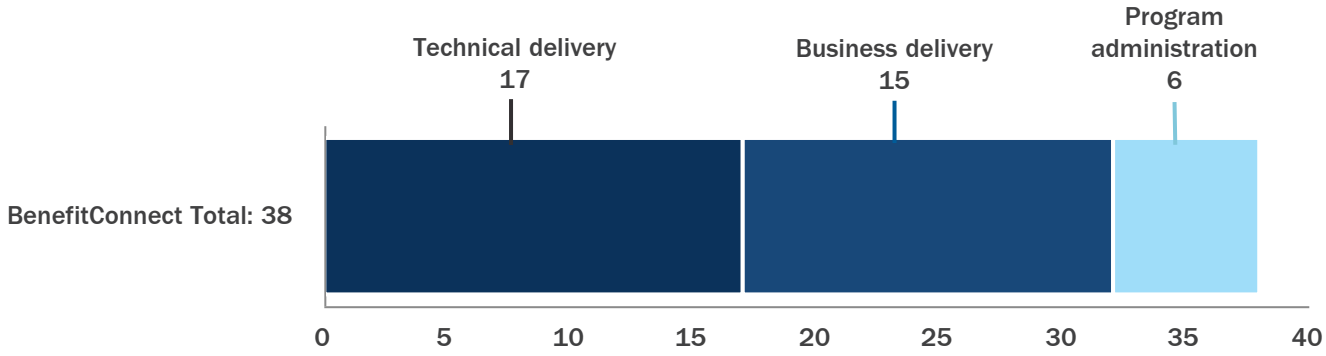
This proposal also requests an extension of the encumbrance and liquidation periods for existing Pension Solution Project appropriations. The extension provides additional flexibility to complete remaining contractual obligations and transition applicable vendor contracts.

BenefitConnect went live in September 2025, and is now integral to CalSTRS' core pension administration operations. These resources will support system performance and reliability, evolving member and business needs, and legislative and regulatory changes. This ongoing operational capacity supports CalSTRS' statutory responsibility to deliver more than $1.6 billion in monthly benefit payments to more than one million members and beneficiaries, while serving the school employer community.

Authorized positions: $8.1 million, 38 positions

This proposal includes $8.1 million to establish 38 permanently authorized positions to support BenefitConnect within the Technology Services branch. These resources will provide ongoing system governance, operational oversight and technical support while strengthening coordination across business and technology teams.

The additional resources will provide system support, while bridging the gap between business and technical teams to deliver seamless service to members and stakeholders. In addition, resources will be critical in managing enhancements, ensuring data integrity, driving process optimization, and coordinating cross-functional delivery efforts. The following chart summarizes the proposed 38 authorized positions by business function.



Technical delivery: $3.9 million, 17 positions

Technical delivery provides specialized technology capacity necessary to maintain a secure, reliable and scalable BenefitConnect platform. Additionally, technical delivery ensures the system integrates effectively with existing technological environments all while meeting performance, compliance, and user requirements. Establishing a strong technical foundation is vital to reducing operational risk and strengthening long-term system sustainability. These 17 positions will perform the following key tasks:

- Oversee technical software development required for maintaining and enhancing the system.
- Manage technical architecture, security, and identity management.
- Develop and test operational reports.
- Develop and maintain interfaces to other systems.
- Facilitate the identification, development, documentation, and approval of technical delivery requirements with both business and information technology subject matter experts.
- Manage operations and delivery of technical components of BenefitConnect in collaboration with contractor staff and vendors.
- Write software code for enhancements, fixes, or to implement other changes while considering business context and operational constraints.
- Oversee technical testing of the application and validate testing results.

Business delivery: $3.0 million, 15 positions

Business delivery provides the operational and functional expertise necessary to align BenefitConnect capabilities with CalSTRS' business requirements, fiscal controls and member service needs. These resources will strengthen coordination between business and technology teams and support the timely implementation of system enhancements and regulatory changes. These 15 positions will perform the following key tasks:

- Perform financial reviews and analytical system reviews to ensure BenefitConnect continues to meet fiscal system control requirements, including editing process workflows, audit trails, operational controls, accounting treatments, reports and system interfaces.

- Perform research and analysis to determine business and system impacts while ensuring compliance with pension laws, rules, and regulations.
- Triage and prioritize fixes and enhancements against available capacity within scheduled releases.
- Collaborate with both business and information technology subject matter experts to collect, verify, develop, and document applicable functional requirements.
- Participate in the support of planning, executing, and closing test phases.
- Engage in quality assurance of technical product documentation, artifacts, and business requirements.

Program administration: $1.2 million, 6 positions

Program administration ensures centralized coordination and oversight of all components of the system—technical, business, and strategic. These roles are essential to managing the program scope, schedule, budget, contracts, personnel and risks, while ensuring alignment across technical and business workstreams. These 6 positions will perform the following key tasks:

- Oversee staff services and technical functions, including system requirements tracing and change control, information technology contracts administration, financial and operational reporting, and project management.
- Develop and document requirements, management strategies and plans; participate in planning, organizing, and documenting changes to the BenefitConnect requirements.
- Oversee contract terms, service level agreements and deliverables.
- Develop, document, and maintain written processes and procedures to support ongoing system-generated communications and forms.
- Support communication and engagement efforts by planning, researching and developing materials and presentations.
- Develop and manage integrated change control, scheduling, scope management, cost management, vendor management, risk management, and procurement planning.

Service contracts: $34.7 million

This proposal includes $34.7 million, net of $5.3 million in legacy system cost savings, to support ongoing BenefitConnect maintenance, operations and system enhancements. The funding will support system maintenance, cloud services, licensing and consulting resources necessary to maintain a secure, reliable and up-to-date pension administration platform.

Extension of Pension Solution Project appropriations

This proposal requests an extension of the encumbrance and liquidation periods for existing Pension Solution Project appropriations. The extension would allow funds to remain available for encumbrance and expenditure through June 30, 2029, and for liquidation through June 30, 2031. The extension provides additional flexibility to complete remaining contractual obligations and transition applicable vendor contracts and costs from temporary project funding to ongoing CalSTRS operations.

Investment management plan: Two-year proposal: $57.8 million, 162 positions

The proposed 2027–28 Operating Budget includes the first year of the plan, $31.0 million and 90 authorized positions. An additional $26.8 million and 72 authorized positions are planned for 2028–29, bringing the two-year total to $57.8 million and 162 authorized positions. Of the 162 positions, 139 are within the Investments Branch and 23 are disbursed across five administrative support business areas to implement and sustain the plan.

The two-year investment management plan provides phased resources to strengthen CalSTRS' institutional investment capabilities and supports the continued growth and complexity of the investment portfolio. A two-year approach provides the Investments Branch with flexibility to strategically phase resources, scale capacity, and sequence operational infrastructure, governance enhancements, and technology modernization in alignment with portfolio growth and evolving investment strategies. The longer planning horizon supports specialized recruitment and modernization efforts that can be difficult to execute within a single-year cycle, while preserving the ability to adjust resource deployment as conditions evolve. This approach also establishes clear, evidence-based checkpoints to assess progress and recalibrate as needed.

The table below provides the two-year resource plan by investment strategy. As approved, the funding and positions associated with each year of the plan will be incorporated into CalSTRS' baseline Operating Budget in the applicable fiscal year. Additional details are provided in **Appendix 5**.

Two-year resource plan
(dollars in millions)

	2027–28		2028–29		Two-year total	
Investment strategy	**Cost**	**Positions**	**Cost**	**Positions**	**Cost**	**Positions**
AUM growth	$12.5	29	$8.7	20	$21.2	49
Evolution of investment strategy	8.3	20	10.0	22	18.3	42
Operational infrastructure & governance	4.5	15	3.5	13	8.0	28
Technology transformation	3.2	13	2.6	7	5.8	20
Investment support	2.5	13	2.0	10	4.5	23
Total	**$31.0**	**90**	**$26.8**	**72**	**$57.8**	**162**

AUM growth: $21.2 million, 49 positions

For fiscal year 2027–28, $12.5 million and 29 permanent authorized positions are proposed to manage a larger base of assets and successfully grow assets at the actuarial rate of return. This considers our continued integration of the Collaborative Model, expanding internal management and direct investing capabilities maintaining a highly diversified portfolio with 65%-70% managed internally (versus hiring expensive external managers). In fiscal year 2028–29, the plan forecasts an additional $8.7 million and 20 positions, resulting in a two-year investment of $21.2 million and 49 positions.

Evolution of investment strategy: $18.3 million, 42 positions

For fiscal year 2027–28, $8.3 million and 20 permanent authorized positions are proposed to meet our return objectives, diversify the portfolio and manage risks, by evolving the investment strategy along the following dimensions: (1) Division strategies; (2) Diversification including increased allocations in infrastructure, international markets, uncorrelated assets, and private credit; (3) Risk and liquidity management across the total fund; and (4) Dynamic asset allocation (e.g. expanded overlay function, cross-asset investment structures). In fiscal year 2028–29, the plan

forecasts an additional $10 million and 22 positions, resulting in a two-year investment of $18.3 million and 42 positions.

Operational infrastructure & governance: $8.0 million, 28 positions

For fiscal year 2027–28, $4.5 million and 15 permanent authorized positions are proposed to strengthen our operational infrastructure, expand governance, and ensure continued evolution of risk management to enable execution of the investment strategies, ensure a strong governance framework, protect the portfolio and preserve capital. In fiscal year 2028–29, the plan forecasts an additional $3.5 million and 13 positions, resulting in a two-year investment of $8 million and 28 positions.

Technology transformation: $5.8 million, 20 positions

For fiscal year 2027–28, $3.2 million and 13 permanent authorized positions are proposed to advance technology transformation. In fiscal year 2028–29, the plan forecasts an additional $2.6 million and 7 positions, resulting in a two-year investment of $5.8 million and 20 positions.

Technology transformation is integral to strengthening CalSTRS' investment analytics, data infrastructure and technology capabilities. As the portfolio grows in scale and complexity, modern investment platforms and integrated data capabilities are increasingly important to support data-driven decision-making, timely risk oversight and operational resilience.

These resources will support the implementation, governance and optimization of investment platforms, portfolio analytics and integrated data capabilities across asset classes, improving efficiency, accuracy and transparency while ensuring CalSTRS' investment technology infrastructure continues to evolve with the needs of the portfolio.

Investment support: $4.5 million, 23 positions

For fiscal year 2027–28, $2.5 million and 13 permanent authorized positions are proposed to support implementation of the investment management plan. In fiscal year 2028–29, the plan forecasts an additional $2.0 million and 10 positions, resulting in a two-year investment of $4.5 million and 23 positions.

Implementation of the plan will increase the scale and complexity of investment activities and, correspondingly, the demand for enterprise services supporting the Investments Branch.

Additional capacity is therefore needed across key administrative support functions to enable effective implementation and sustain ongoing investment operations.

These resources will provide additional capacity across Facilities, Human Resources, Procurement, General Counsel and Technology Services, strengthening the operational infrastructure supporting the Investments Branch and enabling investment professionals to remain focused on portfolio management, strategic execution and long-term investment objectives.

Administrative authority

The investment management plan also provides flexibility to deploy resources earlier than planned, including advancing any of the 72 year-two positions into year one, as needed and subject to board approval. This will provide CalSTRS the flexibility to effectively manage long-term investment resources. Moreover, this would significantly reduce the time for onboarding additional investment resources and ultimately lead to faster deployment of investment strategies. In current practice, when additional resources are needed, the time between obtaining approval and final implementation can take as long as 18 months from concept to enactment. This multi-year strategy strikes a balance between administrative and legislative oversight, with organizational flexibility for CalSTRS to deploy resources earlier.

