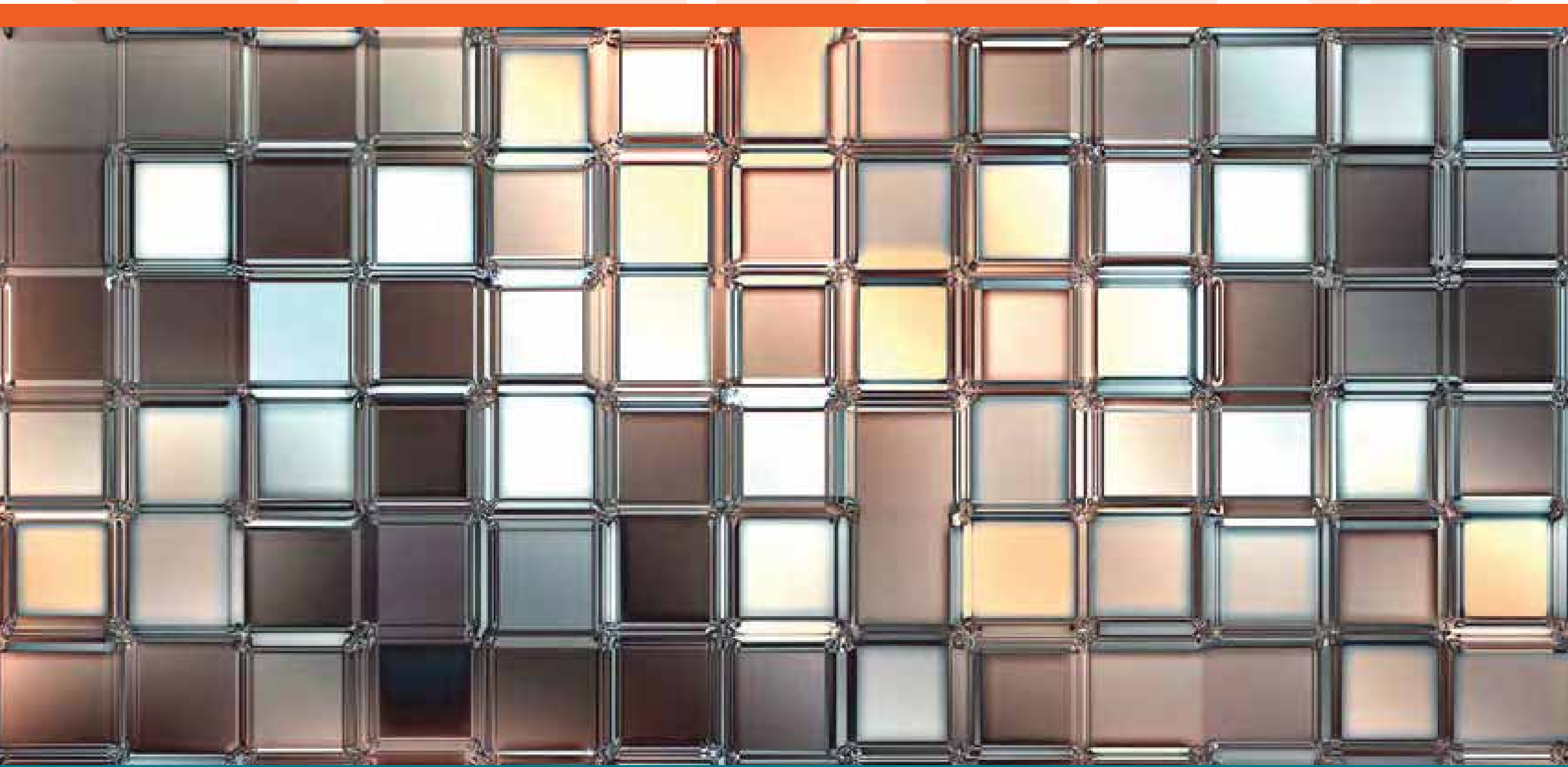
CalSTRS

Comprehensive Annual Financial Report



2006

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
A Component of the State of California
For the Fiscal Year Ended June 30, 2006

"Study a lifetime and you see different colors from the same jewel."

Richard Bach

A California teacher takes each child as a gem of promise, polishing every facet to reach its most sparkling possibilities.

The future shines for these children. Their teachers deserve an equally bright tomorrow – a secure, rewarding retirement.

CALSTRS®

HOW WILL YOU SPEND YOUR FUTURE?

CalSTRS Mission:

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

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STATISTICAL

Award: GFOA Certificate

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Teachers' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
7667 Folsom Boulevard
Post Office Box 15275
Sacramento, CA 95821-0275

December 15, 2006

California State Teachers' Retirement System
Post Office Box 15275
Sacramento, CA 95851-0275

I am pleased to present the Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the fiscal year ended June 30, 2006.

As we reflect on the past year, we can recount numerous challenges faced and met, even in today's increasingly complex economic and socio-political environments. CalSTRS remains committed to our mission of securing the financial future of California's educators.

These dedicated professionals make a many-faceted contribution to the future of our children. Likewise, CalSTRS is dedicated to the role that we play in the life journey of each member; from their first classroom to their first home purchase and beyond. CalSTRS offers our members optional savings programs and retirement guidance that will help them to achieve the well-earned rewards of a successful retirement.

We see ourselves as a trusted guide for those we trust to guide society's most precious members.

One measure of our success is seen in the reports and tables included in this report. These details capture the financial progress of our efforts to guide educators into a rewarding and successful future, long after they have left the classroom.

The 2006 CAFR contains the following sections:

The ***introductory section*** includes this letter of transmittal, administrative organization details and a review of CalSTRS activities.

The ***financial section*** includes the report of the independent auditor, the Management's Discussion and Analysis, the system's financial statements and supplemental information for the State Teachers' Retirement Plan and CalSTRS Voluntary Investment Program. The firm Macias Gini and O'Connell was selected to perform the audit. The independent auditor's report can be found on page 12 of this CAFR.

The ***investment section*** contains a consultant's report summarizing investment activity. It also contains an explanation of investment policy, portfolio performance information and various investment schedules for the State Teachers' Retirement Plan, including investment of the Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs contributions. Investment information is not included for the CalSTRS Voluntary Investment Program since all investments are member-directed into mutual funds.

The ***actuarial section*** includes the actuary's certification letters and summaries for the CalSTRS Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs, in addition to the results of the latest actuarial valuations.

The ***statistical section*** includes information on the CalSTRS Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and CalSTRS Voluntary Investment Program.

PROFILE

CalSTRS provides retirement, disability and survivor benefits to California's 794,812 public school educators from kindergarten through community college. The Teachers' Retirement Law, part of the California Education Code, established these programs with CalSTRS as administrator. Required member and employer contribution rates are set by law. CalSTRS members as of June 30, 2006, included employees of approximately 1,400 school districts, community college districts, county offices of education and regional occupational programs.

FUNDING

As of June 30, 2005, the Defined Benefit Program has an estimated unfunded actuarial obligation of $20.3 billion, having an estimated 86 percent of the funds needed to fund the cost of the benefit plan in effect on June 30, 2005. Further discussion is provided within the financial section of this report.

Under California state law, the Defined Benefit Program receives contributions from members and employers set at a percentage of the member's earnings plus state General Fund contributions from the fiscal year ending in the prior calendar year (see Page 22). The cost of administering the State Teachers' Retirement Plan is financed through the investment earnings of the plan.

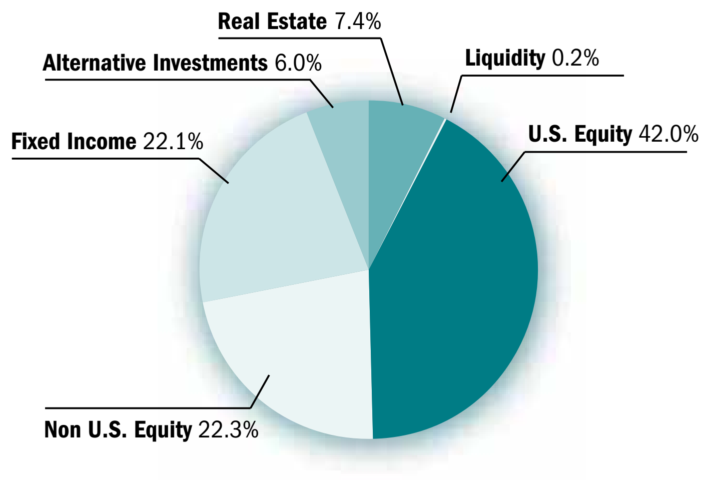
FINANCIAL

The basic financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis as promulgated by the Governmental Accounting Standards Board and its predecessor, the National Council on Governmental Accounting. The Management's Discussion and Analysis provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditor.

INVESTMENTS

For the second year in a row, the CalSTRS investment portfolio finished the fiscal year at a record high value. The investment portfolio has posted three straight years of double-digit returns. Over the past three years, the investment portfolio has outperformed over 90 percent of the public pension plans in the United States.

Asset Allocation as of June 30, 2006
Total investment portfolio of $143.8 billion



For the fiscal year 2005–2006 CalSTRS earned a stellar 13.2 percent investment return. That ranked in the top ninth percentile of public pension plans. Over a three-year period ending June 30, 2006, the fund has earned a 13.9 percent return. CalSTRS now stands as one of the best performing investment portfolios among public and comparable pension plans across the country. The strong performance is the result of CalSTRS' broad portfolio diversification into long-term investments. Investments in global real estate and alternative investments (private equity) have outperformed the U.S. and global stock markets. These types of investments that last 5 to 15 years are generally not available to individual investors and cannot be included in mutual funds found in defined contribution and tax sheltered annuities, but are well suited for long-term investors in traditional pension plans.

While one major U.S. stock index, the Dow Jones Industrial Average, struggles to reach the prior high of 2000, the CalSTRS portfolio has fully recovered. The fund is valued at a full $28 billion more than at the height of the stock market rally of the 1990's, and more than $53 billion above the low value during the '00–'02 internet bubble recession. That is nearly a 50 percent rebound in value in just three years.

The Teachers Retirement Board – Investment Committee and CalSTRS investment staff regularly review and update CalSTRS investment policies. In the past year important enhancements were made to the overall Investment Policy & Management Plan to address with geopolitical risk across the entire portfolio.

AWARD

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the California State Teachers' Retirement System for its comprehensive annual financial report for the year ended June 30, 2005. This was the 11th consecutive year that CalSTRS has achieved this prestigious award.

In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

ACKNOWLEDGMENTS

The compilation of this comprehensive annual financial report reflects the combined effort of CalSTRS staff under the leadership of the Teachers' Retirement Board. I commend their efforts on creating another outstanding report. In addition, I take this opportunity to express my gratitude to the staff, advisors and the many other people and organizations who have worked so diligently to ensure the successful operation of the California State Teachers' Retirement System.

Responsibility for both the accuracy and completeness of the financial data and the fairness of the presentation rests with me and the management of CalSTRS.

Respectfully submitted,

Jack Ehnes
Chief Executive Officer

Teachers' Retirement Board AS OF JUNE 30, 2006

Carolyn A. Widener
Chair
Community College Instructor
Term: 1/1/04 – 12/31/07

Dana Dillon
Vice Chair
K-12 Classroom Teacher
Term: 1/1/04 – 12/31/07

Beth Rogers
Public Representative
Term: 9/28/05 – 12/31/07

Phil Angelides
State Treasurer
Ex-Officio Member

Jack O'Connell
Superintendent of Public Instruction
Ex-Officio Member

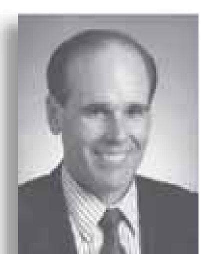
Steve Westly
State Controller
Ex-Officio Member

Michael C. Genest
State Finance Director
Ex-Officio Member

Kathy Brugger
School Board Representative
Term: 9/28/05 – 12/31/07

Jerilyn Harris
Retiree Representative
Term: 4/29/05 – 12/31/07

Roger Kozberg
Public Representative
Term: 4/28/05 – 12/31/09



Gary Lynes
K-12 Classroom Teacher
Term: 1/1/04 – 12/31/07

Current Executive Staff

pictured from left to right (back row): Christopher Waddell, Christopher J. Ailman, Jack Ehnes, Ed Derman; (front row) Christine Ford, Peggy Plett, Janice Hanson

JACK EHNES
Chief Executive Officer

Ed Derman
Deputy Chief Executive Officer
Plan Design and Communication

Peggy Plett
Deputy Chief Executive Officer
Benefits and Services

Janice Hanson
Chief Technology Officer
Enterprise Initiatives and Technology

Christopher J. Ailman
Chief Investment Officer
Investments

Christopher Waddell
General Counsel

Christine Ford
Chief Financial Officer
Administrative Services

Professional Services

CalSTRS contracts for the services of various independent consultants essential to the effective and professional operation of the system. Milliman provides actuarial services and the independent auditor is Macias Gini & O'Connell LLP. Lists of investment professionals for investment services and other consultants are provided on Schedules IV and V in the financial section of the report.