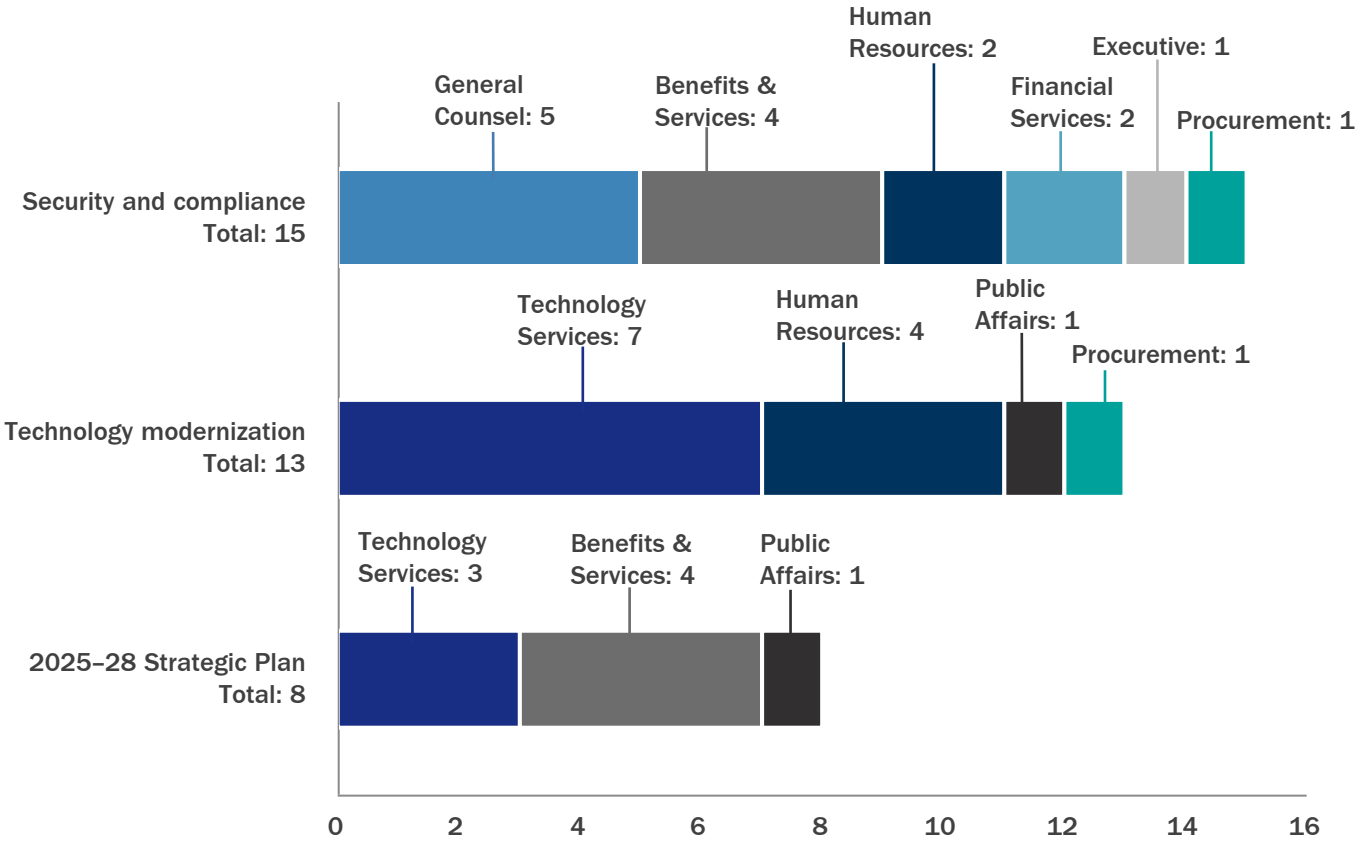
Enterprise support: $7.5 million, 36 positions

The proposed 2027–28 Operating Budget includes $7.5 million and 36 authorized positions to strengthen CalSTRS' enterprise-wide operational capacity and support priorities

identified in the 2025–28 *Strategic Plan*. These resources are intended to enhance organizational resilience, advance information security and compliance capabilities, modernize enterprise technology, and provide the infrastructure and support necessary to meet evolving business needs. Of the $7.5 million, $6.4 million will establish 36 authorized positions across eight business areas, and $1.1 million supports service contracts for physical security, mail equipment, Member Service Center maintenance and related facility costs.

This proposal is designed to build sustainable internal capacity, reduce operational risk, and ensure enterprise functions keep pace with increasing organizational complexity, technology needs, and regulatory and compliance requirements. Together, these resources provide foundational support necessary for CalSTRS to effectively deliver core programs and services.

The chart below summarizes the proposed authorized positions by function and business area.



Security and compliance: $2.8 million, 15 positions

Resources for reinforcing CalSTRS' information security and compliance infrastructure are essential to safeguard operations and ensure legal, regulatory, and procedural alignment. These resources strengthen CalSTRS' information security, compliance, and operational capabilities to safeguard operations, meet legal and regulatory requirements, and support effective service delivery. The positions provide capacity across personnel management, compliance, audit, financial and benefit administration, cybersecurity, fraud prevention, and public records functions. These 15 positions will perform the following key tasks:

- Prepare, review, analyze personnel management activities, including classification, compensation, and position management; support and administer recruitment and selection.
- Oversee development, implementation and ongoing maintenance of compliance policies.
- Execute complex audits, evaluate controls, analyze evidence, review work papers, and communicate results efficiently to support annual plan completion; and prepare leadership reports.
- Process billing requests, coordinate with employers, resolve corrections, and complete rework and recalculations for cases affected by system changes.
- Conduct complex account reviews for over 400 survivor benefits and disability cases each month, assist production team with application processing, perform audits and rework survivor and disability payments.
- Provide leadership, oversight, and mentoring for cybersecurity and information security functions, including managing staff, projects, and organizational governance.
- Lead the research, development, and implementation of advanced information security measures, fraud detection and mitigation.
- Process Public Records Act requests, Form 700 and Form 600H filings; process subpoenas, and respond to Information Practices Act and citizens' complaints.

Technology modernization: $2.3 million, 13 positions

Resources for building, supporting, and modernizing our technology foundation remains essential to delivering high-quality services and enabling more efficient operations. These resources strengthen CalSTRS' technology foundation and expand the capacity needed to support reliable systems, modernize enterprise applications, and improve operational efficiency. The positions support the SAP solutions center, enterprise communications, infrastructure, data solutions, and financial planning for major technology initiatives (excluding BenefitConnect). These 13 positions will perform the following key tasks:

- Oversee planning and implementation for enhancements associated with HR technology initiatives.
- Provide advanced functional support for HR applications, including system configuration, testing, data management, access controls, upgrades, and issue resolution.
- Manage HR technology support requests, user guidance and training, system testing, and coordination across business and technology teams.
- Support enterprise communications through CalSTRS intranet sites, communications metrics, and related organizational communications.
- Manage budget planning, forecasting, reporting, and multi-year financial planning for CalSTRS information technology projects, including expense projections and transition planning from projects to ongoing programs.
- Oversee secure cloud, server, and storage infrastructure; support disaster recovery and IT audit activities; and provide technical leadership in infrastructure administration and cybersecurity.
- Oversee the design, integration, administration, and enhancement of systems, applications, and products for data processing solutions and related systems, including system changes, testing, incident response, architecture, and reporting.

2025–28 *Strategic Plan*: $1.3 million, 8 positions

The proposed resources were previously presented to the board in May 2025, when the 2025–28 *Strategic Plan* was adopted. Consistent with CalSTRS' strategic priorities, these resources will strengthen operations, enterprise

communications and innovation capabilities across the organization. Specifically, they will support member engagement and defined contribution program operations, expand member outreach, enhance board member and executive communications, advance artificial intelligence opportunities and governance, and support change management efforts that improve operational efficiency and modernize business processes. The eight positions will perform the following key tasks:

- Respond to member and stakeholder inquiries about Pension2 accounts, assist with enrollments, document and analyze member activities, schedule benefits planning sessions, perform account research, support administrative processes, and collaborate on cross-functional teams.
- Plan and deliver regional outreach and education, develop training programs, maintain training content and materials, lead training and quality management programs, conduct presentations and counseling, promote Pension2, support member engagement, oversee data and analytics functions, analyze outreach effectiveness, develop marketing strategies, and assist with program operations.
- Develop digital and presentation content to support board members, executives, and staff in communicating with internal and external audiences; collaborate across business areas to ensure accurate, aligned messaging; and produce communications on complex issues to support strategic organizational priorities.
- Test and validate artificial intelligence solutions, support integration with enterprise applications, and provide ongoing operational support as AI capabilities transition into production.

Service contracts: $1.1 million

The proposal includes $1.1 million for service contracts and operating expenses and equipment. The funding will be used to expand physical security services for board meetings and maintain mail delivery equipment at the CalSTRS headquarters. It will also be used for maintenance contracts at Member Services Centers, and address increased facilities costs for two Member Service Centers located in Santa Clara and Irvine. This funding is essential for maintaining reliable operations, effective outreach, and consistent service delivery.

Other budgetary changes: $18.7 million

Other budgetary changes total $18.7 million and represents estimated changes for standard nondiscretionary administrative expenditures that occur routinely each year. A summary of each adjustment is provided below.

Employee compensation: $15.1 million

Employee compensation adjustments reflect a net increase of $15.1 million. This is primarily composed of a 3.0% general salary increase, up to 5.0% merit salary increase for eligible staff and other related incentive and benefit increases.

Pro rata assessment: $3.6 million

We are required by the Department of Finance to contribute on a pro rata basis for the cost of central administrative services provided 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 2027–28, the annual pro rata assessment will increase by $3.6 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.

Additional budget authority

Additional budget authority for the proposed 2027–28 Operating Budget is requested for unanticipated expenditures as described below. This authority is requested as part of the Operating Budget each year.

2027–28 Teachers' Retirement Fund support appropriation savings

Pursuant to Appendix III.1 of the ***Teachers' Retirement Board Governance Manual***, if CalSTRS ends the year with savings in the Teachers' Retirement Fund support appropriation, up to 3% of the Operating Budget can carry over into a future fiscal year. These savings are available for expenditure for two years after the initial year of appropriation. Use of this funding would require further board approval and would be limited to unanticipated expenditures for member services. Staff is requesting the board to authorize the availability of up to 3%, or $14.4 million of the $479.3 million 2027–28 TRF support appropriation. Additional details regarding the TRF are provided in **Appendix 3**.

Proposed 2027–28 Operating Budget revision authority

If the 2027–28 Operating Budget requires revision due to actions by the Administration or changes in state laws or regulations, staff is requesting authorization to revise the 2027–28 Operating Budget for such adjustments. Since these revisions would be required, staff is seeking the board's authorization to adjust the Operating Budget without further board action. In the event the 2027–28 Operating Budget is revised, staff will inform the board, outlining any revisions.

Additional budgetary considerations

Additional budgetary considerations provide supplemental information on items currently under review that may impact CalSTRS' operating budget. These include the 100 Waterfront Building Modernization project and Senate Bill 122.

100 Waterfront Building Modernization

The 100 Waterfront Building Modernization project addresses end of life infrastructure replacements and related improvements necessary to sustain long term operations, protect asset value, and support evolving technology and workplace needs. The project is estimated to cost $96.7 million phased over fiscal years 2026–27 through 2030–31, and is presented separately in the November 2026 Teachers' Retirement Board Item #4–*100 Waterfront Building Modernization Project* as an information item, with the option to approve. The project would be funded through CalSTRS' continuous appropriation, which provides ongoing statutory expenditure authority without the need for annual legislative appropriation. This funding authority does not require separate board approval; however, in light of the project's discretionary nature, scale, and long-term financial commitment, staff is seeking the board's approval to ensure transparency, accountability, and appropriate oversight of significant financial investments.

Funding for the project is not included in the adopted 2026–27 and proposed 2027–28 Operating Budgets. If the board approves the project, staff will revise both budgets to reflect the associated one-time fiscal impacts and present the revisions to the board. Planned one-time funding for fiscal years 2028–29 through 2030–31 would be incorporated into CalSTRS' baseline operating budget for each respective fiscal year. Additional information is provided in the **Capital projects** section of this report.