Year in Review

MEMBERSHIP

Membership in the CalSTRS Defined Benefit Program includes California public school employees, kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities.

Membership is in effect as long as the contributions remain on deposit with the program.

Members are employed in approximately 1,400 public school districts, community college districts, county offices of education and state reporting entities in California. The CalSTRS Defined Benefit Program includes service retirement, benefits for survivors and disability benefits.

A beneficiary of a retired member who has elected a joint and survivor option receives a continuing lifetime allowance upon the retired member's death.

As of June 30, 2006, there were a total of 453,365 active, 133,601 inactive members and 207,846 retired members, disability and survivor benefit recipients. The combined total of members and benefit recipients equals 794,812, an increase of 18,895 from the previous fiscal year.

(The financial statements, presented in the financial section, contain Defined Benefit Program membership data as of June 30, 2005, due to the timing of the independent auditor's report.)

BENEFITS TO MEMBERS AND BENEFIT RECIPIENTS

Service Retirement

CalSTRS is committed to providing exceptional service to its retiring members in keeping with the System's values. The staff provides timely and accurate payments and information about application and benefit payment processes.

In 2005–06, 11,050 members applied for retirement, which is a 6.7 percent decrease from the previous year.

Survivor Benefits

CalSTRS received 6,452 survivor benefits applications, which is an increase of 1.4 percent over last fiscal year. Of the applications completed, 97 percent were processed within the 45-day legislative standard, and 94 percent were processed within 30 days from the receipt of the last required document.

Disability

CalSTRS received 848 applications for disability benefits, representing a decrease of almost 6 percent over the previous fiscal year. Of the applications completed during this fiscal year, 88 percent were processed within 180 days of receipt.

The work of the Continuing Qualifications and Vocational Rehabilitation programs resulted in 38 members returning to full-time employment, discontinuing their need to receive disability benefits.

SERVICES TO MEMBERS AND BENEFICIARIES

Customer Service

The CalSTRS Customer Service staff responded to 259,497 customer contacts during the 2005–2006 fiscal year.

The Call Center customer service representatives responded to the questions and concerns of 227,436 customers. Another 98,164 customers selected alternative services provided within the CalSTRS' automated interactive voice response system. The average wait time for callers who opted to speak with a customer service representative was 59 seconds; 78 percent of all calls were answered in less than one minute.

The Correspondence Center staff responded to 30,179 e-mails, online messages, and postal correspondence and provided services to 1,882 customers who visited the Member Service counter at the CalSTRS' Sacramento office. Staff responded to 54 percent of e-mails within one business day, with an average response time of 1.5 days; 82 percent of all correspondence was completed within three business days.

Introduction

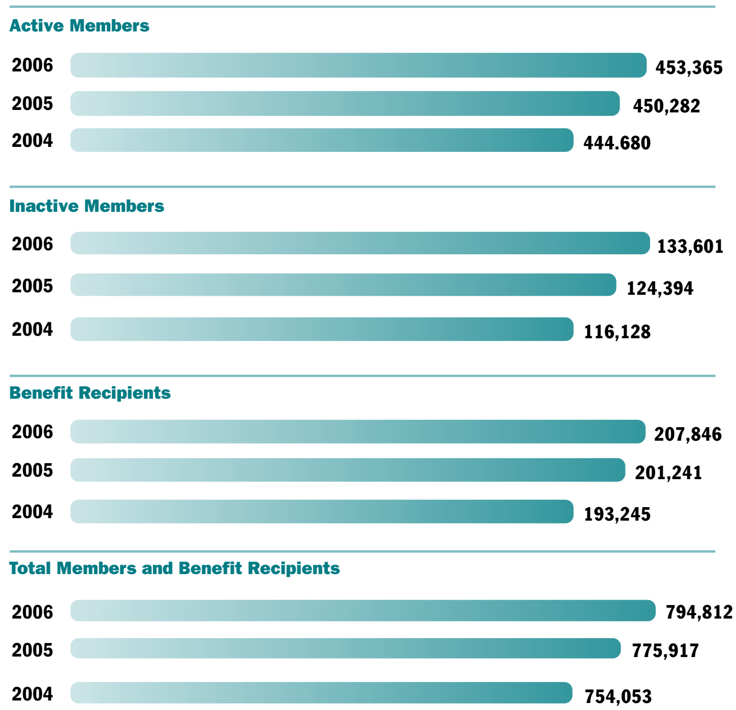
Member Communication

CalSTRS communicates twice a year with members and beneficiaries through the *CalSTRS Connections* and the *Retired Educator* newsletters.

CalSTRS Connections is mailed in spring and fall to active and inactive members. Issues contain helpful information on financial education, retirement planning, legislative summaries and articles concerning educators.

The *Retired Educator* is mailed in summer and winter to inform retired members and benefit recipients of matters of special interest to them.

The *Member Handbook* explains all CalSTRS programs. The handbook and single-topic brochures are mailed upon request, given to members during personal interviews, viewed or ordered from our Web site and made available to employers. CalSTRS also mails the *Welcome to CalSTRS* brochure to newly hired educators.



Web Site

The CalSTRS Web site, *www.CalSTRS.com*, provides information for members, employers and CalSTRS business partners. Our Web site includes many useful features such as online calculators, which allow members to estimate their retirement benefit and calculate the cost to purchase service credit and to redeposit funds; financial education and workshop information; a secure site for employers will provide county and school district personnel with pertinent information.

When visiting the CalSTRS Web site, CalSTRS members can register for a secure, online service called myCalSTRS. This tool provides a messaging function that allows members to send messages and receive e-mail through a secure site.

CalSTRS also administers a Web site entitled 403bCompare.com, which is a state-of-the-art personal investment tool. The site received the 2005 Leadership Recognition Award from the National Association of Government Defined Contribution Administrators for effective communication and for plan design and administration.

Users of the 403bCompare.com Web site can easily compare tax-deferred 403(b) retirement investment products such as annuities and mutual funds. Users of 403bCompare.com can search 403(b) products, place three of them side-by-side and compare their features, including fund descriptions, fees and returns.

Benefits Counseling

CalSTRS provides members with the opportunity to meet with a Benefits Counselor for personalized assistance in retirement planning. CalSTRS counseling sessions can be beneficial to a member at any time during their teaching career. Members have the choice of meeting with a CalSTRS benefits counselor either face-to-face or over the telephone. Personal retirement counseling was provided to 35,244 members at more than 30 locations throughout California. In addition, 1,838 members received retirement counseling through a telephone appointment.

Member Workshops

CalSTRS offers member workshops which are designed to meet the needs of members at their different career stages. Each workshop includes customized content designed specifically for members in the early or mid-career stages and covers basic details of CalSTRS benefits, retirement planning and personal financial planning. The late-career workshop includes specific retirement information focusing on the CalSTRS retirement formula, lifetime benefits for another person, post-retirement employment, and information sources for prospective retirees. For another person, post-retirement employment, and information sources for prospective retirees. A fourth workshop assists members in managing their retirement income. CalSTRS will provide customized workshops by request. CalSTRS presented 700 workshops to 16,757 members. The workshop atmosphere encourages members to actively participate and to obtain answers to questions.

OPTIONAL MEMBER PROGRAMS

Cash Balance Benefit Program

The Cash Balance Benefit Program is a defined benefit plan that is optional to school districts, community college districts and county offices of education. Employees are eligible to participate when their employer offers the Cash Balance Benefit Program if they are hired to perform creditable service on an hourly, daily or temporary basis, unless the employee also performs creditable service full-time in another position. Also, a person who performs trustee service for an employer who has elected to provide the Cash Balance Benefit Program may elect to participate for that service.

Voluntary Investment Program

The VIP is CalSTRS' 403(b) program and is available to certificated or classified employees of any California school district, county office of education or community college district. The VIP is a 403(b)(7) plan, which allows employees to invest pre-tax earnings in mutual funds as optional retirement savings.

SERVICES TO EMPLOYERS, MEMBER AND CLIENT ORGANIZATIONS

Two committees meet regularly to provide a forum for active participation in the formation of CalSTRS policies and procedures in areas of information dissemination, benefit plan administration, and service to members and beneficiaries. The Employer Advisory Committee is composed of county and district employer representatives and CalSTRS staff. The Client Advisory Committee includes CalSTRS staff and members of various organizations representing CalSTRS members and benefit recipients. Since reaching consensus with the two committees on legislative proposals and policy issues is important to the Teachers' Retirement Board, CalSTRS employees schedule special meetings with both committees to work closely on plan design and other crucial member and employer issues.

CalSTRS staff also conducts field visits to individual counties and school districts. These visits provide specific information to the employer regarding CalSTRS' data reporting process and staff discusses the use of the Remote Employer Access Program. This program allows the employer direct access to the CalSTRS database for verification and review of the member's service and contribution records, thereby improving the accuracy and timeliness of the reporting process.

In addition, CalSTRS outreach staff and benefits counselors attend meetings of school districts, academic associations and other constituent groups to conduct workshops and provide CalSTRS information. The venues include county fairs, annual conferences of academic organizations and meetings of union councils and school administrators.

In 2005–2006, staff and counselors attended 46 events and served more than 10,100 members.

balance
balance
engaged
responsibility
trust
commitment

Financial

California State Teachers' Retirement System

(A Component Unit of the State of California)

Independent Auditor's Report,
Financial Statements, Required Supplementary Information, and Other Supplemental Information

For the Fiscal Year Ended June 30, 2006

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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916.928.4600

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Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

INDEPENDENT AUDITOR'S REPORT

To the Teachers' Retirement Board of the
California State Teachers' Retirement System
Sacramento, California

We have audited the accompanying statement of fiduciary net assets of the California State Teachers' Retirement System (the System), a component unit of the State of California, as of June 30, 2006, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2005 financial statements on which our report dated September 23, 2005, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the California State Teachers' Retirement System as of June 30, 2006, and the changes in fiduciary net assets for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

As described in Note 1, based on the most recent actuarial valuation as of June 30, 2005, the System's independent actuaries determined that, at June 30, 2005, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by $20.3 billion.

In accordance with *Government Auditing Standards*, we have issued our report dated September 22, 2006, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 14 through 17, the Schedule of Funding Progress on page 34 and the Schedule of Contributions from Employers and Other Contributing Entities on pages 35 through 36 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section, other supplemental information in the financial section and the investments, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investments, actuarial and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financials statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
September 22, 2006

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
As of June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the California State Teachers' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2006. We designed the MD&A to focus on the current year's activities, resulting changes, and currently known facts, and we encourage you to read it in conjunction with the System's financial statements and notes to the financial statements.

The System is primarily responsible for administering retirement, disability, survivor and health benefits, as well as administering a supplemental retirement savings plan for California public school teachers and certain other employees of the state's public school system. The System is comprised of a total of four fiduciary funds:

1. Teachers' Retirement Fund (TRF)
2. Voluntary Investment Program (VIP)
3. Teachers' Health Benefits Fund (THBF)
4. Teachers' Replacement Benefits Program Fund (TRBPF)

FINANCIAL HIGHLIGHTS

- Net assets increased by $14.7 billion or 11% to $144.3 billion.
- Net investment income totaled $16.1 billion, an increase of $1.9 billion or 14%.
- As of June 30, 2005, the System's Defined Benefit Program was estimated to be funded at 86%, compared to an estimated funding level of 85% as of June 30, 2004.
- Total contributions decreased by $194.5 million or 3% to $5.5 billion.
- Supplemental Benefit Maintenance Account contributions increased by $45.7 million or 7% to $666.6 million.
- Benefit payments increased by $516.8 million or 8% to $6.7 billion.
- Refund of members' contributions increased by $10.8 million or 12% to $105 million.
- In the THBF, the Medicare Premium Payment Program premiums paid for members totaled $29.3 million.

OVERVIEW OF FINANCIAL STATEMENTS

This MD&A is an introduction to the System's basic financial statements. The System's financial statements include the following components: (1) fund financial statements, (2) notes to the basic financial statements, (3) required supplementary information, and (4) other supplemental information.

Fund financial statements. The statements of fiduciary net assets presents information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, the increase or decrease in net assets serves as a useful indicator of the health of the System's financial position. The statements of changes in fiduciary net assets show how the System's net assets changed during the fiscal year.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
As of June 30, 2006

Notes to the financial statements. The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Below we describe the information available in the notes to the financial statements.

- Note 1 provides a general description of the System, as well as a concise description of each of the funds administered by the System.

- Note 2 provides a summary of significant accounting policies, including the basis of accounting for the System, management's use of estimates, cash and investment accounting policies, and other significant accounting policies.

- Note 3 describes investments, including disclosures required by the Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, which includes information about the System's investment risk related to credit, (including custodial credit and concentrations of credit risk), interest rate, and foreign currency risks.

- Note 4 generally describes potential contingencies of the System.

- Note 5 provides a summary of significant commitments incurred by the System.

- Note 6 provides a summary of new accounting and financial reporting pronouncements.

Required supplementary information. The required supplementary information consists of two schedules and related notes on the defined benefit pension plans' funding progress and history of contributions from employers and other contributing entities. These schedules provide historical information that assists in understanding the funded status of the System over time.

Other supplemental information. Other supplemental information includes detailed information on administrative expenses, investment expenses, and consultant and professional services expenses.

FINANCIAL ANALYSIS

Teachers' Retirement Fund (TRF). The Teachers' Retirement Fund is an employee benefit trust fund created to administer the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan which provides for retirement, disability, and survivor benefits. The STRP is comprised of three programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit Program.

The STRP net assets increased 11% during the fiscal year, from $129.5 billion in 2005 to $144.2 billion as of June 30, 2006. Investments, excluding securities lending collateral, increased by $14.4 billion or 11% to $145.2 billion as of June 30, 2006. At June 30, 2006, STRP held $32.3 billion in debt securities, a decrease of $742.7 million or 2% from fiscal year 2004-05. At June 30, 2006, STRP also held $91.1 billion in U.S. and international equity securities, an increase of $10.1 billion or 13% from fiscal year 2004-05. Remaining holdings in short-term, alternative, and real estate investments totaled $21.9 billion at June 30, 2006, an increase of $5 billion or 30% from fiscal year 2004-05. Net appreciation on investments totaled $12.2 billion in fiscal year 2005-2006 compared to $10.4 billion in fiscal year 2004-05, an increase of $1.9 billion or 18%. Further, as of June 30, 2006, the benefits in process of payment decreased and the benefits paid increased over $500 million from the previous year as a result of the timing of the monthly benefits payment at fiscal year end. Receivables and investments settlement balances both decreased over $3.8 billion dollars from the June 30, 2005 amounts. This decrease is due to a change in market conditions that weakened the U.S. dollar, which resulted in a decrease in the hedging of foreign exchange contracts.

NET ASSETS
(Dollars in Thousands)

ASSETS	2006	2005	Percent Change
Investments [1]	$172,872,149	$153,433,187	13%
Cash and Cash Equivalents	309,484	175,854	76%
Receivables	3,449,874	7,303,410	(53)%
Other	1,307	2,002	(35)%
TOTAL ASSETS	**176,632,814**	**160,914,453**	**10%**
LIABILITIES			
Benefits in Process of Payment	44,297	551,520	(92)%
Investment Settlement	2,905,945	6,689,052	(57)%
Real Estate Leverage Program Obligation	568,049	879,480	(35)%
Other Liabilities	1,275,954	651,491	96%
Securities Lending Obligation	27,626,193	22,619,277	22%
TOTAL LIABILITIES	**32,420,438**	**31,390,820**	**3%**
TOTAL NET ASSETS	**$144,212,376**	**$129,523,633**	**11%**

[1] Includes securities lending collateral.

The System funds STRP benefits from employer, member and State contributions, federal proceeds, and investment earnings. Member contributions overall decreased in fiscal year 2005-06 by $96 million or 4% from fiscal year 2004-05 because of a sharp increase in members purchasing service credit contributions in fiscal year 2004-05 to avoid an impending Tiered Rate Increase. Employer contributions increased by $99 million or 5%. The State contributions in fiscal year 2005-06 decreased from fiscal year 2004-05 as a result of a net $119.5 million repayment of an over requested General Fund contribution from prior fiscal years. The STRP experienced a net investment gain of $16 billion in fiscal year 2005-06 compared with $14.1 billion in fiscal year 2004-05.

CHANGES IN NET ASSETS
(Dollars in Thousands)

ADDITIONS	2006	2005	Percent Change
Member/Participant	$2,230,754	$2,326,536	(4)%
Employer	2,203,548	2,104,712	5%
State/Federal	1,018,720	1,218,614	(16)%
Investment/Other Income	16,077,792	14,128,986	14%
TOTAL ADDITIONS	**21,530,814**	**19,778,848**	**9%**
DEDUCTIONS			
Benefit Payments	6,649,007	6,133,873	8%
Refund of Contributions	97,453	87,969	11%
Administrative Expenses	95,611	94,662	1%
TOTAL DEDUCTIONS	**6,842,071**	**6,316,504**	**8%**
TOTAL CHANGES IN NET ASSETS	**$14,688,743**	**$13,462,344**	**9%**

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
As of June 30, 2006

Deductions, which include benefit payments, refund of contributions and administrative expenses, totaled $6.8 billion for the year. Growth in the number of new retirees increased benefit payments to $6.6 billion, an increase of $515.1 million or 8% over the prior year. Refund of contributions in fiscal year 2005-06 increased $9.5 million or 11% to $97.5 million. Administrative expenses in fiscal year 2005-06 increased $949 thousand or 1% to $95.6 million.

The most recent actuarial valuation for the fiscal year ended June 30, 2005, indicates that the DB Program is underfunded, with 86% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2005. This is an increase from the 85% estimated funding status as of June 30, 2004. The amount by which the DB Program actuarial obligation exceeded actuarial assets was $20.3 billion as of June 30, 2005. The most recent actuarial valuation indicates that the DB Program's expected future revenue will be insufficient to finance its obligations including amortization of the unfunded status over the next 30 years.

Voluntary Investment Program (VIP). The VIP is a tax-deferred defined contribution plan and meets the requirements of the Internal Revenue Code, Section 403(b). CitiStreet, L.L.C provides Administrative services for VIP. This program's benefits are the accumulation of contributions and investment earnings credited to the member's account at the time of retirement, disability or termination of employment. Through the VIP, members have the opportunity to supplement their pension benefits. The VIP's June 30, 2006 investments increased by $20.9 million or 19% and net assets increased by $21.1 million or 19%. Contributions by members in fiscal year 2005-06 increased by $1.1 million or 6% and investment income in fiscal year 2005-06 increased $4.1 million or 67% from the previous fiscal year. Deductions from the VIP increased by $1 million or 10% to $10.7 million.

Teachers' Health Benefits Fund (THBF). The THBF is an employee benefit trust fund created to administer health benefit programs for members of the California State Teachers' Retirement System. The Medicare Premium Payment Program is the only program within the fund. This program pays Medicare Part A premiums and surcharges and Part B surcharges for members meeting certain eligibility criteria. The System funds this program on an as needed basis from current employer contributions, which increased by $1.1 million or 4% to $29.6 million during fiscal year 2005-06. The THBF paid benefits of $29.3 million in fiscal year 2005-06 compared with $27.4 million the prior year. The System invests the assets of the THBF in the State of California's Surplus Money Investment Fund and earned $143 thousand in interest income for the fiscal year ended June 30, 2006.

Teachers' Replacement Benefits Program Fund (TRBPF). The TRBPF is a replacement pension benefit plan established to pay the portion of annual benefits that exceed the annual limitations under Section 415 of the Internal Revenue Code of 1986 (26 U.S.C. Section 415). Current employer contributions fund this benefit program on an as needed basis. The TRBPF received contributions of $330 thousand to pay benefits during fiscal year 2005-06.

REQUESTS FOR INFORMATION

This Financial Report is designed to provide a general overview of the System's finances. For questions concerning any information in this report or for additional information contact the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

California State Teachers' Retirement System
Statement of Fiduciary Net Assets
As of June 30, 2006 (with Comparative Totals as of June 30, 2005)
(Dollars in Thousands)

	Teachers' Retirement Fund	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Comparative Totals 2006	Comparative Totals 2005
Assets						
Investments, at fair value:						
Short term	$ 1,506,105	$ 24,498	$ 1,604	$ -	$ 1,532,207	$ 1,419,588
Debt securities	32,269,214				32,269,214	33,011,898
Equities:						
Directly held:						
Domestic	59,826,205	-	-	-	59,826,205	55,440,796
International	31,242,535	-	-	-	31,242,535	25,496,315
Mutual funds	-	107,542	-	-	107,542	88,497
Alternative investments	8,609,513	-	-	-	8,609,513	6,921,778
Real estate investments	11,792,384	-	-	-	11,792,384	8,547,848
Securities lending collateral	27,626,193	-	-	-	27,626,193	22,619,277
Total investments	172,872,149	132,040	1,604	-	173,005,793	153,545,997
Cash and cash equivalents	309,484	-	-	-	309,484	175,869
Receivables:						
Investments sold	1,215,865	-	-	-	1,215,865	598,442
Foreign currency contracts	852,284	-	-	-	852,284	5,635,523
Interest and dividends	455,446	98	46	-	455,590	449,323
Member, employer and other	926,279	889	1,293	-	928,461	622,038
Total receivables	3,449,874	987	1,339	-	3,452,200	7,305,326
Other assets	1,307	-	-	-	1,307	2,002
Total assets	176,632,814	133,027	2,943	-	176,768,784	161,029,194
Liabilities						
Investments purchase payable	2,051,505	-	-	-	2,051,505	1,228,253
Foreign currency contracts payable	854,440	-	-	-	854,440	5,460,799
Benefits in process of payment	44,297	-	-	-	44,297	551,534
Real estate leverage program obligation	568,049	-	-	-	568,049	879,480
Other liabilities	1,275,954	67	217	-	1,276,238	651,657
Securities lending obligation	27,626,193	-	-	-	27,626,193	22,619,277
Total liabilities	32,420,438	67	217	-	32,420,722	31,391,000
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Schedule I)	$ 144,212,376	$ 132,960	$ 2,726	-	$ 144,348,062	$129,638,194

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2006
(with Comparative Totals for the Fiscal Year Ended June 30, 2005)
(Dollars in Thousands)

	Teachers' Retirement Fund	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Comparative Totals 2006	Comparative Totals 2005
Additions						
Contributions:						
Member contributions	$ 2,230,754	$ 21,509	$ -	$ -	$ 2,252,263	$ 2,346,915
Employer contributions	2,203,548	-	29,602	330	2,233,480	2,133,398
State of California/Federal Government	1,018,720	-	-	-	1,018,720	1,218,614
Total contributions	5,453,022	21,509	29,602	330	5,504,463	5,698,927
Investment Income:						
Net appreciation (realized & unrealized) in fair value of investments	12,212,130	7,901	-	-	12,220,031	10,363,209
Interest, dividends and other	3,911,287	2,344	143	-	3,913,774	3,814,978
Securities lending income	1,087,366	-	-	-	1,087,366	502,398
Less investment expenses:						
Cost of lending securities	(1,020,130)	-	-	-	(1,020,130)	(436,409)
Other investment expenses	(112,929)	-	-	-	(112,929)	(100,232)
Net investment income	16,077,724	10,245	143	-	16,088,112	14,143,944
Other (expense) income	68	-	-	-	68	(8,886)
Total additions	21,530,814	31,754	29,745	330	21,592,643	19,833,985
Deductions						
Retirement, disability, death and survivor benefits	6,433,749	2,286	29,313	330	6,465,678	5,942,866
Purchasing power benefits	215,258	-	-	-	215,258	221,271
Refunds of member contributions	97,453	7,481	-	-	104,934	94,100
Administrative expenses	95,611	935	359	-	96,905	96,008
Total deductions	6,842,071	10,702	29,672	330	6,882,775	6,354,245
Net increase	14,688,743	21,052	73	-	14,709,868	13,479,740
Net assets held in trust for pension benefits						
Beginning of the year	129,523,633	111,908	2,653	-	129,638,194	116,158,454
End of the year	$144,212,376	$132,960	$ 2,726	$ -	$144,348,062	$129,638,194

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System
Notes to the Basic Financial Statements

1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans, a tax-deferred defined contribution plan, the Medicare Premium Payment Program and the Replacement Benefits Program as described below. The State Education Code known as the Teachers' Retirement Law (Section 22000 et. seq.), as amended and enacted by the State of California (State) Legislature established these plans and programs and the System as the administrator. The System is a component unit of the State of California. These financial statements include only the accounts of the System. The State of California includes the System’s basic financial statements as a fiduciary fund in its financial statements. The System provides pension benefits to California full-time and part-time public school teachers from preschool through grade fourteen and certain other employees of the public school system.

Teachers’ Retirement Fund (TRF)

The TRF is used to account for the State Teachers’ Retirement Plan (STRP) which is comprised of three programs: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program (DBS Program) and the Cash Balance Benefit Program (CB Benefit Program). STRP holds these assets for the exclusive purpose of providing benefits to members and beneficiaries of the DB Program, the DBS Program and the CB Benefit Program. Also, the System uses these assets to defray reasonable expenses of administering the STRP and the System.

STRP Defined Benefit Program (DB Program)

The DB Program is a defined benefit pension program. At June 30, 2006, there were over 1,350 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is a non-employer contributor to the STRP. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2005, membership consisted of:

Active Members	
Vested	283,990
Nonvested	166,292
Inactive members	124,394
Retirees and benefit recipients	201,241
Total members, retirees and beneficiaries	775,917

Information as of June 30, 2006 will not be available prior to December 2006.