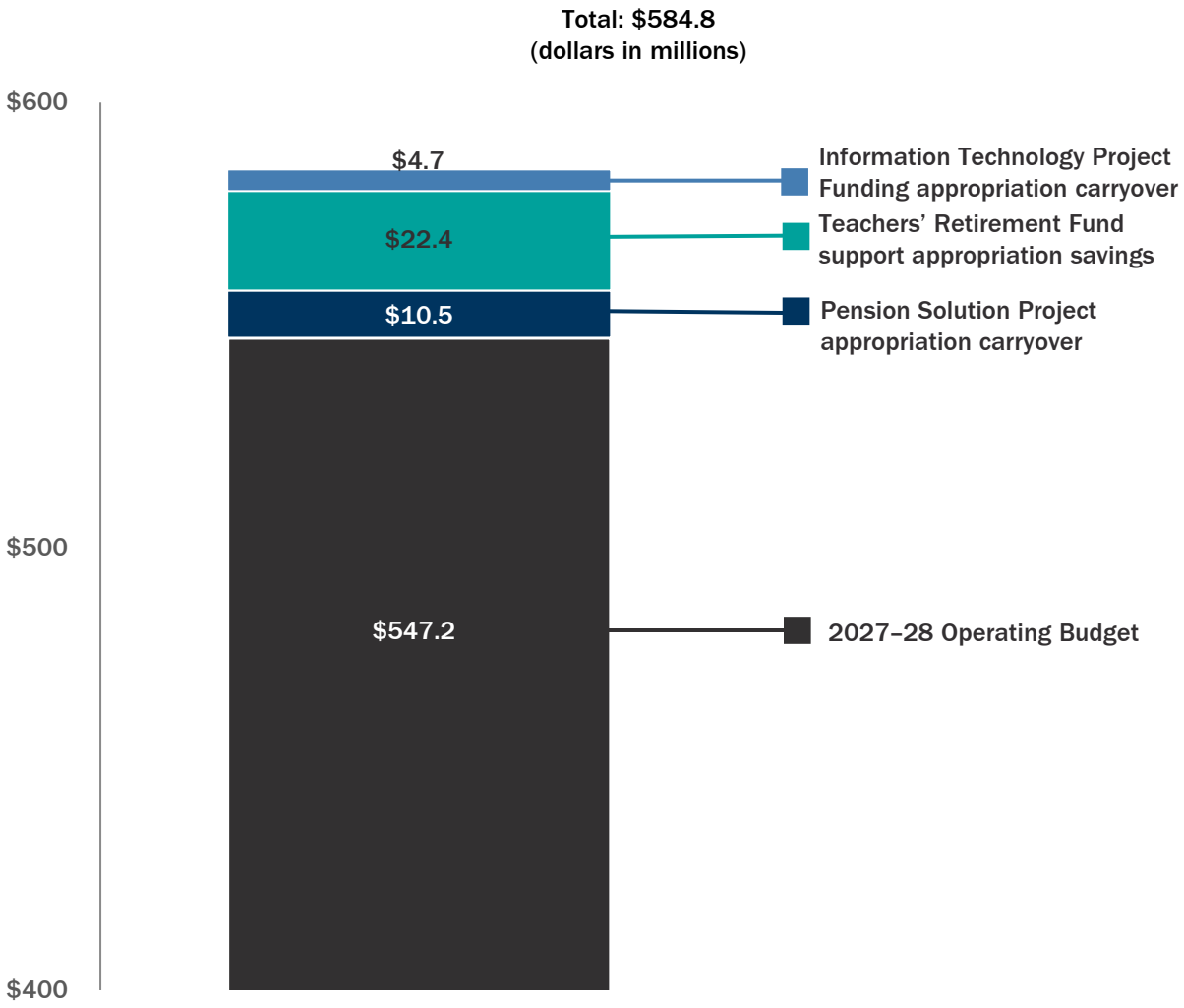
Senate Bill 122

Senate Bill 122 (Chapter 23, Statutes of 2026) was enacted as part of the 2026–27 State Budget trailer bill legislation. Effective January 1, 2027, SB 122 expands California's sales and use tax to include certain digital products, including prewritten software delivered electronically or accessed remotely, such as Software as a Service. This legislation may result in additional operating costs for CalSTRS related to software licenses, subscriptions and other technology services. Staff is evaluating the potential budgetary impacts for fiscal years 2026–27 and 2027–28.

The California Department of Tax and Fee Administration has issued proposed regulations, which are anticipated to be finalized in December 2026. Consistent with state guidance, departments have been advised to submit a budget change proposal as part of the state May Revision process to address costs associated with SB 122. Staff will continue to monitor regulatory developments, refine costs estimates, and present any necessary revisions to the adopted 2026–27 and proposed 2027–28 Operating Budgets to the board.



2027–28 total estimated spending authority



The Operating Budget provides the authority to expend up to $547.2 million in fiscal year 2027–28. CalSTRS has additional spending authority resulting from prior board approvals, available for expenditure in fiscal year 2027–28. As a result, CalSTRS can end the year with total expenditures greater than the proposed 2027–28 Operating Budget. The primary sources of additional budget authority are the Information Technology Project Funding appropriation carryover, the TRF support appropriation savings and Pension Solution Project appropriation carryover.[1]

As summarized in the chart above, total estimated spending authority above the 2027–28 Operating Budget is currently projected at $37.6 million. Based on these estimates, CalSTRS can expend up to $584.8 million in fiscal year 2027–28. Additional details are provided on the following page.

[1] Additional information is provided in the **Capital projects** section.

Pension Solution Project appropriation carryover: $10.5 million

Of the current $627.8 million Pension Solution Project budget, $10.5 million represents the carryover budget authority from previously approved Pension Solution Project budget appropriations. An extension of the encumbrance and liquidation periods is included as part of the 2027–28 Operating Budget, from June 30, 2027, and June 30, 2029, to June 30, 2029, and June 30, 2031, respectively.

2025–26 and 2026–27 Teachers' Retirement Fund support appropriation savings: $22.4 million

Pursuant to Appendix III.1 of the ***Teachers' Retirement Board Governance Manual***, if CalSTRS ends the year with savings in the Teachers' Retirement Fund support appropriation, up to 3% of the savings from the TRF support appropriation can carry over into a future fiscal year. These savings are available for expenditure for two years after the initial year of appropriation, upon board approval. These savings would be used for unanticipated system costs and to promote better service to the system's membership. Upon board approval, the 2025–26 Budget Act provision includes $10.9 million to be available to encumber by June 30, 2028, and through June 30, 2030, to liquidate; and the 2026–27 Budget Act provision includes $11.5 million to be available to encumber by June 30, 2029, and through June 30, 2031, to liquidate.

Information Technology Project Funding appropriation carryover: $4.7 million

CalSTRS' 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 for two additional years to liquidate. Funds not encumbered in the initial fiscal year are carried over for up to two fiscal years and can be designated to projects authorized by EPIC. Based on current project plans and estimates, $4.7 million is available to encumber by June 30, 2029, and through June 30, 2031, to liquidate. These funds will be utilized as projects are approved by EPIC.

Capital projects

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

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

BenefitConnect

The Pension Solution Project was completed, and BenefitConnect, the new pension administration system, was launched in September 2025, marking approximately one year since its implementation. BenefitConnect replaced the legacy pension administration system with modern functionality and was the largest technology effort in CalSTRS' history. It provides automated controls; interfaces with multiple business systems, and offers secure portals for members and employers. BenefitConnect administers member and beneficiary account information, employer reporting, benefit calculations and case management activities in a single integrated solution.

Of the Pension Solution Project's total budget, $523.1 million was allocated to implementation and go-live activities, while $104.7 million was designated for post-implementation support. In July 2026, the board approved a transfer of unused go-live funds to the post-implementation budget, increasing it to $140.4 million. This reallocation will fund stabilization, maintenance, production support, planned releases, and the continued transition to steady-state operations without increasing the project's overall total budget.

Recent improvements include faster call response times, resource allocation, and planned enhancements to *my*CalSTRS and employer portals. We remain committed to improving service for our members.

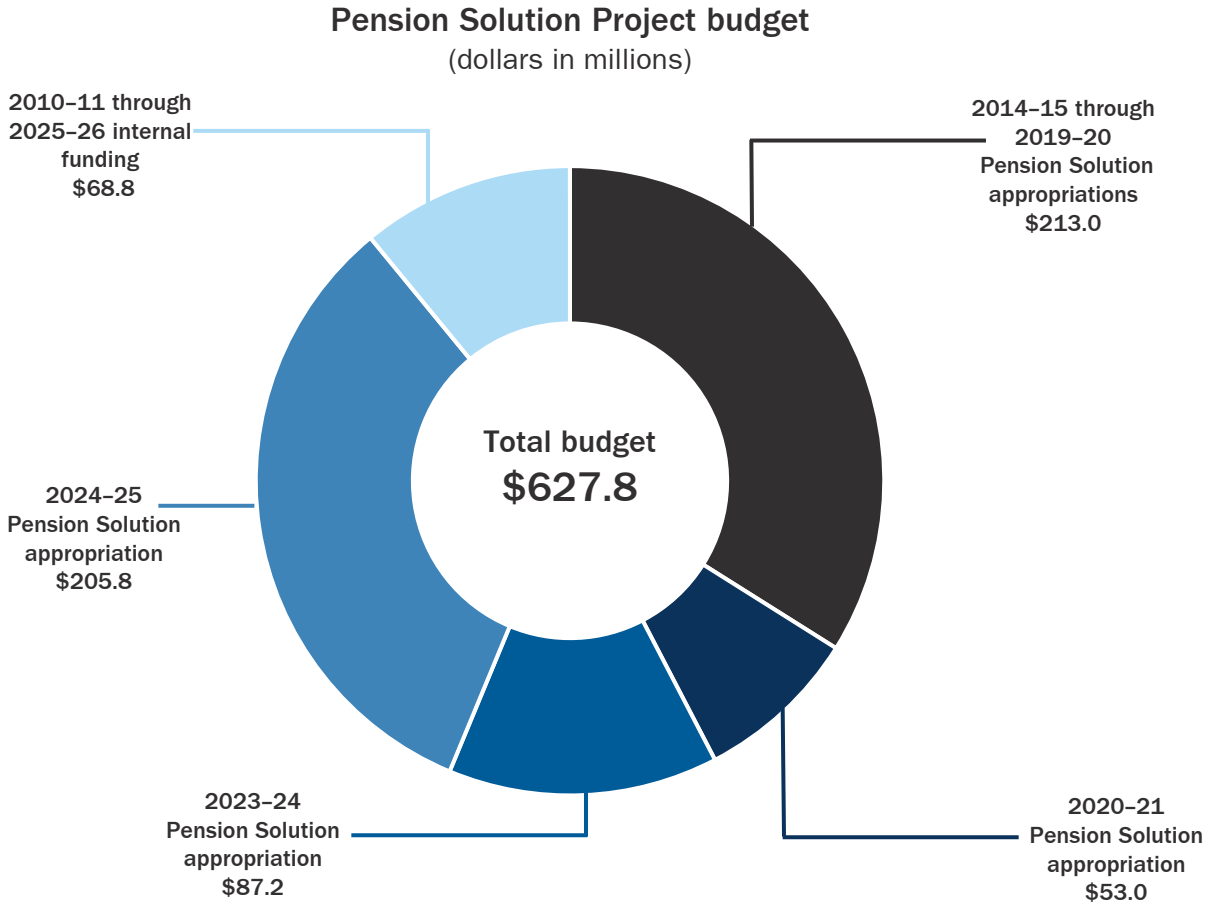
BenefitConnect objectives



Pension Solution Project budget: $627.8 million

In November 2023, the Teachers' Retirement Board approved a Pension Solution Project budget of $627.8 million for the development and implementation of a new pension administration system. Of the total $627.8 million budget, $213.0 million represents the original budget authority approved in fiscal year 2014–15, with funding allotted annually through 2019–20. An additional $53.0 million was approved for fiscal year 2020–21; $87.2 million was approved for fiscal year 2023–24; $205.8 million was approved for fiscal year 2024–25; and the remaining $68.8 million budget is from 2010–11 through 2025–26 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 June 30, 2026. The remaining amount will be used for post-implementation activities, including stabilization efforts.