California State Teachers' Retirement System
Notes to the Basic Financial Statements (continued)

The DB Program provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability, and to survivors/beneficiaries upon the death of eligible members. Benefit provisions include:

- After five years of credited service, members become 100% vested in retirement benefits earned to date. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2% of final compensation for each year of credited service. Early retirement options are available at age 55 or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service shall receive an additional 0.2% of final compensation. In no event shall the total benefit factor exceed 2.4%.

- The System calculates retirement benefits based on a one-year final compensation for members who retire on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elects to pay the additional benefit cost. One-year final compensation means a member's highest average annual compensation earnable calculated by taking the creditable compensation that a member could earn in a school year while employed, if he or she were employed on a full-time basis, and if that person worked full time in that position during any period of 12 consecutive months. For all other members, final compensation is defined as the highest average annual compensation earned during any three consecutive years of credited service.

- Members who retire on or after January 1, 2001, and accumulate at least 30 years of credited service by January 1, 2011, will receive a longevity bonus.

- After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50% of final compensation plus 10% of final compensation for each eligible child, up to a maximum addition of 40%. The member must have a disability that will exceed a period of twelve or more months to qualify for a benefit.

- A family benefit is available if an active member died and had at least one year of credited service.

- Members' accumulated contributions are refundable with interest upon separation from the System. The board determines the credited interest rate each fiscal year. For the year ended June 30, 2006, the rate of interest credited to members' accounts is 2.75%.

Purchasing power protection is provided to members of the DB Program through the Purchasing Power Protection Program. Annual distributions (in quarterly payments) to retired and disabled members and beneficiaries restore purchasing power to a minimum of 80% of the initial monthly allowance. The annual contribution needed to meet the obligation of the purchasing power protection program on an actuarial basis has not been determined. Funding for the Purchasing Power Protection Program is from School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Public Resources Code Section 6217.5 appropriates School Lands Revenue. The State is required to contribute 2.5% of prior fiscal year teacher payroll to fund the SBMA. In addition, the proceeds from the sale of the Elk Hills Naval Petroleum Reserve are appropriated in annual installments by the federal government to be deposited to the SBMA.

In fiscal year 2005-06, the State statutory SBMA contribution is $582.2 million. In fiscal year ended June 30, 2004, special legislation reduced the State's contribution by $500 million to $58.9 million. The System has taken legal action to compel State to contribute the remaining $500 million.

Required Contributions

Required member and employer contribution rates are set by the Teachers' Retirement Law. Required contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. The System also uses the level percentage of payroll method to calculate the amortization of any unfunded liability.

A summary of statutory contribution rates and other sources of contributions to the DB Program is as follows:

Members - 6% of applicable member earnings through December 31, 2010, increasing to 8% thereafter.

Employers - 8.25% of applicable member earnings.

State of California - Beginning July 1, 1999, under Education Code Section 22955, the General Fund transferred annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements effective January 1, 1999. The enactment of Chapter 1021, Statutes of 2000 (AB 2700) provided for a reduction in such funding from the General Fund to a factor of 2.5385% beginning July 1, 2000. The funding was further reduced to 1.9750% beginning July 1, 2001, and effective through June 30, 2003. Beginning July 1, 2003, the rate increased to 2.017% of the member's creditable earnings from the fiscal year ending in the prior calendar year.

Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year was established under Education Code Section 22955. This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefit plans in place as of July 1, 1990. Based on the most recent actuarial valuation, as of June 30, 2005, there is no normal cost deficit or unfunded obligation for benefits in place as of July 1, 1990. As a result, the General Fund is not required to contribute quarterly payments starting October 1, 2006.

In the most recent actuarial valuation as of June 30, 2005, the System's actuaries determined that, at June 30, 2005, the value of the DB Program's actuarial accrued obligation exceeded the program's actuarial value of assets by $20.3 billion. Based on this valuation, the current statutory contributions are equivalent to 17.567% of covered payroll and are sufficient to fund normal cost (16.829% of covered payroll) but not expected to be sufficient to amortize the unfunded actuarial obligation. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the DB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions.

California State Teachers' Retirement System
Notes to the Basic Financial Statements (continued)

STRP Defined Benefit Supplement Program (DBS Program)

The DBS Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension plan that operates within the STRP. All persons who were active members of the DB Program on or after January 1, 2001, are also members of the DBS Program.

Beginning January 1, 2001, and continuing through December 31, 2010, 2% of applicable member earnings for service less than or equal to one year of creditable service per fiscal year are credited to the members' nominal DBS Program accounts. In addition, beginning July 1, 2002, for service in excess of one year of service credit within one fiscal year, the member contributions of 8% and employer contributions of 8% are credited to the members' nominal DBS program account. Also, contributions for the compensation as a result of retirement incentives or limited term enhancements are credited to the members account. Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the Teacher's Retirement Board (Board) prior to each plan year, which was 5.00% for the fiscal year ended June 30, 2006. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return.

In the actuarial valuation, of the DBS Program's assets and liabilities as of June 30, 2005, the System's independent actuaries determined that the actuarial value of assets of the DBS Program exceeded the actuarial obligation by $267 million. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the DBS Program. However, future estimates of the actuarial obligation may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions.

STRP Cash Balance Benefit Program (CB Benefit Program)

The CB Benefit Program, established under Chapter 592, Statutes of 1995 and subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a defined benefit pension plan. The CB Benefit Program is designed for employees of California's public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Interest is credited to the nominal CB Benefit Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 5.00% for the year ended June 30, 2006. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return.

Participation in the CB Benefit Program is optional to school districts, community college districts, county offices of education, and regional occupational programs. A school district, community college district, county office of education, or regional occupational program may elect to offer the CB Benefit Program. Under such election, the program will automatically cover each eligible employee, unless the employee elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer.

A summary of statutory contribution rates for the CB Benefit Program is as follows:

Participants	-	4% of applicable participant earnings
Employers	-	4% of applicable participant earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2006, there were 30 contributing school districts and 24,679 contributing participants.

In their most recent actuarial valuation as of June 30, 2005, the System's independent actuaries determined that the actuarial value of assets of the CB Benefit Program exceeded the actuarial obligation by $2 million. While certain risks related to the global financial markets may affect the fair value of the System's investment portfolio, the System's management is continually evaluating the impact of market fluctuations on the assets of the CB Benefit Program. However, future estimates of the actuarial obligation may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions.

Voluntary Investment Program (VIP)

The VIP (formerly STRS 403(b) Program) was established pursuant to Chapter 291, Statutes of 1994. Under the requirements of Internal Revenue Code (IRC) Section 403(b), the VIP is a tax-deferred defined contribution plan and is open to any employee from the state's school districts, community college districts, county offices of education and regional occupational programs. Contributions to the program are voluntary and are not subject to a minimum limitation; however, the IRC establishes a maximum amount that can be contributed annually. At June 30, 2006, there were 3,629 plan participants and 404 participating employers (school districts).

CitiStreet, L.L.C. provides administrative services to the VIP, including custody and record keeping services. The VIP's investments are comprised of the Share Accounted Mutual Funds, Mutual Fund Window Account and Citi Institutional Liquid Reserves Fund. The Share Accounted Manager invests in various mutual funds. The Mutual Fund Window Account allows plan participants to select and invest in various domestic and international stock and mutual funds. The Citi Institutional Liquid Reserves Fund invests in various money market instruments.

Teachers' Health Benefits Fund (THBF)

The THBF was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435) to provide the Medicare Premium Payment Program to retired members of the DB Program. Funds from the THBF are used to pay Medicare Part A premiums for DB Program members who are retired or will retire prior to July 1, 2007, and who meet certain other eligibility criteria.

The THBF is funded as needed, from that portion of the monthly DB Program statutory employer contribution that exceeds the amount needed to finance the liabilities of the DB Program based on the June 30, 2000 actuarial valuation of the DB Program. Management believes the current source of THBF funding will be adequate to provide for the statutory THBF benefits. At June 30, 2006, there were 6,087 retirees participating in the THBF Medicare Premium Payment Program.

Teachers' Replacement Benefits Program Fund (TRBPF)

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 TRBPF was established pursuant to Chapter 465, Statutes of 1999 (AB 819) and initially funded during the year ended June 30, 2001, to provide benefits to the members of the System whose retirement benefit exceeds IRC limits.

The TRBPF is funded as needed. Monthly employer contributions are received by the TRBPF 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. During fiscal year 2005-06, there were 24 retirees participating in the TRBPF.

California State Teachers' Retirement System
Notes to the Basic Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Accounting

The System maintains its accounting records using the accrual basis of accounting. It recognizes member contributions in the period in which the contributions are due. Further, the System recognizes employer and State contributions when due and the employer or State has made a formal commitment to provide the contributions. Also, it recognizes benefits when due and payable in accordance with the System's retirement and benefits programs.

Use of Estimates in the Preparation of Financial Statements

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain financial statement amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid financial instruments with original maturities of 90 days or less. Significant cash equivalents held by the System include repurchase agreements and foreign currency.

Investments

The majority of the securities held in the investment portfolio at June 30, 2006, are in the custody of or controlled by State Street Bank, the System's master custodian. State statutes and Board policies allow investments consisting of government, corporate and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages, and other investments.

Investments are reported at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, management, based on market yields, computes fair value and average maturity dates of comparable quoted securities. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values are based on either recent estimates provided by the System's contract real estate advisors or independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates fair value. Alternative investments represent interests in private equity partnerships in which the System enters under a limited partnership agreement. For alternative investments and other investments where no readily ascertainable market value exists, management, in consultation with investment advisors, has determined the fair values for the individual investments.

The System presents, in the statement of changes in fiduciary net assets, the net appreciation in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation and depreciation on those investments. Purchases and sales are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

There are certain market risks, credit risks, foreign currency exchange risks, and event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies. See Note 3 for disclosures related to these risks.

Investment Risk Management

The STRP enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of its foreign investments. The STRP also enters into futures contracts to minimize exposure to unfavorable fluctuations in the domestic equity markets. The futures contracts are financial instruments that derive their value from underlying indices. These hedging contracts are reported at fair value based on published market prices and quotations from major investment firms. The STRP could be exposed to risk if the counter-parties to the contracts are unable to meet the terms of their contracts. The STRP seeks to minimize risk from counter-parties by establishing minimum credit quality standards and maximum credit limits.

Administrative Expenses

The cost of administering the STRP is financed through the contributions and investment earnings. The VIP and the THBF reimburse the STRP for administrative services provided on their behalf.

Income Taxes

The STRP, THBF, and TRBPF are organized as tax-exempt retirement or benefit plans under the IRC. The VIP is organized as a tax-deferred supplemental program under the IRC. The System's management believes that it has operated these funds and programs within the constraints imposed by federal tax law.

Investment Expenses

Expenses directly associated with investment management have been included as other investment expenses. Indirect expenses have not been allocated.

Securities Lending Transactions

The System reports securities lent, the cash collateral held as assets, and the related liabilities resulting from securities lending transactions on the statement of fiduciary net assets. The System also reports the income earned and costs of lending securities as investment expenses on the statement of changes in fiduciary net assets.

3. Deposits and Investments

Deposits in the Pooled Money Investment Account (PMIA), administered by the State, represent various investments with average days to maturity of approximately 152 days, and are reported at amortized cost which approximates fair value. The State Treasury pools these monies with the monies of other State agencies for investing.

The investment in the Short-term Investment Fund, administered by State Street Bank, represents various investments with average days to maturity of approximately 27 days, and is reported at amortized cost which approximates fair value.

The repurchase agreement transactions as of June 30, 2006, have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yields were 4.25% with maturity dates through July 3, 2006.

California State Teachers' Retirement System
Notes to the Basic Financial Statements (continued)

In fiscal year 2002-03, the System initiated an investment program to leverage its real estate investments by borrowing against select real estate holdings (Leverage Program). Under the Leverage Program, two debt strategies were executed: a commercial mortgage-backed security (CMBS) for $750 million and a revolving line of credit for $275.0 million, net (collectively, the Leverage Program Obligation). The System used the proceeds from the Leverage Program Obligation to purchase various investments. During the 2005-06 fiscal year, the revolving line of credit matured and the debt was paid in full. At June 30, 2006, the CMBS obligation to the fair value of the underlying collateral of real estate properties was 30.3%. Approximately $333.4 million and $234.6 million are due November 2007 and November 2009, respectively. Interest on the Leverage Program Obligation is based on various factors and is payable monthly. As of June 30, 2006, the annual interest rates ranged from 4.39% to 5.77%.