Pension Solution Project budget consumption

(dollars in thousands)

Appropriation	Budgeted amount	Consumed amount	Remaining amount
2014–15 through 2019–20 Pension Solution appropriations	$213,000	$213,000	$—
2020–21 Pension Solution appropriation	53,000	52,615	385
2023–24 Pension Solution appropriation	87,173	84,705	2,468
2024–25 Pension Solution appropriation	205,837	119,794	86,043
2010–11 through 2025–26 internal funding	68,834	68,716	118
Total	**$627,844**	**$538,830**	**$89,014**

100 Waterfront Building Modernization

CalSTRS 100 Waterfront Building Modernization project is a five-year, phased initiative anticipated to begin in 2026–27 to replace interior finishes and building systems that have reached or exceeded their useful life. Now 17 years into operation, the facility requires updates to major components such as flooring, window coverings, lighting systems, furniture, and audiovisual technology—assets typically refreshed every 10 to 20 years. While disciplined maintenance has prolonged the life of these systems, a comprehensive modernization is necessary to preserve a functional, efficient environment that supports staff productivity and reliable member services. Funding for the project is not included in the Operating Budget. Should the board approve the project, staff will revise the adopted 2026–27 and proposed 2027–28 Operating Budgets to reflect the associated budgetary impacts, and present the revised figures to the board. Additionally, if approved, funding for fiscal years 2028–29 through 2030–31 would be incorporated into the CalSTRS baseline operating budget for each respective fiscal year.

This approximately $96.7 million effort aligns with industry-standard lifecycle management practices and incorporates end-of-life upgrades across technology, building systems, and workspace environments. By investing in these improvements through a structured, multi-year approach, CalSTRS strengthens long-term operational resilience, enhances facility performance, and ensures the headquarters remains equipped to support evolving business needs and future growth while reinforcing our commitment to responsible stewardship of public resources.

Five-year funding plan

(dollars in millions)

Fiscal year	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Cost	$28.16	$23.16	$23.86	$11.46	$10.06	$96.7

CalSTRS Headquarters Expansion

In August 2024, staff occupied our completed West Sacramento, California, headquarters expansion tower. The 10-story tower provides 260,000 square feet of additional office space and was constructed using sustainable construction, green building practices, energy conservation and onsite renewable energy generation. The tower was financed through conduit tax-exempt lease revenue green bonds. The expanded headquarters capacity will support the organization's evolving business models and long-term growth needs.

Bond financing

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

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

Green bonds

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

Credit rating agencies

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

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

In 2025, our Series 2022 bonds maintained the original ratings received in November of 2022 from the two rating agencies noted below.

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

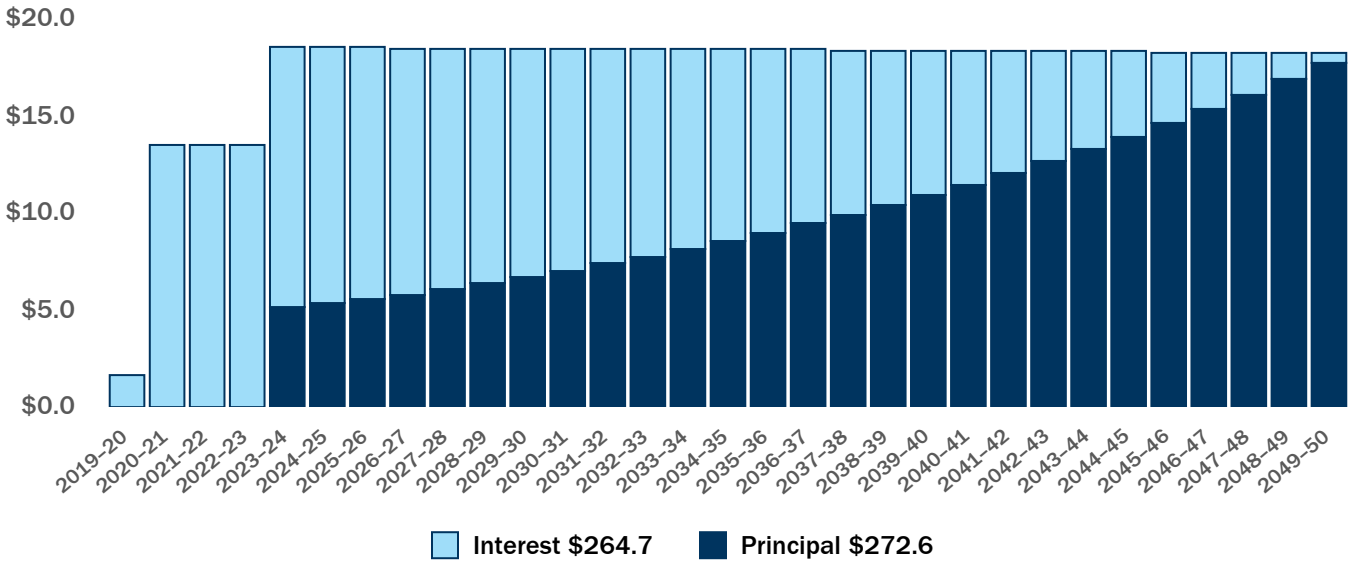
These ratings demonstrate that our prudent financial management and fiscal strength are viewed most favorably by credit agencies.

Long-term debt obligations

Series 2019 – $340.6 million

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

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

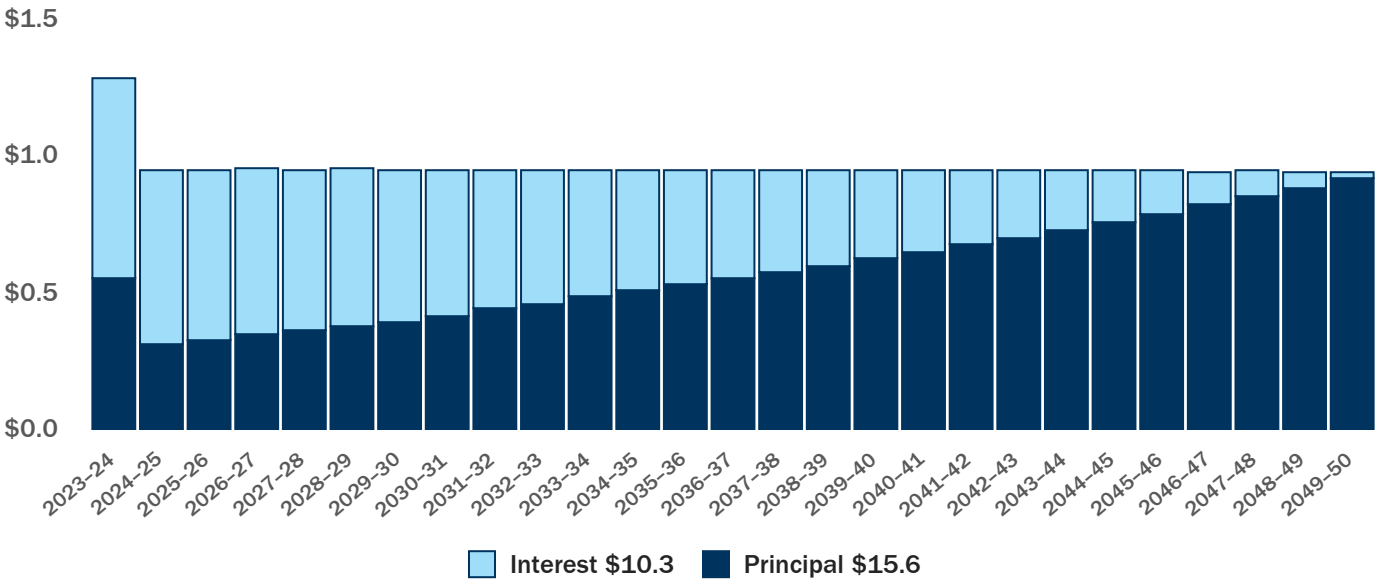


Series 2022 – $16.2 million

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

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

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



Impact of capital expenditures on the Operating Budget

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

Financial summaries

Overview of funds

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

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

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

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

Fund to program relationship

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

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

Relationship of revenues and expenses to funds

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

Financial highlights

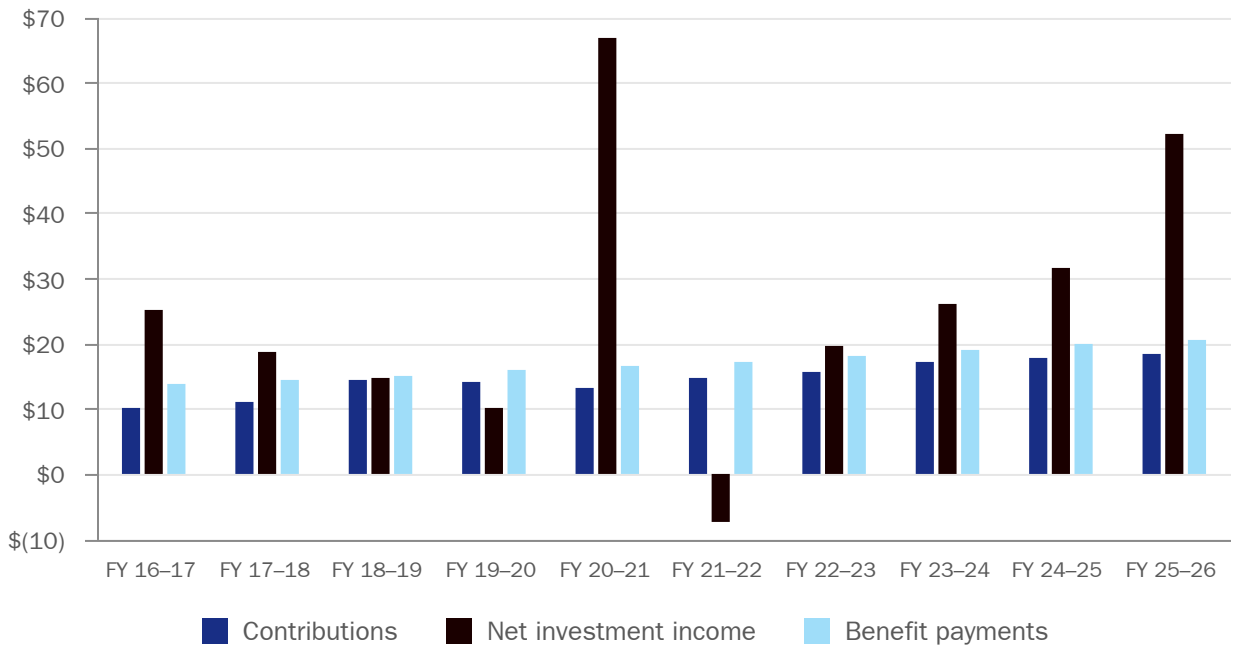
In accordance with the California Constitution, Article 16, Section 17:

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

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

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

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



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

The fund balance summary below provides a high-level view of CalSTRS' actual beginning and ending fund balance for all funds and programs, sources of revenues and expenses, and ending fund balance for the 2025–26 fiscal year.

2025–26 fiscal year fund balance: All funds[1]

(dollars in thousands)

Beginning fund balance	**$373,709,162**
Revenues	
Investment income	54,888,100
Employer contributions	8,988,480
Member contributions	5,342,942
State contributions	4,639,125
Other income	334,309
Total fund revenues	**74,192,956**
Expenses	
Pension benefit payments	19,849,093
External investment management	282,136
Administrative expenditures	366,521
Contribution refunds	138,918
Other benefit payments	1,034,032
Other expenditures	2,408,728
Debt service payment	11,148
Total fund expenses	**24,090,576**
Ending fund balance	**$423,811,542**

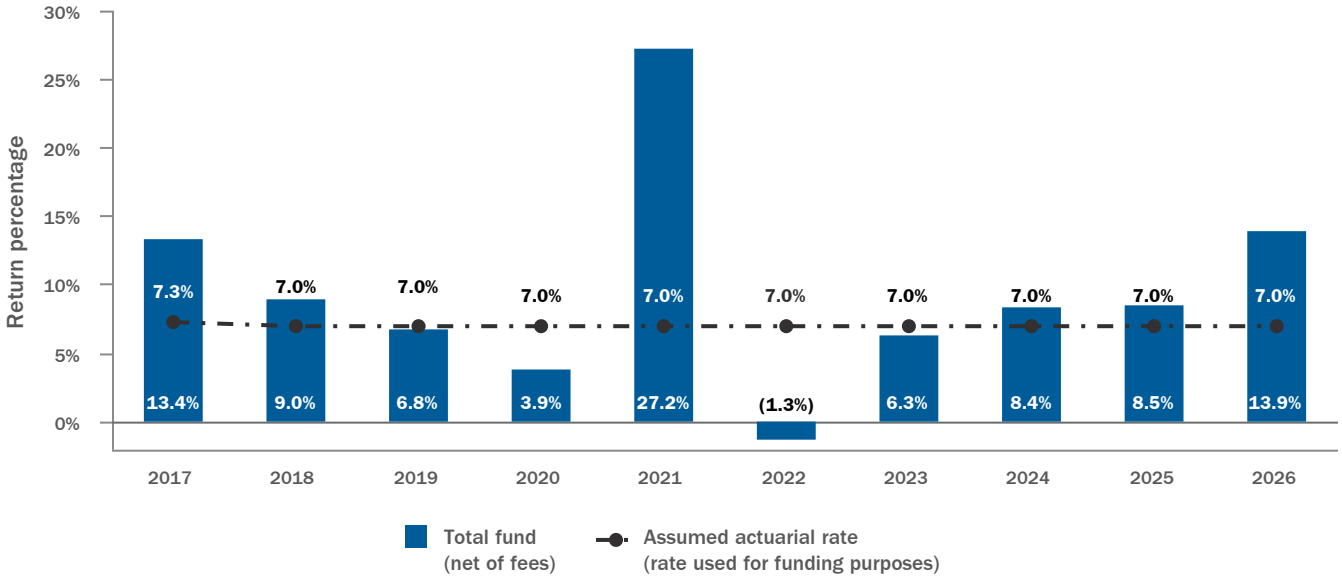
Revenues

Our primary sources of revenue are member, employer and state contributions, and investment income. The majority of the revenues derive from investment earnings of the State Teachers' Retirement Plan. Contribution amounts are determined as a percentage rate of members' creditable compensation. Creditable compensation is defined by California Education Code sections 22119.2 and 22119.3 and generally refers to member salary and wages and remuneration in addition to salary. The chart on the next page presents 10 years of time-weighted annual returns, and for the fiscal year ended June 30, 2026, the CalSTRS Investment Portfolio generated a time-weighted investment return of 13.9% net-of-fees, which exceeds our 7.0% investment return assumption.

Over the last 30 years, investment income funded approximately 62.7% of retirement benefits, with employer, state and member contributions providing 16.0%, 9.1% and 12.2% of the funding, respectively. These percentages can change over time due to fluctuations in net investment income, adjustments to required employer and state contribution rates under the CalSTRS Funding Plan pursuant to AB 1469, and impacts of other legislation. Additional details regarding funding plan contribution rates are provided in **Long-range financial planning** section of this report.

[1] Fund balances are prepared on a legal basis, which combines elements of the accrual and the cash basis of accounting. These figures will differ from balances reported in **CalSTRS'** ***Annual Comprehensive Financial Report*** for the fiscal year ended June 30, 2026, which are prepared using Generally Accepted Accounting Principles. Additional details are provided in the **Policies** section of this report.

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



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

Expenses

Our major expense categories include pension benefit payments, administrative expenditures associated with maintaining operations and investment-related expenses. The largest expense for CalSTRS is retirement benefit payments for the State Teachers' Retirement Plan.[1] In the 2025–26 fiscal year, retirement benefit and supplemental purchasing power benefit payments for the STRP were approximately $20.6 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 2025–26 fiscal year were staff salary and benefits,[2] the continued implementation of the multiyear internal investment management plan, capital projects and technology-related services. Other drivers consisted of adjustments for administrative expenditures, including pro rata assessments issued by the state's Department of Finance.

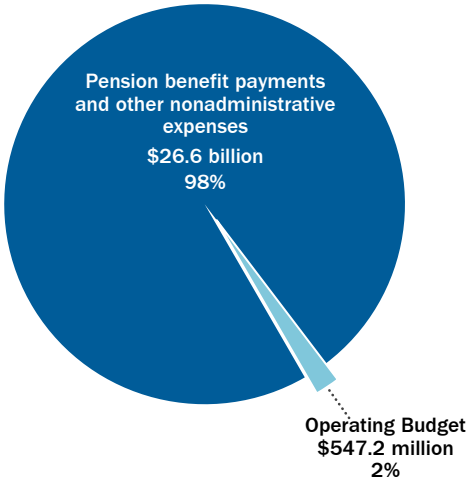
External investment management-related expenses are continuously appropriated and include fees paid to external investment managers to manage a portion of the CalSTRS Investment Portfolio. External investment management fees are largely correlated to the value of the assets under management and investment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

The pie chart on the next page displays the components of CalSTRS' total budget for the 2027–28 fiscal year.

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

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

Fiscal year 2027–28 total budgeted expense breakout



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

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

Three-year overview and projected fund balances

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

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

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

(dollars in thousands)

	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Beginning fund balance	**$373,709,162**	**$423,811,542**	**$454,522,015**	**$30,710,473**
Revenues				
Investment income	54,888,100	36,480,282	39,054,867	2,574,585
Employer contributions	8,988,480	9,418,755	9,749,742	330,987
Member contributions	5,342,942	5,610,837	5,842,596	231,759
State contributions	4,639,125	4,789,000	2,001,000	(2,788,000)
Other income	334,309	376,659	380,634	3,975
Total fund revenues	**74,192,956**	**56,675,533**	**57,028,839**	**353,306**
Expenses				
Pension benefit payments	19,849,093	21,367,317	22,221,725	854,408
External investment management	282,136	255,100	281,881	26,781
Administrative expenditures	366,521	447,224	547,184	99,960
Contribution refunds	138,918	184,000	184,000	—
Other benefit payments	1,034,032	1,179,640	1,326,677	147,037
Other expenditures	2,408,728	2,520,930	2,602,785	81,855
Debt service payments	11,148	10,849	10,530	(319)
Total fund expenses	**24,090,576**	**25,965,060**	**27,174,782**	**1,209,722**
Ending fund balance	**$423,811,542**	**$454,522,015**	**$484,376,072**	**$29,854,057**
Percent change				***6.6%***

Teachers' Retirement Fund

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

For fiscal year 2027–28, changes in estimated revenues are primarily due to projected growth in investment returns based on the assumed actuarial rate of return of 7.0% and increases in state, employer and member contributions[2] resulting from annual growth in creditable compensation.

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

The overall increase in administrative expenditures is primarily driven by staffing increases for BenefitConnect system support and associated service contract costs, the first year of scheduled expenditures for the two-year investment management plan to strengthen institutional investment capabilities, staffing increases for enterprise support across the organization, adjustments for employee compensation and

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

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

associated benefits, and pro rata assessments by the Department of Finance.

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 inflation.

Other expenditures are composed of portfolio-related expenses, which are projected to increase due to master line of credit interest expenses, increases in securities lending rebates and fees, and depreciation is driven by the capitalized costs related to the planning, development, and implementation of the BenefitConnect system.

Teachers' Retirement Fund

(dollars in thousands)

	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Beginning fund balance	**$370,718,824**	**$420,199,929**	**$450,270,633**	**$30,070,704**
Revenues				
Investment income	54,421,618	35,976,342	38,510,581	2,534,239
Employer contributions	8,954,980	9,384,000	9,715,000	331,000
Member contributions	4,941,448	5,192,000	5,375,000	183,000
State contributions	4,639,125	4,789,000	2,001,000	(2,788,000)
Other income	328,511	369,729	372,729	3,000
Total fund revenues	**73,285,682**	**55,711,071**	**55,974,310**	**263,239**
Expenses				
Pension benefit payments	19,841,321	21,359,000	22,213,000	854,000
External investment management	282,136	255,100	281,881	26,781
Administrative expenditures	363,960	443,488	542,634	99,146
Contribution refunds	138,618	181,000	181,000	—
Other benefit payments	767,816	880,000	980,000	100,000
Other expenditures[1]	2,399,578	2,510,930	2,591,130	80,200
Debt service payments	11,148	10,849	10,530	(319)
Total fund expenses	**23,804,577**	**25,640,367**	**26,800,175**	**1,159,808**
Ending fund balance	**$420,199,929**	**$450,270,633**	**$479,444,768**	**$29,174,135**
Percent change				***6.5%***

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

Teachers' Replacement Benefits Program Fund

The Teachers' Replacement Benefits Program is an excess benefits arrangement for Defined Benefit Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three State Teachers' Retirement Plan programs. The program was created pursuant to Education Code section 24260 and was established in accordance with Internal Revenue Code section 415(m). IRC section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The limit for individual CalSTRS 2% at 60 members varies based on the age at which they retire. For calendar year 2026, 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 $246,847. 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 2027–28, estimated employer contributions and pension benefit payments are projected to increase due to higher program participation from CalSTRS 2% at 60 members. CalSTRS 2% at 62 members are ineligible to receive benefits from the Teachers' Replacement Benefits Program under the California Public Employees' Pension Reform Act of 2013, which caps creditable compensation and is expected to keep retirement benefits within the federal limit.

Teachers' Replacement Benefits Program Fund

(dollars in thousands)

	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Beginning fund balance	**$—**	**$—**	**$—**	**$—**
Revenues				
Employer contributions	7,772	8,317	8,725	408
Total fund revenues	**7,772**	**8,317**	**8,725**	**408**
Expenses				
Pension benefit payments	7,772	8,317	8,725	408
Total fund expenses	**7,772**	**8,317**	**8,725**	**408**
Ending fund balance	**$—**	**$—**	**$—**	**$—**
Percent change				***0%***

CalSTRS Pension2 Personal Wealth Plan

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

The marketing of the Pension2 Program has increased member enrollments in the 403(b) and 457(b) plans. The program experienced overall membership growth of 8.6% in the 2025–26 fiscal year. For fiscal year 2027–28, based on the current member growth trajectory, contributions and investment income are projected to continue increasing. Projected expenditures for benefit payments and fees and services for plan administration will continue to increase as the program continues to grow and the asset values increase, while distributions and plan withdrawals are also projected to increase.

Pension2

(dollars in thousands)

	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Beginning fund balance	**$2,983,846**	**$3,601,695**	**$4,237,905**	**$636,210**
Revenues				
Investment income	466,098	503,385	543,656	40,271
Employer contributions	4,960	6,000	6,541	541
Member contributions	401,494	418,837	467,596	48,759
Other income	885	988	1,224	236
Total fund revenues	**873,437**	**929,210**	**1,019,017**	**89,807**
Expenses				
Contribution refunds	300	3,000	3,000	—
Other benefit payments	246,138	280,000	328,150	48,150
Other expenditures	9,150	10,000	11,655	1,655
Total fund expenses	**255,588**	**293,000**	**342,805**	**49,805**
Ending fund balance	**$3,601,695**	**$4,237,905**	**$4,914,117**	**$676,212**
Percent change				***16.0%***

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 2027–28, revenues are projected to increase in other income primarily due to higher fees collected through the Pension2 Program administrator and growth in assets from increased participation in the Pension2 Program. Investment income is also projected to increase due to higher interest earnings. In addition, administrative expenditures are projected to increase due to staffing increases to support expanded member outreach and education, as well as our defined contribution plans; adjustments for employee compensation; and pro rata assessments by the Department of Finance.