State statutes and board policies permit the System to make short-term, collateralized loans of its securities to broker-dealers and other entities in order to earn incremental income. STRP has contracted with third party securities lending agents and its custodian to lend domestic and international equity and debt securities. The majority of security loans can be terminated on demand by either STRP or the borrower. Collateral in the form of cash or other securities is required for 102% and 105% of the fair value of domestic and international securities loaned, respectively. Since the majority of these loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. At June 30, 2006, the weighted duration difference between the investments and these loans was 22 days. As of June 30, 2006, the System has no credit risk exposure to borrowers because the amounts the STRP owes the borrowers exceed the amounts the borrowers owe the STRP. STRP is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify STRP if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay STRP for income distributions by the securities' issuers while the securities are on loan.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations.

The System's Investment Guidelines require that the lowest long-term credit rating of securities eligible for purchase by the internally managed fixed income assets be Baa3 by Moody's Investor Services or BBB- by Standard and Poor's Corporation (i.e., investment grade by at least one major rating agency). Furthermore, the total position of the outstanding debt of any one issuer shall be limited to ten-percent (10%) of the market value of the portfolio. The Investment Guidelines also include an allocation to high yield assets which are managed externally and allow for the purchase of bonds rated below investment grade. Limitations regarding the amount of debt of any one issuer a manager may hold is negotiated on a manager by manager basis.

Below is a table which depicts the fixed income and short-term assets as well as the securities lending collateral by credit rating as of June 30, 2006:

Fixed Income & Short Term
(Dollars in Thousands)

Ratings	Securitized Obligations	Credit Obligations	International Government	Money Market Securities	PMIA	U.S. Government	Total
AAA	$ 14,119,897	$ 706,420	$ 19,755	$ -	$ -	$ -	$ 14,846,072
A-1	-	-	-	466,999	-	-	466,999
AA	54,473	1,033,781	192,306	-	-	-	1,280,560
A	84,895	3,001,617	127,773	-	-	-	3,214,285
BBB	20,634	1,645,778	64,784	-	-	-	1,731,196
BB	30,242	1,513,201	116,395	-	-	-	1,659,838
B	12,013	828,578	-	-	-	-	840,591
CCC	518	124,670	-	-	-	-	125,188
NR	47,065	-	-	82,481	282,357	-	411,903
NA	-	-	-	-	-	9,198,687	9,198,687
Total	**$ 14,369,737**	**$ 8,854,045**	**$ 521,013**	**$ 549,480**	**$ 282,357**	**$ 9,198,687**	**$ 33,775,319**

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government, are not considered to have credit risk and do not require disclosure of credit quality. NR represents those securities that are not rated and NA represents those securities that are not applicable to the rating disclosure requirements.

Securities Lending Collateral
(Dollars in Thousands)

Ratings	Money Market Securities	Repurchase Agreements	Short Term Investment Fund	Coroprate Floating Rate Notes	Agency Callable Obligations	Asset Backed	Total
AAA	$ 184	$ -	$ -	$ 954,128	$ 851,366	$ 6,408,757	$ 8,214,435
A-1	5,147,319	2,575,000	-	-	-	1,110,221	8,832,540
AA	822,486	-	377,214	2,666,327	-	-	3,866,027
A	425,159	-	-	5,825,152	49,987	16,017	6,316,315
BB	-	-	-	12,000	-	-	12,000
NR	16,490	317,724	-	-	-	5,063	339,277
Total	**$ 6,411,638**	**$ 2,892,724**	**$ 377,214**	**$ 9,457,607**	**$ 901,353**	**$ 7,540,058**	**$ 27,580,594**

The above amount excludes cash and accruals in the total of a positive $45,599 (in thousands) which is included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Investment Guidelines allow the internally managed long-term investment grade portfolios the discretion to deviate within +/-.50 years from the effective duration of the relevant Lehman Brothers benchmark. The permissible range of deviation for the effective duration within the high yield portfolios is negotiated with each of the high yield managers and detailed within the Investment Guidelines.

Investments may contain terms that increase the sensitivity of their fair values to increasing and decreasing interest rates. Although CalSTRS has investments in securitized obligations which have an inherent prepayment risk, this is mitigated through the diversification of asset classes, security selection, and credit quality.

California State Teachers' Retirement System
Notes to the Basic Financial Statements (continued)

Below is a table which depicts the duration of the portfolio vs. the benchmark in years on June 30, 2006:

Long Term Fixed Income Investments

Duration

(Dollars in Thousands)

Investment Type (by portfolio)	Portfolio Net Asset Value	Effective Duration	Benchmark Duration	Difference
US Government and Agency Obligations	$ 8,414,312	4.51	4.50	0.01
Credit Obligations				
Corporate	7,950,240	5.61	5.73	-0.12
High Yield	1,451,592	3.89	4.54	-0.65
Securitized Obligations				
Asset Backed Securities	835,240	2.69	2.65	0.04
Commercial Mortgage Backed Securities	1,707,614	4.59	4.55	0.04
Mortgage Backed Securities	11,405,515	4.61	4.48	0.13
Total Market Value with Weighted Avg. Duration	**$ 31,764,513**	**4.75**	**4.73**	**0.02**

The above table represents the net asset value of the long term fixed income portfolios, which include cash and accruals that are not included in the Investments line item of the Statement of Fiduciary Net Assets.

The Investment Objective for the Short-Term Fixed Income Portfolio is to seek the preservation of capital and liquidity.

The Investment Guidelines state that 50% of the portfolio shall reflect an expected maturity, 1st call date or 1st reset date to be within a 0-30 day range and/or in US Government and Agency Obligations.

Below is a table depicting the segmented time distribution for the short term fixed income assets based upon the expected maturity, 1st call date and/or 1st reset date, as of June 30, 2006:

Short Term Fixed Income Investments
Segmented Time Distribution
(Dollars in Thousands)

Investment Type	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	365+ days	Total
Money Market Securities	$ 340,782	$ 209,117	$ -	$ -	$ -	$ -	$ 549,899
PMIA	282,358	-	-	-	-	-	282,358
Credit Obligations							
Corporate Bonds	-	-	-	-	-	14,984	14,984
Corporate Floating Rate Notes	48,609	113,079	7,001	-	-	-	168,689
US Government and Agency Obligations							
Bullets (noncallables)	35,000	-	-	29,937	25,000	-	89,937
Discount Notes	309,536	218,167	-	-	-	-	527,703
Callable	63,000	55,997	39,000	5,000	-	-	162,997
US Treasury	-	-	-	-	112,084	-	112,084
Asset Backed Securities	12,810	15,600	-	-	-	-	28,410
Totals	**$ 1,092,095**	**$ 611,960**	**$ 46,001**	**$ 34,937**	**$ 137,084**	**$ 14,984**	**$ 1,937,061**
Weightings	**56.38%**	**31.59%**	**2.38%**	**1.80%**	**7.08%**	**0.77%**	**100.00%**

The table above represents the investment types of the short term fixed income portfolios. In addition to short-term securities, the short term fixed income portfolios also contain debt securities as classified in the Investments section of the Statement of Fiduciary Net Assets.

Securities Lending Cash Collateral assets are diversified among different asset classes with the maximum remaining effective maturity of any instrument being five years. The fund must remain liquid to meet collateral returns.

Below is a table depicting the segmented time distribution based upon the expected maturity, 1st call date and/or 1st reset date, as of June 30, 2006:

Securities Lending Collateral
Segmented Time Distribution
(Dollars in Thousands)

Investment Type	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	Total
Money Market Securities	$ 1,991,680	$ 1,394,650	$ 700,191	$ 181,349	$ 2,143,768	$ 6,411,638
Repurchase Agreements	2,892,724	-	-	-	-	2,892,724
Short Term						
Investment Fund	377,214	-	-	-	-	377,214
Corporate Floating						
Rate Notes	3,020,390	1,925,603	1,562,843	2,622,848	325,923	9,457,607
Agency Callable Obligatons	49,987	263,473	154,994	186,943	245,956	901,353
Asset Backed Securities	246,779	4,754,718	510,528	1,520,360	507,673	7,540,058
Totals	**$ 8,578,774**	**$ 8,338,444**	**$ 2,928,556**	**$ 4,511,500**	**$ 3,223,320**	**$ 27,580,594**
Weightings	**31.10%**	**30.23%**	**10.62%**	**16.36%**	**11.69%**	**100.00%**

Note: The above amount excludes cash and accruals in the total of $45,599 (in thousands) which is included from the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2006, the System has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded. The System's Investment Policy states that no more than 3% of the total fund shall be invested or exposed to any one security or corporation, with the exception of United States Treasury or Agency Obligations.

Custodial Credit Risk

Custodial credit risk is the risk that in the event a financial institution or counterparty fails, the System would not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2006, all of the System's investments are held in the System's name and are not exposed to custodial credit risk. There are no general policies relating to the custodial credit risk.

California State Teachers' Retirement System
Notes to the Basic Financial Statements (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's foreign currencies and investments at June 30, 2006, as shown in the table below, were distributed among the following:

Foreign Currency Risk

(Dollars in Thousands)

(In U.S. Dollar Equivalents)

Currency Name	Cash	Equity	Pending Foreign Currency Exchanges	Total Exposure
Argentine Peso	$ 14	$ -	$ -	$ 14
Australian Dollar	2,318	1,206,670	(4,389)	1,204,599
Brazilian Real	3,991	277,171	386	281,548
Canadian Dollar	24,267	1,322,443	(21,709)	1,325,001
Chilean Peso	625	2,145	-	2,770
Czech Koruna	197	12,248	-	12,445
Danish Krone	88	124,955	2,299	127,342
Egyptian Pound	-	11,825	-	11,825
Euro Dollar	39,357	9,935,795	179,281	10,154,433
Hong Kong Dollar	1,095	842,414	189	843,698
Hungarian Forint	215	61,775	-	61,990
Indian Rupee	-	15,593	-	15,593
Indonesian Rupiah	1,127	50,092	62	51,281
Israeli Shekel	16	46,497	(905)	45,608
Japanese Yen	41,364	6,077,019	50,082	6,168,465
Malaysian Ringgit	53	73,325	(81)	73,297
Mexican Peso	1,734	166,191	(2,380)	165,545
Moroccan Dirham	630	13,067	-	13,697
New Taiwan Dollar	4,144	419,434	-	423,578
New Turkish Lira	2,417	116,748	310	119,475
New Zealand Dollar	267	27,348	-	27,615
Norwegian Krone	762	260,760	(1,080)	260,442
Philippine Peso	3,062	2,157	-	5,219
Polish Zloty	124	30,364	(116)	30,372
Pound Sterling	17,979	5,709,839	(62,696)	5,665,122
Singapore Dollar	618	211,614	71	212,303
South African Rand	1,007	371,990	1,667	374,664
South Korean Won	966	680,169	-	681,135
Swedish Krona	2,164	526,103	66	528,333
Swiss Franc	1,391	1,841,856	26,074	1,869,321
Thailand Baht	64	92,857	-	92,921
Total	**$ 152,056**	**$ 30,530,464**	**$ 167,131**	**$ 30,849,651**

The table on the previous page represents securities purchased in a foreign currency. The equity figures are comprised of numerous portfolios within the international equity, alternative, and real estate investment line items on the statement of fiduciary net assets.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended.

The System believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private (i.e. international debt and equity, alternative investments and real estate) equity assets against a strengthening U.S. dollar. The active non-dollar equity managers are permitted to hedge their assets, and do so in the process of implementing their investment strategies. The System’s fixed income staff develops and implements the System’s currency hedging strategy for the passively managed equity portion. The System’s fixed income staff may reduce the risk by hedging up to 50% of the total market value of the passively managed segment of the non-dollar equity portfolio. In addition, no more than 100% of each individual currency may be hedged.

4. Contingencies

The System is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on the System's financial position.

5. Commitments

In connection with the purchase of various partnership interests under the alternative investment portfolio and the real estate portfolio, the STRP has remaining unfunded commitments of approximately $9.3 billion and $9.3 billion, respectively, at June 30, 2006.

The STRP has entered into agreements through its Credit Enhancement Program to guarantee payment of principal and interest on certain debt securities in the event of default. At June 30, 2006, the STRP had commitments of approximately $2 billion expiring through July 2013. The STRP is paid a fee over the term of such agreements and earned approximately $4.5 million for the year ended June 30, 2006.

6. New Accounting Pronouncements

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, provides uniform financial reporting standards for plans that provide postemployment benefits such as healthcare benefits. The statement will require the System to obtain actuarial valuations, and report in its financial statements the funded status and funding progress of the Teachers’ Health Benefits Fund. GASB Statement No. 43 will be implemented in the financial statements for fiscal year 2006-07.

Required Supplementary Information—Unaudited

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Funding Progress
(Dollars in Millions) Schedule I

The information presented in Supplementary Schedules I and II was determined as part of the actuarial valuations at June 30, 2005 except where noted. For the years ended June 30, 2001, and June 30, 2002, the DBS Program was funded by member contributions only.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Defined Benefit Program						
2006	[1]	[1]	[1]	[1]	[1]	[1]
2005	$ 121,882	$ 142,193	$ 20,311	86 %	$ 23,257	87 %
2004 [4]	114,094	134,677	20,583	85 %	22,591	91 %
2003 [4]	108,667	128,104	19,437	85 %	22,649	86 %
2002	[2]	[2]	[2]	[2]	[2]	[2]
2001	107,654	109,881	2,227	98 %	20,585	11 %
Cash Balance Benefit Program						
2006	[1]	[1]	[1]	[1]	[1]	[1]
2005	$ 54	$ 52	$ (2)	104 %	$ 107	(2) %
2004	42	42	0	100 %	96	0 %
2003	30	34	4	88 %	81	5 %
2002	22	25	3	88 %	90	3 %
2001	16	17	1	94 %	98	1 %
Defined Benefit Supplement Program [3]						
2006	[1]	[1]	[1]	[1]	[1] [5]	[1]
2005	$ 3,023	$ 2,756	$ (267)	110 %	$ 23,263	(1.15)%
2004	2,204	2,035	(169)	108 %	23,763	(0.71)%
2003	1,311	1,358	47	97 %	23,865	0.20 %
2002	660	711	51	93 %	21,732	0.20 %
2001	207	213	6	97 %	20,585	0.03 %

(1) Actuarial valuations as of June 30, 2006, are expected to be available by summer of 2007.

(2) Except for the year ended June 30, 2004 actuarial valuations were not prepared in even numbered years. No estimation using actuarial methodology is made in years between valuations.

(3) Effective January 1, 2001, the Defined Benefit Supplement Program (DBS Program) was established as part of the STRP. The 2001 information presented for the DBS Program, was subject to an actuarial study only, which is less in scope than a full actuarial valuation.

(4) Actuarial accrued liability and covered payroll figures for 2003 and 2004 were revised on an estimated basis in 2006 to reflect data corrections.

(5) Starting with the June 30, 2005 valuation, covered payroll excludes limited term incentive pay and extra service credit pay in order to present the payroll base most relevant to the funding of any unfunded actuarial accrued liabilities of the DBS Program. Covered payrolls for 2003 and 2004 include these additional pay items

Note: The benefits under the Purchasing Power Protection Program are not guaranteed by law; only the contributions for this are guaranteed. An actuarial valuation has not been completed for the Purchasing Power Protection Program. Contribution and funding under this program are not made on an actuarial basis and items required under this schedule have not been determined. Therefore a schedule of funding progress for the Purchasing Power Protection Program is not presented.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers
And Other Contributing Entities
(Dollars in Millions) **Schedule II**

Year Ended June 30	Annual Required Contributions (a)	Contributed By Employers[1] (b)	Contributed By the State/Federal [2][4] (c)	Total Contributed (b) + (c)	Percentage Contributed (b + c)/a)
Defined Benefit Program [3][6]					
2006	$ 3,821	$ 2,092	$ 348	$ 2,440	64%
2005	3,709	2,002	595	2,597	70%
2004	3,410	1,916	451	2,367	69%
2003	2,545	1,890	431	2,321	91%
2002	2,498	1,851	385	2,236	90%
2001	1,794	1,749	455	2,204	123%
Cash Balance Benefit Program [3]					
2006	$ 4.99	$ 5.10	0	$ 5.10	102%
2005	4.48	4.49	0	4.49	100%
2004	4.05	3.85	0	3.85	95%
2003	3.58	3.58	0	3.58	100%
2002	3.58	3.58	0	3.58	100%
2001	3.04	3.04	0	3.04	100%
Defined Benefit Supplement Program [3]					
2006	$ 90	$ 104	0	$ 104	116%
2005	86	96	0	96	111%
2004	128	125	0	125	98%
2003	72	72	0	72	100%
Purchasing Power Protection Program [4][5]					
2006	$ 673	$ 3	$ 670	$ 673	100%
2005	626	2	624	626	100%
2004	601	3	98	101	17%

(1) For the DB Program, amounts include employer contributions under Education Code Sections 22135, 22714 (less amounts deposited in the SBMA), 22718, 22950 and 22951.

(2) The DB and Purchasing Power Protection Programs include State contributions under Education Code Section 22954 and 22955.

(3) For the determination of the Annual Required Contribution, an amortization period of 30 years is used for the Unfunded Actuarial Accrued Liability.

(4) The amount included in the "Contributed by State" column includes federal proceeds from the sale of the Elk Hills Petroleum Reserve. Certain reclassifications of our previous presentations of the Purchasing Power Protection Program for fiscal year 2003-04 were made to be consistent with later years' presentations.

(5) An ARC has not been determined for the Purchasing Power Protection Program. The amount given is the contractual amount for all entities.

(6) The ARC's for 2005 and 2004 were revised on an estimated basis to reflect data corrections.

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Contributions from Employers
And Other Contributing Entities
(Dollars in Millions) Schedule II (Continued)

Additional information as of the June 30, 2005 actuarial valuations are as follows:

	DB Program
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of payroll
Amortization Period	Open
Remaining Amortization Period	Not amortizable based on current statutory contribution rates
Asset Valuation Method	Expected value with 1/3 of the adjustment to market value
Actuarial Assumptions:	
Investment rate of return	8.00%
Interest on accounts	6.00%
Projected salary increases	4.25%
Consumer price inflation	3.25%
Post-retirement benefit increases	2.00% simple

	CB Benefit Program	DBS Program
Actuarial Cost Method	Traditional unit credit	Traditional unit credit
Amortization Method	Not applicable	Not applicable
Amortization Period	Not applicable	Not applicable
Remaining Amortization Period	Not applicable	Not applicable
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	8.00%
Interest on accounts	8.00%	8.00%
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	Not applicable	Not applicable

Other Supplemental Information

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Administrative Expenses
(Dollars in Thousands) **Schedule III**

Personnel services:	
Salaries and wages	$ 37,795
Staff benefits	12,850
Accrued vacation	466
Accrued worker's compensation expense	(223)
Accrued personal leave expense	(34)
Total personnel services	50,854
Operating expenses and equipment:	
General expense	1,917
Depreciation expense	505
Printing	1,520
Communications	813
Postage	1,158
Insurance	(30)
Travel	529
Training	537
Facilities operations	5,716
Consultants and professional services	20,583
Consolidated data center:	
Consultants and professional services	6,861
Data Processing:	
Consultants and professional services	485
Software and other	1,170
Indirect State central services	2,423
Equipment	513
Other	57
Total operating expenses and equipment	44,757
Total	$ 95,611

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
(Dollars in Thousands) Schedule IV

External Equity Managers:	
Domestic:	
Ariel Capital Management	$ 970
Barclays Global Investors	2,533
Brown Capital Management, Inc.	459
Chicago Equity Partners	2,033
Delaware Investment Advisors	284
Delphi Management, Inc.	1,769
Denver Investment Advisor, Inc.	887
DSI International Management, Inc.	375
First Quadrant	4,625
FIS Funds Management, Inc.	1,520
Frank Russell Trust Co.	1,591
Mellon Capital Management	1,073
NCM Capital Management Group, Inc.	613
Northern Trust Funds Mgmt.	1,408
Sasco Capital, Inc.	6,346
Sterling Capital Management, LLC	143
State Street Global Advisors	1,081
TCW Asset Management	615
UBS Global Asset Management	1,794
Total Domestic	30,119
International:	
Bank of Ireland	3,373
Barclays Global Investors	943
Battery March	1,895
Blackrock International, Ltd.	1,447
Capital Guardian Trust	5,108
Fidelity Management Trust Co.	2,892
Fiduciary Trust International	2,609
Goldman Sachs	1,975
Lazard Freres Asset Management	3,201
Mondrian Investment Partners	2,734
Morgan Stanley	2,346
Nicholas Applegate	2,210
Oechsle International Advisors	4,344
Schroder Capital Management Investment, Ltd.	1,971
State Street Global Advisors	2,073
UBS Global Asset Management	2,721
Total International	41,842
Total External Equity Managers	71,961

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
(Dollars in Thousands) **Schedule IV (Continued)**

External Fixed Income Managers	
Capital Guardian Trust Company	$ 369
Hartford Investment Management Company	826
MW Post Advisory Group, LLC	1,789
Seix Investment Advisors	1,464
Shenkman Capital Management	1,784
Total Fixed Income Managers	6,232
Real Estate Managers/Advisors:	
CB Richard Ellis	8,550
Clarion Partners	1,610
Heitman Capital MGMT, LLC	1,711
Lowe Enterprises	644
Principal Global Investors	2,723
Blackrock Realty Advisors	3,814
Thomas Properties	1,050
Total Real Estate Managers/Advisors	20,102
Advisors and Consultants:	
Altius Associates	581
Altura Capital	62
Angeles Investment Advisors	50
Bard Consulting	420
Bonuccelli & Associates, Inc	48
Callan Associates	82
Cambridge Associates, LLC	2,645
Courtland Partners, Ltd.	249
Ennis Knupp & Associates	215
Houlihan Loke Howard & Zukin	460
KPMG, LLP	290
McKinsey & Company, Inc. Uni	259
McLagan Partners, Inc.	56
The McMahan Group	33
Pension Consulting Alliance	1,215
Valuation Research Corp.	138
Warren, McVeigh & Griffin, Inc.	72
Westwood Consulting Group	171
Total Advisors and Consultants	7,046

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Investment Expenses from Continuous Appropriation
(Dollars in Thousands) **Schedule IV (Continued)**

Attorneys, Master Custodian and Insurers:		
Cox, Castle & Nicholson	$	84
Groom Law Group		97
Robert Driver Ins Brokerage		811
Sheppard Mullin Richter & Hampton, LLP		68
State Street Bank & Trust Co.		5,390
Total Attorneys, Master Custodian and Insurers		6,450
Other Expenses:		
Bayard Advertising		43
Bloomberg, LP		84
Council of Institutional Investors		30
CSUS Foundation		169
Intex Solutions		144
Miscellaneous		170
State Controller's Office		11
Department of Technology Services		18
Travel		469
Total Other Expenses		1,138
Total	$	112,929

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
(Dollars in Thousands) Schedule V

Individual or Firm	Commission/ Fee	Nature of Services
Consulting and professional services:		
Active Strategy	$ 15	Consulting Services
Alameda County Office of Education	88	Regional Counseling Services
American Management Systems	227	Consulting Services
Aspen Computer Solutions	20	Consulting Services
The Ballard Group	361	Consulting Services
Business Advantage	438	Consulting Services
Cal Gov Technology	39	Consulting Services
California State University Foundation	779	Consulting Services
Capital Network Solutions	31	Consulting Services
The Centre for Organizations	32	Consulting Services
Cheiron	48	Consulting Services
CitiStreet Advisors, LLC	101	Consulting Services
Coastline Technology	119	Consulting Services
Comsys Services, LLC	68	Consulting Services
Consultants to Management	32	Consulting Services
Contra Costa County Office of Education	128	Regional Counseling Services
Convansys Corporation	12	Consulting Services
Dee Hanford Consulting	41	Consulting Services
Department of Finance	200	Consulting Services
Department of General Services	91	Legal Services
Department of Justice	473	Consulting Services
Department of Personnel Administration	17	Consulting Services
Eclipse Solutions, Inc.	190	Consulting Services
Elk Grove Unified School District	59	Regional Counseling Services
Employee Relations, Inc.	13	Consulting Services
Employment Development Department	41	Consulting Services
Estrada Consulting, Inc.	141	Consulting Services
Filenet Corporation	168	Consulting Services
Folsom Cordova Unified School District	153	Regional Counseling Services
Forward Solutions	575	Consulting Services
Fresno County Office of Education	120	Regional Counseling Services
G. R. Helm, Inc.	76	Consulting Services
Graphic Focus	36	Consulting Services
H. L. Yoh, Company, LLC	118	Consulting Services

California State Teachers' Retirement System
State Teachers’ Retirement Plan
Schedule of Consultant and Professional Services Expenses
(Dollars in Thousands) Schedule V (Continued)

Individual or Firm	Commission/ Fee	Nature of Services
Consulting and professional services (continued):		
Hareline Graphics	$ 42	Consulting Services
The Highland Consulting	157	Consulting Services
Hogan and Hartson, LLP	176	Legal Services
Infiniti Consulting Group	46	Consulting Services
Inforce, Inc.	809	Consulting Services
Information Technology	37	Consulting Services
Infre	50	Consulting Services
Intergalatic Placements	89	Consulting Services
International Network	664	Consulting Services
Jackson Lewis, LLP	14	Consulting Services
Jaykumar Maistry	1,292	Consulting Services
Jeve Consulting, Inc.	89	Consulting Services
Kearnford Application Systems	170	Consulting Services
Kenda Systems, Inc.	80	Consulting Services
Kern County Superintendent of Schools	157	Regional Counseling Services
KPMG, LLP	25	Consulting Services
Leading Resources, Inc.	35	Consulting Services
Liebman & Associates	33	Consulting Services
Linda Rogers & Associates	211	Consulting Services
Los Angeles Community Colleges	39	Regional Counseling Services
Los Angeles County Supt. of Schools	574	Regional Counseling Services
Macias, Gini and Company, LLP	147	Audit Services
Madsen Rayner Consulting, LLC	185	Consulting Services
Mara Consulting, Inc.	379	Consulting Services
Milliman USA	258	Consulting Services
Monterey County Office of Education	55	Regional Counseling Services
Montridge Consulting	285	Consulting Services
MSX International	13	Consulting Services
MTI Technology Corporation	24	Consulting Services
Nanran, Inc.	1,328	Consulting Services
Network Design Associates	94	Consulting Services
Olsen, Hagel & Fishburn, LLP	80	Legal Services
Orange County Department of Education	343	Regional Counseling Services
Personal Enterprises, Inc.	114	Consulting Services