Teachers' Deferred Compensation Fund

(dollars in thousands)

	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Beginning fund balance	**$6,191**	**$9,463**	**$13,177**	**$3,714**
Revenues				
Investment income	328	498	575	77
Other income	4,913	5,942	6,681	739
Total fund revenues	**5,241**	**6,440**	**7,256**	**816**
Expenses				
Administrative expenditures	1,969	2,726	3,546	820
Total fund expenditures	**1,969**	**2,726**	**3,546**	**820**
Ending fund balance	**$9,463**	**$13,177**	**$16,887**	**$3,710**
Percent change				***28.2%***

Teachers' Health Benefits Fund

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

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

For 2027–28, employer contributions and other benefit payments are projected to decrease due to declining membership in the program. Administrative expenditures are projected to slightly decrease due to changes in routine operating costs.

Teachers' Health Benefits Fund

(dollars in thousands)

	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Beginning fund balance	**$301**	**$455**	**$300**	**($155)**
Revenues				
Investment income	56	57	55	(2)
Employer contributions	20,768	20,438	19,476	(962)
Total fund revenues	**20,824**	**20,495**	**19,531**	**(964)**
Expenses				
Administrative expenditures	592	1,010	1,004	(6)
Other benefit payments	20,078	19,640	18,527	(1,113)
Total fund expenses	**20,670**	**20,650**	**19,531**	**(1,119)**
Ending fund balance	**$455**	**$300**	**$300**	**$—**
Percent change				***0%***

Policies

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

Board policy[1]

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

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

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

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

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

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

Budget Policy

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

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

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

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

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

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

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

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

Financial Accounting and Reporting Policy

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

Accounting for contributions: Education Code section 22002 is the statutory source for revenue policy regarding contributions. It provides that three sources contribute to the

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

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

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

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

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

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

Budget development

Budget management and development process

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

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

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

Budget development and management – Roles and responsibilities

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

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

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

Annual budget development process

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

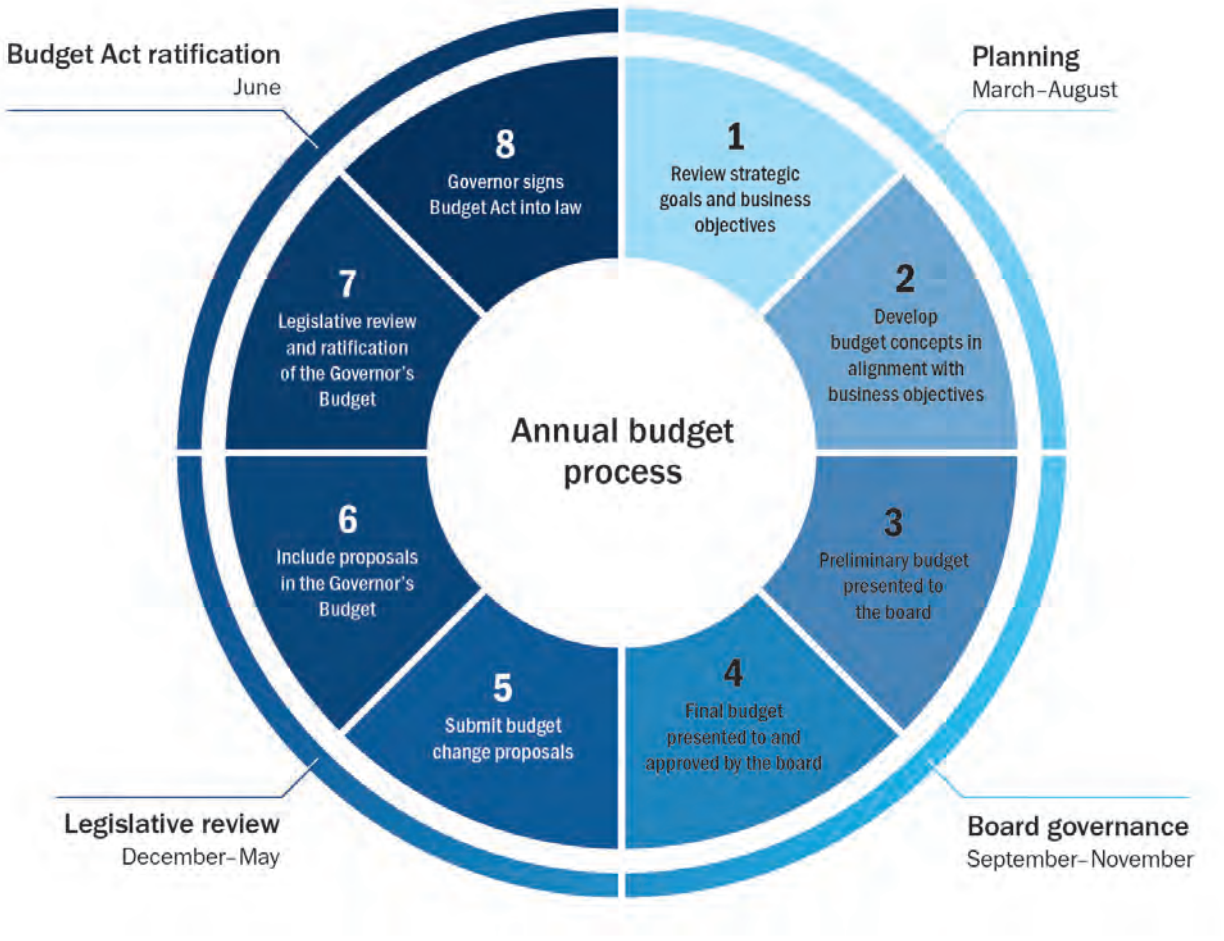
More than a year before the final adoption of the budget, the budget process begins with an analysis of resource needs for the upcoming budget year to address strategic initiatives, enterprise priorities, risk and compliance landscapes, as well as maintain core business functions.

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

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

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

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



Planning

March—June

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

July—August

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

Board governance

September—November

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

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

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

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

Legislative review

December—May

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

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

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

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

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

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

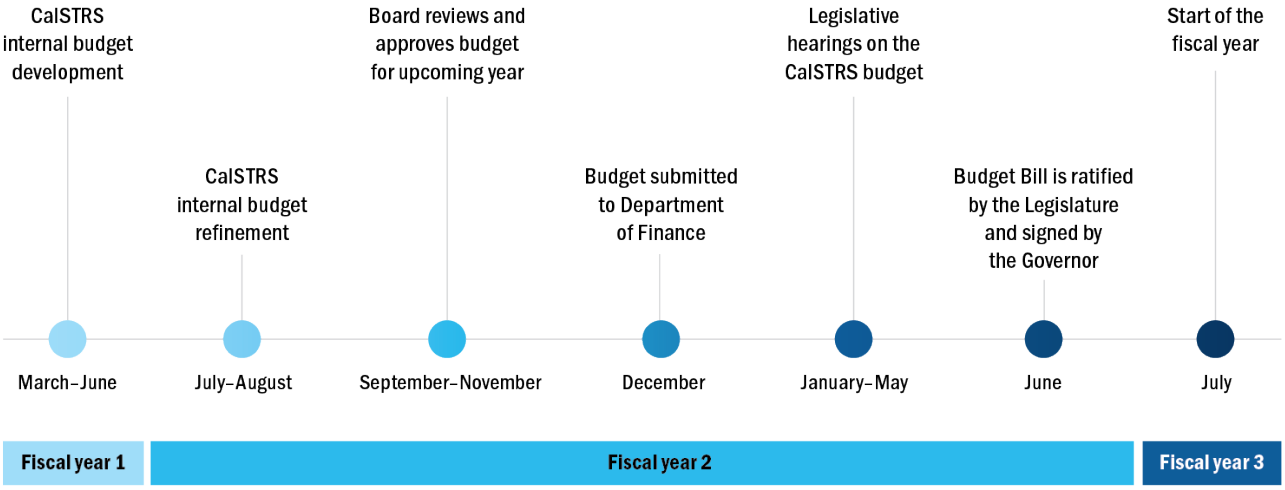
Budget Act ratification

June

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

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

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



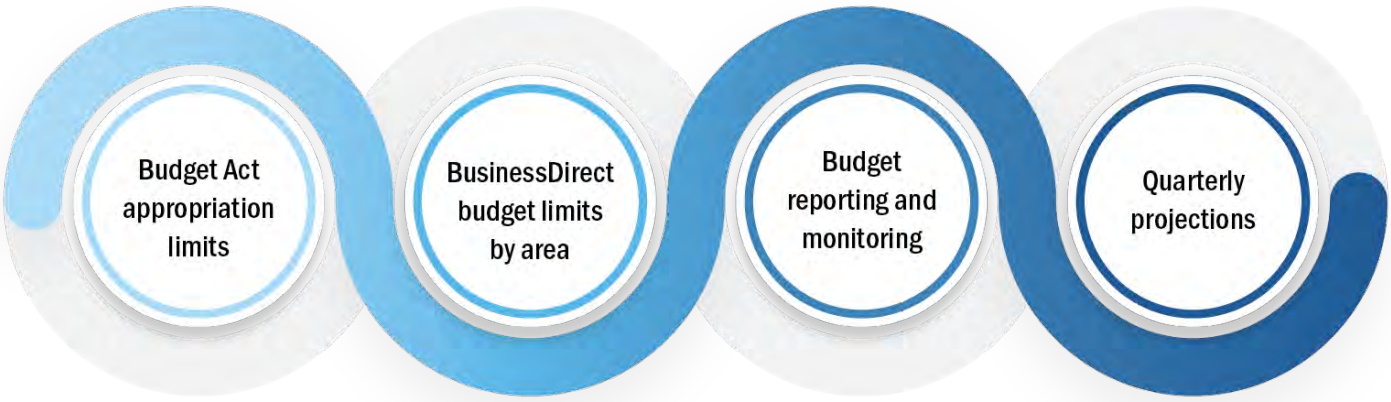
Budget controls and monitoring

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

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



Watch this video to learn about CalSTRS' annual budget



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

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

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

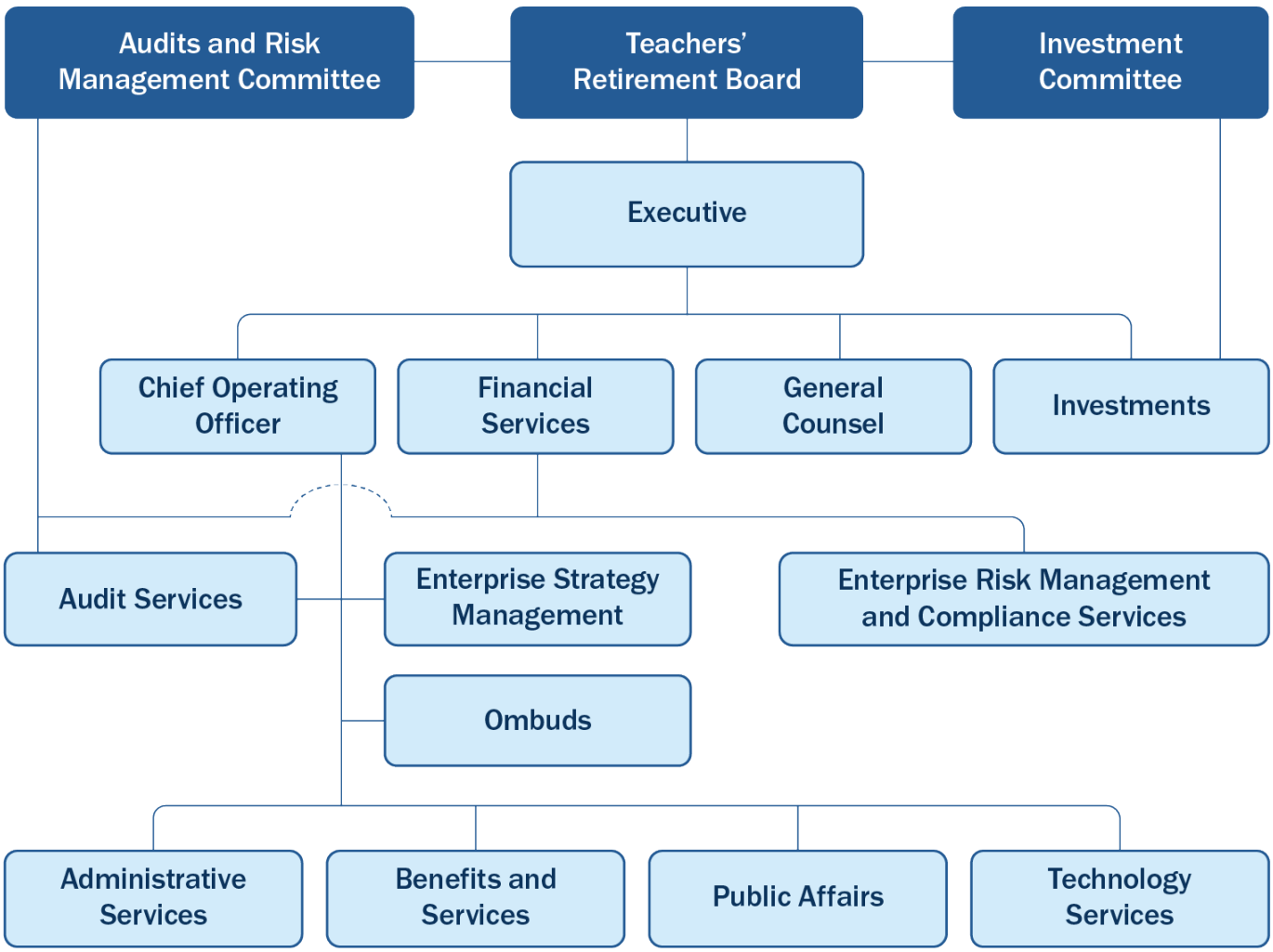
Position control

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

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

Departmental information

The CalSTRS organization[1]