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
(Dollars in Thousands) **Schedule V (Continued)**

Individual or Firm	Commission/ Fee	Nature of Services
Consulting and professional services (continued):		
Placer County Office of Education	$ 66	Regional Counseling Services
Pleasanton Unified School District	102	Regional Counseling Services
Princeton Solutions Group	353	Consulting Services
Public Sector Consultants, Inc.	55	Consulting Services
Q Data Consulting	180	Consulting Services
Quest Media & Supplies	256	Consulting Services
Rapidigm	176	Consulting Services
Rene Ewing and Associates	114	Consulting Services
RS Computer Associates, LLC	195	Consulting Services
Russbo, Inc.	162	Consulting Services
San Bernardino County Office of Education	356	Regional Counseling Services
San Diego County Office of Education	361	Regional Counseling Services
San Francisco County Office of Education	41	Regional Counseling Services
San Joaquin County Office of Education	96	Regional Counseling Services
San Jose Unified School District	181	Regional Counseling Services
San Juan Unified School District	75	Regional Counseling Services
San Mateo-Foster City School District	97	Regional Counseling Services
Santa Barbara County Office of Education	84	Regional Counseling Services
Santa Cruz County Office of Education	87	Regional Counseling Services
Shasta County Office of Education	112	Regional Counseling Services
Shiva Systems	21	Consulting Services
Sierra Metrics, Inc.	621	Consulting Services
Software AG, Inc.	526	Consulting Services
Solano County Office of Education	55	Regional Counseling Services
Sonoma County Supt. of Schools	108	Regional Counseling Services
Stanislaus County Office of Education	53	Regional Counseling Services
State Controller's Office	992	Consulting Services
State Personnel Board	17	Consulting Services
Synergy Consulting, Inc.	35	Consulting Services
Systems West Computer	34	Consulting Services
Thomas V. Ennis Consulting	161	Consulting Services
Thomas/Ferrous	180	Consulting Services
Tulare County Superintendent of Schools	55	Regional Counseling Services

California State Teachers' Retirement System
State Teachers' Retirement Plan
Schedule of Consultant and Professional Services Expenses
(Dollars in Thousands) **Schedule V (Continued)**

Individual or Firm	Commission/ Fee	Nature of Services
Consulting and professional services (continued):		
Ventura County Supt. of Schools	$ 62	Regional Counseling Services
Venturi Technology Partners	26	Consulting Services
Visionary Integration	300	Consulting Services
Visual Communications	19	Consulting Services
Weintraub Genshlea Chediak Law	15	Legal Services
Worldgroup Consulting, Inc.	379	Consulting Services
Wozniak Consultancy	111	Consulting Services
Wright On-Line Systems	228	Consulting Services
YOH Services, LLC	116	Consulting Services
Yuba County Office of Education	51	Regional Counseling Services
Other	125	Various Services under $10
	20,583	
Data Processing:		
Bridge Micro	53	Data Processing
Compucom Systems, Inc.	32	Data Processing
IBM	20	Data Processing
Image Access West	16	Data Processing
Kearnford Application Systems	13	Data Processing
Lason, Inc.	7	Data Processing
Linda Rogers & Associates	13	Data Processing
Logical Design, Inc.	35	Data Processing
MTI Technology Corporation	10	Data Processing
Quest Media & Supplies	95	Data Processing
Soft Net Solutions	79	Data Processing
Software House International	41	Data Processing
Thomas/Ferrous	11	Data Processing
Other	60	Various Services under $10
	485	
Consolidated Data Center:		
Department of Technology Services	6,306	Data Processing
Stephen P. Teale Data Center	545	Data Processing
Health & Welfare Data Center	10	Data Processing
	6,861	
Total consultant and professional services expenses	$ 27,929	

California State Teachers' Retirement System
Voluntary Investment Program
Schedule of Administrative Expenses
(Dollars in Thousands) **Schedule VI**

CitiStreet administrative fee	$	773
STRS administrative/sponsor fees		142
Loan fees		2
Mutual fund fees		16
Redemption fees		2
Total	$	935

California State Teachers' Retirement System
Teachers' Health Benefits Fund
Schedule of Administrative Expenses
(Dollars in Thousands) **Schedule VII**

Personnel services:	
Salaries & Wages	$ 37
Staff benefits	17
Accrued Vacation	(1)
Total personnel services	53
Operating expenses and equipment:	
General expense	135
Communications	3
Facilities Operations	23
Consultants and professional services	112
Indirect State central services	33
Total operating expenses and equipment	306
Total	$ 359

contribute
commit
benefit
benefit
benefit
future
gain

Investments

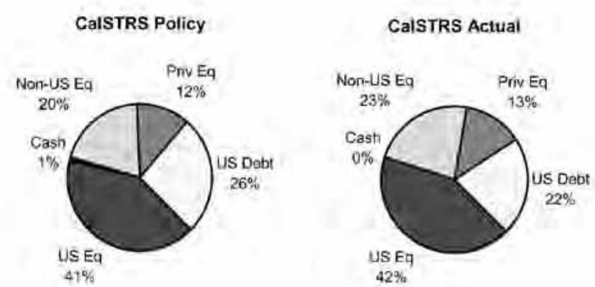
Investment Consultant's Report

PENSION CONSULTING ALLIANCE, INC.

The CalSTRS investment portfolio increased by $14.3 billion over the past twelve months ending with a value of $143.8 billion on June 30, 2006. As highlighted below, the CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. Clearly, the scale and breadth of investments make the management and oversight of these assets highly complex. In light of these factors, CalSTRS has been effective in using its resources in a cost-efficient manner to ensure that benefits continue to flow to CalSTRS participants.

Investment Allocation

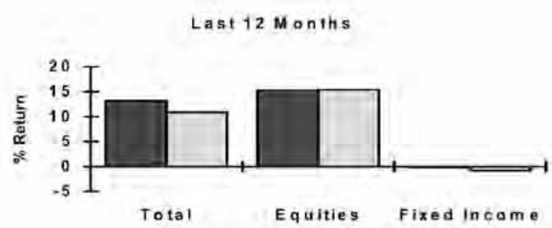
The most critical factor influencing overall investment performance is the allocation of the CalSTRS portfolio across major asset classes. The fiscal year-end report reflects asset allocation guidelines for the 2005-2006 fiscal year as a step towards long-term targets adopted in October of 2001 (see left pie chart). The portfolio's actual allocation is slightly different from policy. US Equity, Non-US Equity, and Private Equity are overweighted, while US Debt is underweighted (see right pie chart). Investment gains in the domestic and international public equity markets over recent periods contributed to the overweighting of those asset classes.

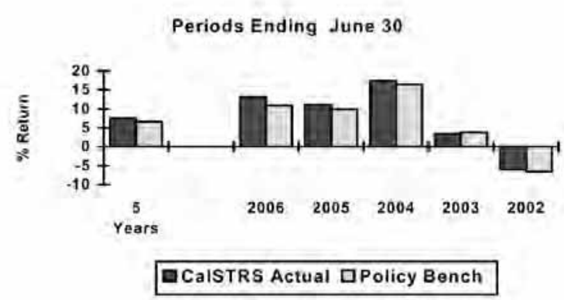


Investment Results

Over the last year, the CalSTRS investment portfolio produced a strong absolute return of 13.2% ranking in the top quartile among its large public pension fund peers[1] (top bar chart). During this period, portfolio results exceeded the policy benchmark return by 2.3%.[2] Relative outperformance by the US Debt and Private Equity asset classes contributed significantly to this result.

During the last three years, CalSTRS' portfolio generated a 13.9% return outperforming the policy benchmark by 1.6% per year and ranking in the top quartile vs. their peer funds. Over the last five years, the CalSTRS investment portfolio produced an average annual return of 7.5%, exceeding its policy benchmark by 90 basis points per year (bottom chart). These results are modestly below CalSTRS' actuarial rate of return. Successive one-year periods are shown as well. CalSTRS' portfolio has outperformed its policy benchmark in four of the last five years for periods ending June 30.[3]





Pension Consulting Alliance, Inc.

[1] Per TUCS Universe for Public Funds with assets in excess of $1 billion.
[2] The policy benchmark consists of passively managed asset class portfolios weighted by CalSTRS' policy allocations. The difference between actual results and the benchmark are due to two factors: i) deviations from policy and ii) active decisions on the part of CalSTRS and its investment managers.
[3] CalSTRS' investment performance is calculated using a monthly internal rate of return and day-weighted cash flows. Periods longer than one month are geometrically linked to calculate annualized "time-weighted" rates of return.

Investments

For the second year in a row, the CalSTRS investment portfolio finished the fiscal year at a record high value. The investment portfolio has posted three straight years of double-digit returns. Over the past three years, the investment portfolio has out performed over 90 percent of the public pension plans in the United States.

For the fiscal year 2005–2006 CalSTRS earned a stellar 13.2 percent investment return. That ranked in the top ninth percentile of public pension plans. Over a three-year period ending June 30, 2006, the fund has earned a 13.9 percent return. CalSTRS now stands as one of the best performing investment portfolios among public and peer pension plans across the country. The strong performance is the result of CalSTRS' broad portfolio diversification into long-term investments. Investments in global real estate and alternative investments (private equity) have outperformed the U.S. and global stock markets. These types of investments that last 5 to 15 years are generally not available to individual investors and cannot be included in mutual funds found in defined contribution and tax sheltered annuities, but are well suited for long-term investors in traditional pension plans.

While a major U.S. stock index, the Dow Jones Industrial Average, struggles to reach the prior high of 2000, the CalSTRS portfolio has fully recovered. The fund is valued at a full $28 billion more than at the height of the stock market rally of the 1990's, and more than $53 billion above the low value during the '00–'02 internet bubble recession. That is nearly a 50 percent rebound in value in just three years.

Keeping with a trend we have seen for the last three years, Non U.S. stocks have outperformed U.S. stocks. In the past fiscal year, Non U.S. stocks climbed 28.4

Asset Allocation as of June 30, 2006
Total investment portfolio of $143.8 billion

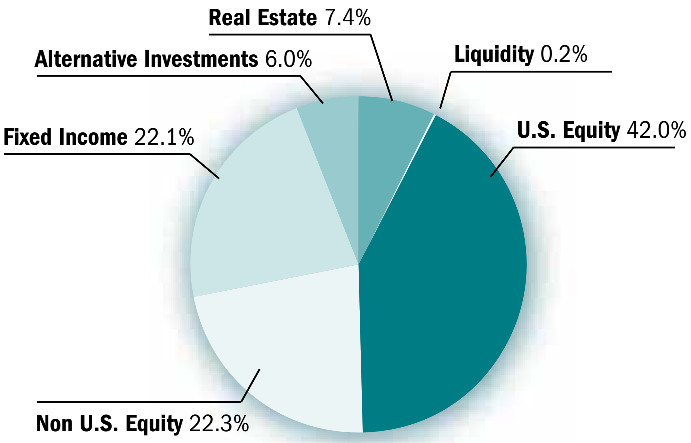


Chart A Growth in total investments (dollars in millions)