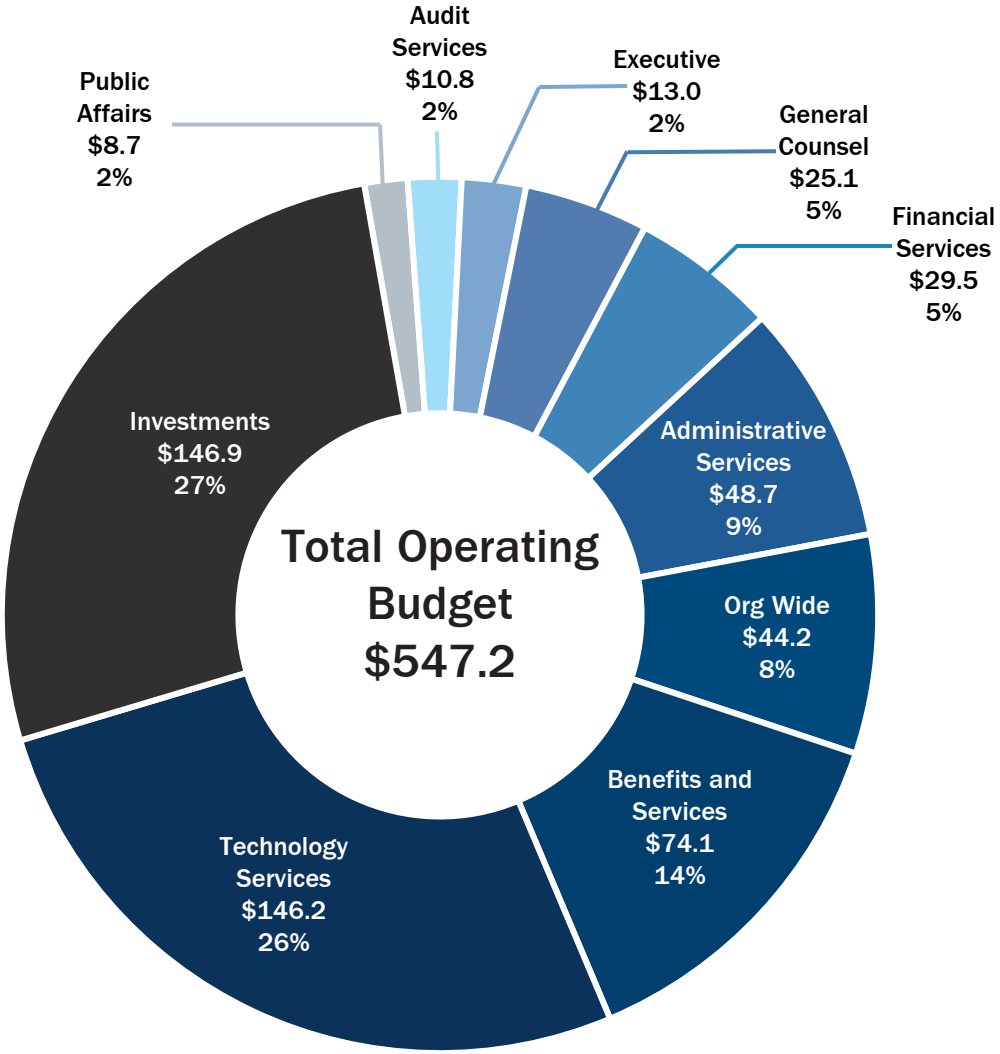
[1] In addition to the Audits and Risk Management and Investment committees, the board's other standing committees include the Appeals, Board Governance and Compensation committees. Additional information is provided in the **About the California State Teachers' Retirement System** section of this report.

Branch information

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

The chart below displays CalSTRS' 2027–28 total functional budget by branch, which includes salaries, benefits, and operating expenses and equipment.

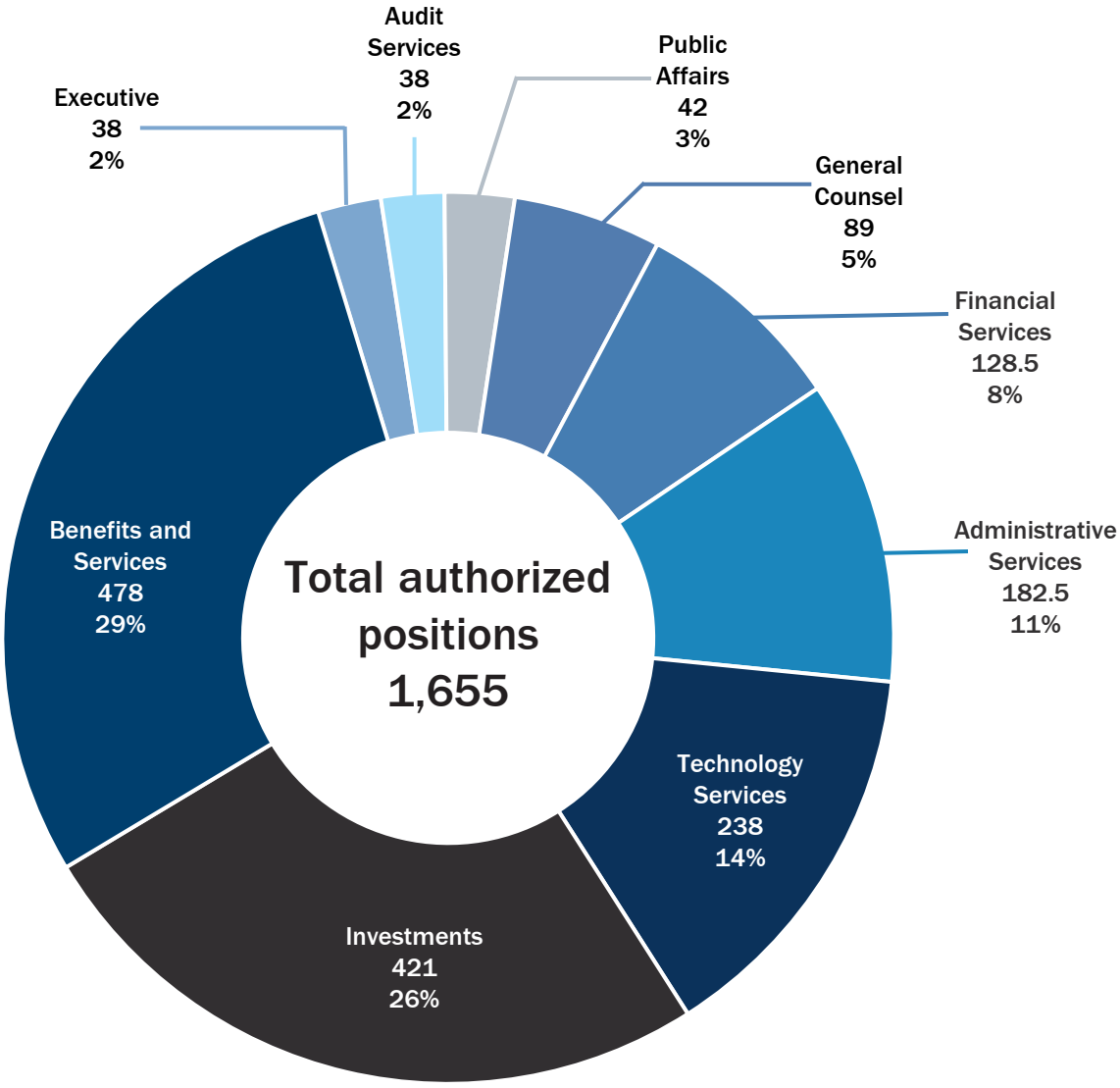
Total 2027–28 Operating Budget by branch[1]
(dollars in millions)



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

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

Total 2027–28 authorized positions by branch

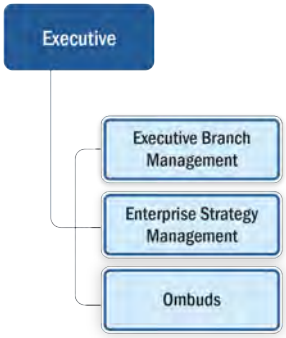


A description of each branch and the corresponding actual, budget and position information for fiscal years 2025–26, 2026–27 and 2027–28 are provided on the following pages.[1]

Three-year overview of positions and budget

(dollars in thousands)

	Actual 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	1,279.1	1,491	1,655
(dollars in thousand)	$366,521	$447,224	$547,184



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 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	32.7	38	38
(dollars in thousands)	$10,474	$11,538	$13,021



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 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	33.8	37	38
(dollars in thousands)	$9,963	$10,796	$10,796

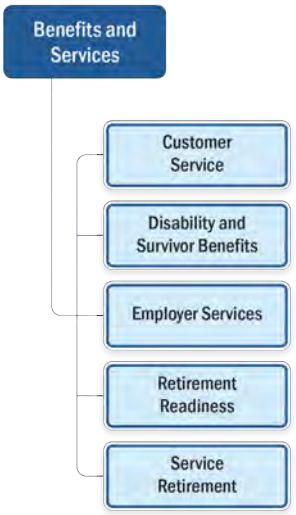
[1] Actual authorized positions are based on total filled positions for the fiscal year. If a position was filled for half the year, it is reflected as 0.5. This is done to align position counts with actual expenditures for salaries and benefits in the fiscal year.



Administrative Services

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

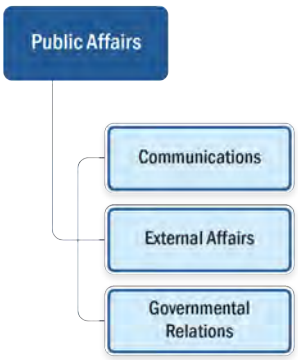
	Actual 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	148.6	166.5	182.5
(dollars in thousands)	$44,044	$45,078	$48,722



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.

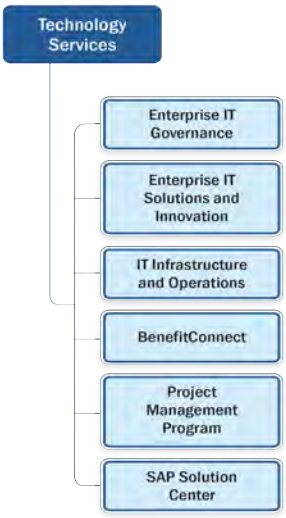
	Actual 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	436.1	470	478
(dollars in thousands)	$71,381	$70,932	$74,063



Public Affairs

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

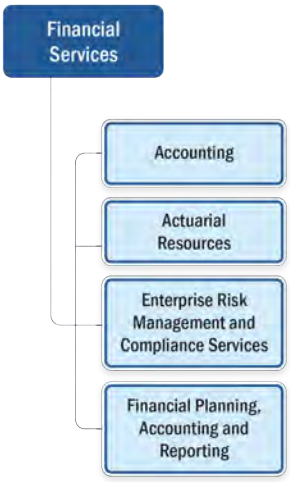
	Actual 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	38.8	40	42
(dollars in thousands)	$7,685	$7,954	$8,723



Technology Services

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

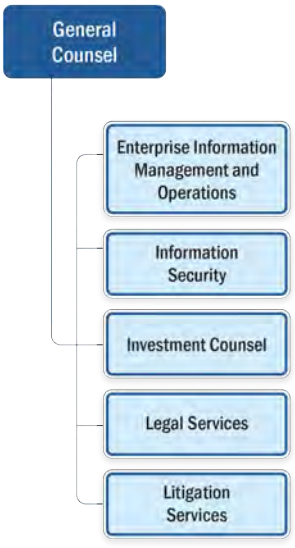
	Actual 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	152.9	188	238
(dollars in thousands)	$69,987	$98,221	$146,222



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.

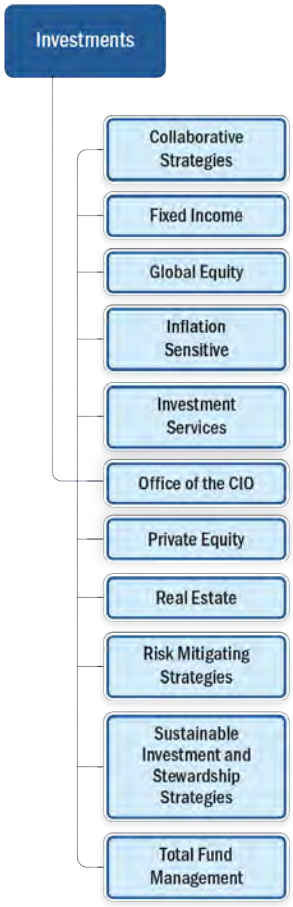
	Actual 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	105.5	126.5	128.5
(dollars in thousands)	$26,574	$27,036	$29,466



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 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	65.4	81	89
(dollars in thousands)	$16,734	$21,044	$25,071



Investments

The Investments Branch oversees and manages the CalSTRS Investment Portfolio, which was valued at approximately $415.4 billion as of June 30, 2026. The branch's primary performance objective is to achieve the actuarially assumed rate of return at a prudent level of risk. The branch continues to uphold its investment philosophy in long-term patient capital, which is to buy long-term net cash flows and capital gain potential at a reasonable price.

	Actual 2025–26	Budget 2026–27	Budget 2027–28
Authorized positions	265.3	344	421
(dollars in thousands)	$86,323	$113,892	$146,867

Appendix

Appendix 1

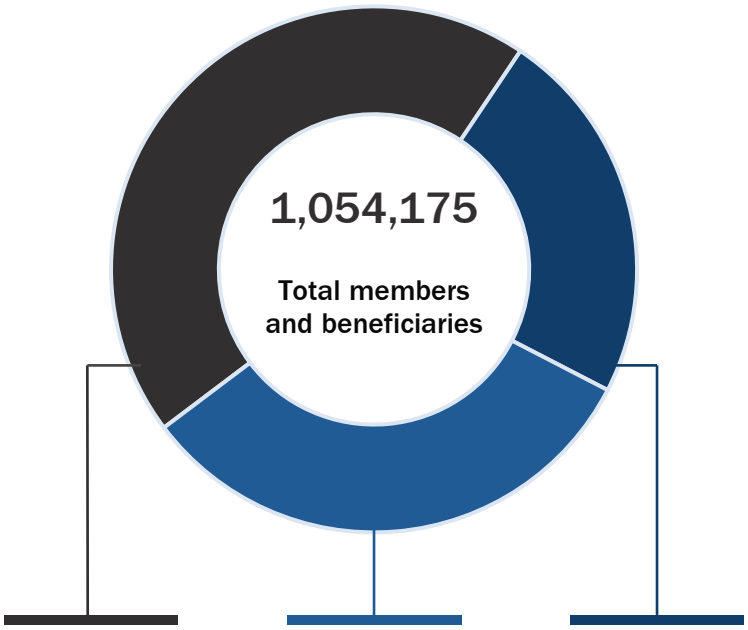
Members and beneficiaries at a glance

CalSTRS is the largest educator-only pension fund in the world. A summary of key statistics about our members and retirees for 2024–25 is below.[1]

$19.9 billion

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

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



12,346

Service retirements during the fiscal year

24.9

Average years of member service credit

63.0

Average member age at retirement

60.8%

Percentage of members selecting the Member-Only Benefit

[1] 2025–26 figures were not available at the time of publication.

Appendix 2

CalSTRS retirement benefits fuel local economies

Defined Benefit Program

Retirees who live in California—Characteristics by county

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

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

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

Appendix 3

Operating Budget by fund[1]

We administer a hybrid retirement system consisting of a defined benefit pension, cash balance and two voluntary defined contribution plans; a postemployment benefit plan; and a fund to account for ancillary activities associated with various deferred compensation plans and programs. The Teachers' Retirement Law (California Education Code section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans and CalSTRS as the administrator. Accordingly, the 2027–28 Operating Budget of $547.2 million is administered through the TRF, TDCF and THBF.

Teachers' Retirement Fund

(dollars in thousands)

Budget category	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Salaries	$169,685	$201,659	$237,241	$35,582
Benefits	83,748	88,075	110,600	22,525
Operating expenses and equipment	110,527	153,754	194,793	41,039
Total	**$363,960**	**$443,488**	**$542,634**	**$99,146**

Teachers' Deferred Compensation Fund

(dollars in thousands)

Budget category	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Salaries	$1,012	$1,189	$1,581	$392
Benefits	593	742	1,025	283
Operating expenses and equipment	364	795	940	145
Total	**$1,969**	**$2,726**	**$3,546**	**$820**

Teachers' Health Benefits Fund

(dollars in thousands)

Budget category	Actual 2025–26	Budget 2026–27	Budget 2027–28	Amount change
Salaries	$238	$313	$299	($14)
Benefits	133	214	206	(8)
Operating expenses and equipment	221	483	499	16
Total	**$592**	**$1,010**	**$1,004**	**($6)**

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

Appendix 4

Operating Budget by appropriation

The table below displays the funding sources for the 2027–28 Operating Budget, which is predominantly funded by appropriations in the annual Budget Act.[1] The annual Budget Act appropriations are primarily composed of the annual Teachers' Retirement Fund appropriation and the annual Information Technology Project Funding appropriation.

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

Operating Budget by appropriation

(dollars in thousands)

	2027–28
Budget Act	
Teachers' Retirement Fund support appropriation	$479,323
Information Technology Project Funding appropriation	18,500
Total Budget Act	**497,823**
Direct transfers	28,164
Other continuous appropriations	16,647
Total Teachers' Retirement Fund Budget	**542,634**
Teachers' Deferred Compensation Fund	3,546
Teachers' Health Benefits Fund	1,004
Total 2027–28 Operating Budget	**$547,184**

[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.

Appendix 5

Investment management plan

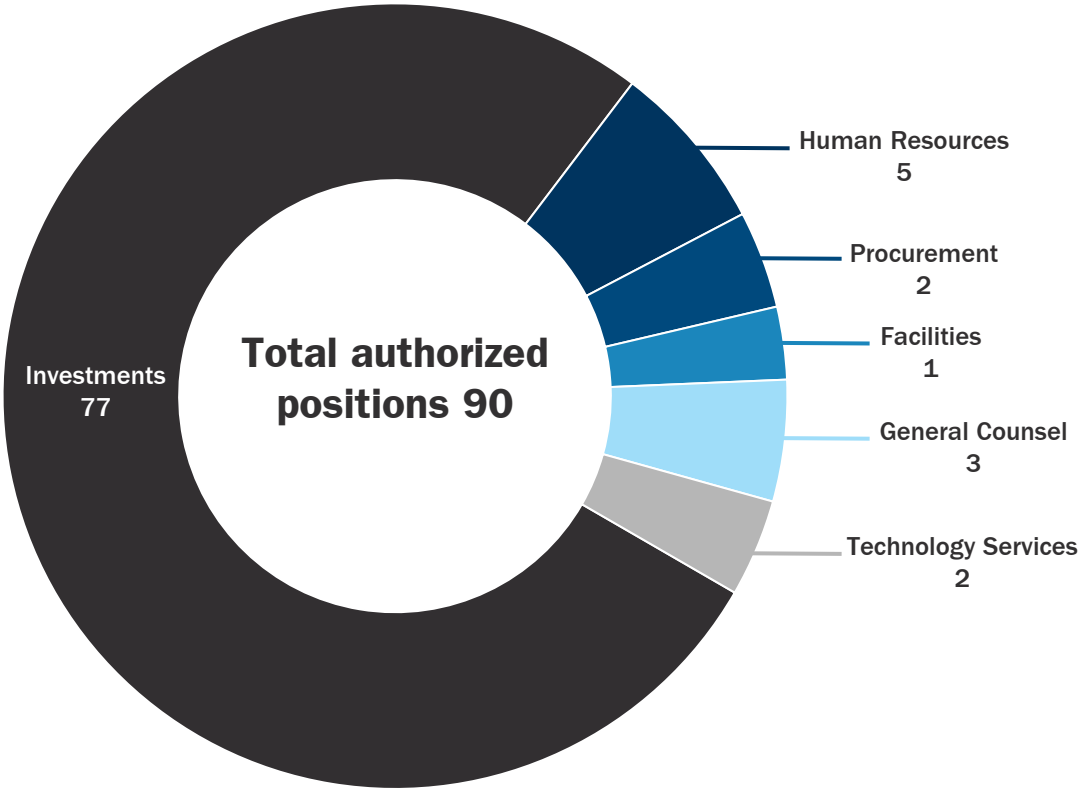
The two-year investment management plan provides phased resources to strengthen CalSTRS' investment capabilities and administrative support functions required for implementation. The proposed 2027–28 Operating Budget includes the first year of the plan, $31.0 million and 90 authorized positions. Of these positions, 77 support the Investments Branch and 13 support administrative support functions.

The table below summarizes the resources planned for 2027–28 and 2028–29, which will be incorporated into CalSTRS' baseline Operating Budget in the applicable fiscal year.

Two-year resource plan
(dollars in millions)

	2027–28		2028–29		Two-year total	
	Positions	**Cost**	**Positions**	**Cost**	**Positions**	**Cost**
Total	90	$31.0	72	$26.8	162	$57.8

2027–28 authorized positions by business area



Glossary

Accrual

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

Amortization

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

Appropriation

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

Assets Under Management (AUM)

The total fair market value of financial holdings a pension administers.

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

Annual legislation authorizing state departments to expend appropriated funds for the purposes specified in the Governor's Budget as amended by the Legislature.

Budget year

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

Department of Finance

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

Depreciation

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

Fiduciary

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

Fiduciary responsibility

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

Fund balance

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

Generally Accepted Accounting Principles

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

Governmental Accounting Standards Board

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

Government Finance Officers Association

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

Government Operations Agency

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

Governor's Budget

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

Liquidation

Issuance of a payment for an obligation.

Merit salary adjustment

CalSTRS routinely augments its organizational budgets to account for periodic increases to staff salaries. Pursuant to collectively bargained employment contracts and the California Department of Human Resources, employees generally receive a salary increase of 5% per year, continuing until they reach the maximum salary range for their classification.

Modified cash basis

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

Net zero

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

Operating expenses and equipment

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

Other postemployment benefits

Other postemployment benefits are non-pension benefits provided by state and local governments in the United States to their retired employees. These benefits typically include health care benefits but may also include life insurance, disability benefits, and legal and other services.

Plenary authority

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

Right-to-use asset

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

State Controller's Office

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

Unfunded actuarial obligation

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

CALSTRS®
HOW WILL YOU SPEND YOUR FUTURE?