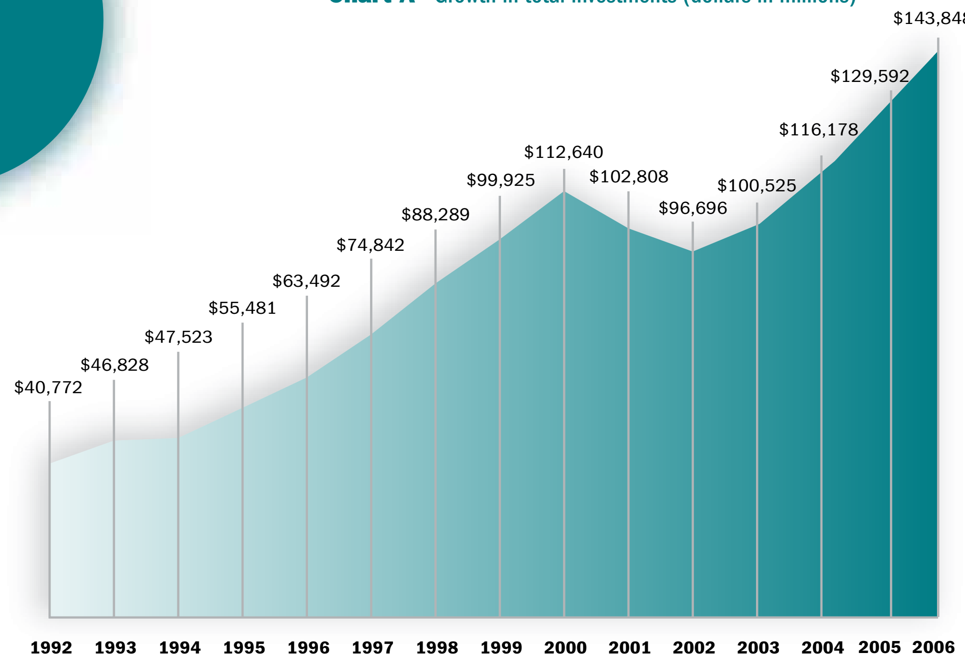
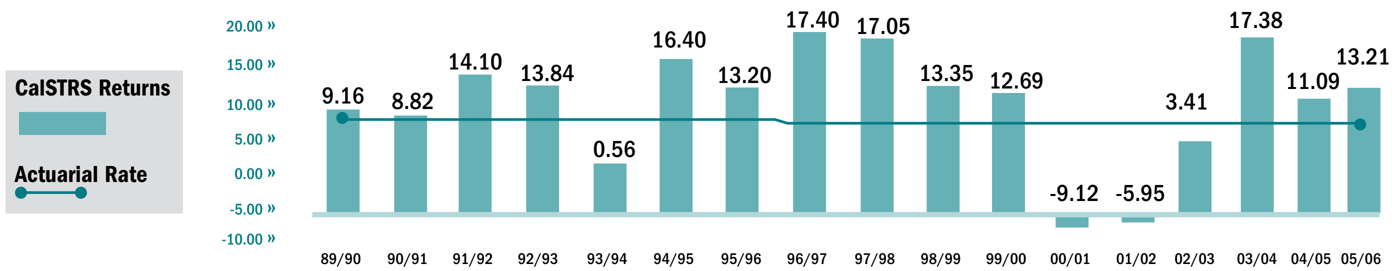


Chart B Growth in CalSTRS' returns (percent)



percent, nearly three times better than U.S. stocks which gained 9.5 percent. Throughout the past two years, CalSTRS has purposely overweighted Non U.S. stocks compared to U.S. stocks to add value above the target benchmark. That decision added $725 million in the past year and $1.3 billion over the past two years.

For the fifth straight year the total CalSTRS investment portfolio exceeded the policy benchmark. Additionally, every asset class but one exceeded its policy benchmark over the 2006 fiscal year and the past five years. The strongest performance was once again delivered by our alternative investments and

Chart C Time-weighted performance returns for major asset categories

Portfolio Type / Associated Indices	*1 Yr*	*3 Yr*	*5 Yr*	*10 Yr*
Total Fund	*13.21*	*13.86*	*7.50*	*8.64*
U.S. Equity	9.48	12.76	3.83	8.34
U.S. Equity Custom (1)	9.42	12.42	3.25	8.31
Russell 3000 *	9.42	12.42	3.41	8.40
Non-U.S. Equity	27.43	24.72	11.10	7.32
MSCI All Country Free ex U.S. (G) *	28.39	25.69	11.74	7.05
MSCI Europe, Australia, Far East & Canada *	26.67	23.90	9.96	6.37
MSCI Emerging Market Free *	35.96	34.76	21.52	6.59
Fixed Income	-0.23	2.47	5.73	6.94
US Debt Custom (2)	-0.81	2.33	5.74	6.83
Lehman Brothers U.S. Aggregate	-0.81	2.05	4.97	6.22
Lehman Brothers High Yield Cash Pay	4.70	8.51	8.54	6.80
Real Estate	35.73	22.08	16.54	15.68
Real Estate Custom (3)	20.10	15.08	11.65	11.92
Alternative Investments	32.03	28.81	13.63	19.82
Alternative Investments Custom (4)	8.73	10.77	7.08	9.31
Liquidity	6.00	9.29	6.93	6.60
Citigroup 3-Month Treasury Bill	3.95	2.31	2.16	3.68

Investment peformance is calculated using a time-weighted rate of return based on the market rate of return in accordance with Association for Investment Management and Research (AIMR) Standards

* *CalSTRS adopted tobacco free indicies beginning 9/1/00*

(1) Russell 3000 tobacco free after 9/1/00; Blend S&P500 and Russell Small Cap Completeness after 7/1/01; Russell 3000 from 7/1/96

(2) Blend of Salomon LPF, LB US Aggregate and LB High Yield Cash Pay for the year ending 6/30/03 due to benchmark transition

(3) NCRIEF after 7/1/97 and Institutional Property Consultants prior to 7/1/97; lagged 1 quarter

(4) Blend of the [Russell 3000 + 5% + 90 day T-Bill] after 4/1/99 and [CPI + 12%] prior to 4/1/99; lagged 1 quarter

real estate investments. These long term investments have benefited from the positive economic growth both here in the U.S. and overseas. The external active managers in our U.S. equity portfolio outpaced the stock market and beat their composite benchmark for the third straight year. Our internal Fixed Income staff also outperformed the stated risk and return objective through a very difficult year where the Federal Reserve raised interest rates repeatedly. The lone asset class to trail its benchmark was Non U.S. equity. This underperformance was due to a very difficult market for active stock selection. While it underperformed the benchmark index return, the overall Non U.S. portfolio gained a spectacular 27.4 percent on the year.

CalSTRS has become recognized as a world class money manager and industry leader in the pension and institutional investment community. Pension plans from Japan, Korea, and Brazil have visited our investment operations to learn from CalSTRS. The CalSTRS investment staff serves on the Advisory Board of all the major equity and fixed income indices. The CalSTRS CEO and CIO each serve as the Chair of the Board for two leading nonprofit industry educational and advocacy firms. As the teachers of the great state of California would expect and deserve, CalSTRS is at the forefront and leading the way for the institutional investment industry.

As an example of that leadership role, in Spring 2006 CalSTRS was nominated as one of the three savviest pension plans for our work on our developing manager program, which has been designed to capture and enhance diversity among our investment managers. Additionally, CalSTRS and CalPERS co-hosted an investment conference on diversity within the investment industry in San Jose. The conference attendance had to be capped at 600, with many turned away at the door. The industry press quoted attendees at this event that it was the best conference and open discussion on diversity within the industry.

FIXED INCOME

The fixed income assets within the CalSTRS investment portfolio include the $30.3 billion of internally managed investment grade securities and $1.5 billion of externally managed high yield securities, which collectively are expected to generate a risk-adjusted return that is representative of the broad market-weighted universe of bonds. For the fiscal year ended June 30, 2006, the Fixed Income Portfolio earned -0.23 percent, besting the performance benchmark by 58 basis points.

Three other programs are managed within the Fixed Income Unit: Currency Hedging, Home Loan, and Securities Lending.

Chart D Largest fixed income holdings as of June 30, 2006 (CalSTRS maintains a complete list of portfolio holdings)

Issue	*Maturity Date*	*Interest Rate*	*Par*	*Market Value*	*Average Cost*	*Unrealized Gain/(Loss)*
UNITED STATES TREAS NTS	15-May-08	2.625%	525,000,000	$501,327,734	$515,323,630	$(13,995,895)
UNITED STATES TREAS NTS	15-Aug-12	4.375%	495,000,000	476,323,635	488,856,188	(12,532,553)
UNITED STATES TREAS NTS	15-Mar-09	2.625%	430,000,000	403,133,596	417,468,728	(14,335,133)
UNITED STATES TREAS NTS	15-Nov-07	3.000%	315,000,000	305,833,487	309,634,394	(3,800,906)
UNITED STATES TREAS NTS	15-Feb-08	3.000%	300,000,000	289,863,006	295,612,765	(5,749,759)
UNITED STATES TREAS NTS	15-Nov-12	4.000%	285,000,000	268,033,941	270,523,466	(2,489,525)
FED HM LN PC POOL G12050	1-Jan-19	4.500%	269,670,312	255,545,960	255,091,261	454,699
UNITED STATES TREAS BDS	15-Aug-17	8.875%	185,000,000	241,452,748	252,253,282	(10,800,533)
FED HM LN PC POOL A48972	1-May-36	5.500%	214,590,803	206,151,241	208,371,023	(2,219,782)
FEDERAL NATL MTG ASSN	26-Apr-11	5.670%	200,000,000	198,705,460	199,767,022	(1,061,562)

Currency Hedging Program

The Currency Hedging Program protects the value of the assets of the passively managed segment of the non-dollar equity portfolio by selling controlled amounts of foreign currency positions in approved currencies (i.e., hedging) when there is the risk that the U.S. dollar may strengthen, and removing them when there is widespread U.S. dollar weakness. A strengthening dollar lowers international equity returns. Over the past year, the U.S. dollar continued to trend lower against its major trading partners. For this reason, CalSTRS did little or no hedging in 2006 in order to allow the portfolio to take advantage of advancing non U.S. equities.

Home Loan Program

The CalSTRS Home Loan Program, established by legislation in 1984, provides the opportunity for home ownership to qualified participants while meeting CalSTRS' investment goals by generating a mortgage asset. The Home Loan Program offers borrowers a variety of mortgage programs that best meet their individual needs, while also providing "best in class" customer service to our borrowers—before, during, and after the mortgage loan process. The assets created by the Home Loan Program are purchased and managed as part of the mortgage allocation within the Fixed Income Portfolio, or sold in the financial markets.

Countrywide Home Loans continues to act as a strategic partner to the program. With their assistance, the number of correspondent lenders has expanded from five to 30. A dedicated 1-800 number has been installed for inquiries from prospective borrowers, an improved structure to the down payment assistance programs was instituted, and the Home Loan Program Web site has been improved, making it more user friendly and providing more information to prospective borrowers. We anticipate better service to our borrowers and more improvements to our program and processes as we move forward.

Securities Lending Program

The Securities Lending Program enables the Fund to generate incremental income by making collateralized, low-risk, short-term loans, using a portion of the equity and fixed income assets held within the investment portfolio. The performance objective for the program is to earn lending income commensurate with: 1) the market demand for the securities made available for lending, and 2) the return earned on the investment of cash collateral within the guidelines set forth by CalSTRS. For the fiscal year ended June 30, 2006, the Securities Lending Program earned approximately $67 million in additional income for the Fund.

INTERNAL EQUITY MANAGEMENT

The Internal Equities team manages approximately one-third of CalSTRS' domestic equity allocation. This is accomplished primarily via two portfolios, a passively managed index fund and a cash equitization program. The indexed portfolio is benchmarked to the Russell 1000 ex-Tobacco Index. As of June 30, 2006, the portfolio was valued at $20.45 billion. The portfolio has achieved annualized returns of 9.02 and 11.97 percent, for the 1- and 3-year periods, respectively. For the three-year period ending June 30, 2006, the portfolio outperformed the benchmark by 0.084 percent.

The cash equitization program pools the excess cash in CalSTRS' actively managed domestic accounts so that these monies can be invested and gain exposure to the equity market. This portfolio is benchmarked to the S&P 500 Index and, in partnership with fixed income, has a goal of exceeding the S&P 500 Index by 25 to 50 bps per annum. The program has achieved annualized returns of 8.55, and 11.32 percent, for the one- and three-year periods, respectively. For the three-year period ending June 30, 2006, the portfolio outperformed the benchmark by 0.12 percent.

Chart E Largest equity holdings as of June 30, 2006 (CalSTRS maintains a complete list of portfolio holdings)

Issue	Shares	Market Value	Average Cost	Unrealized Gain/(Loss)
Exxon Mobil Corp	23,235,219	$1,425,480,686	$618,823,940	$806,656,746
General Elec Co	39,474,039	1,301,064,325	757,565,866	543,498,459
Citigroup Inc	20,175,656	973,273,645	499,003,349	474,270,296
Bank Amer Corp	18,718,222	900,346,478	487,951,569	412,394,909
Microsoft Corp	34,818,729	811,276,386	589,839,937	221,436,449
Johnson + Johnson	12,328,541	738,726,177	440,162,173	298,564,004
Pfizer Inc	29,792,587	699,232,017	608,230,609	91,001,408
Procter and Gamble Co	12,481,098	693,949,049	371,522,216	322,426,833
JPMorgan Chase + Co	13,969,912	586,736,304	350,166,775	236,569,529
Chevron Corp	8,658,815	537,366,059	309,960,254	227,405,805

ALTERNATIVE INVESTMENTS

During the fiscal year 2005–06, CalSTRS made additional commitments of approximately $5.9 billion in this segment of the portfolio. Total commitments now amount to approximately $17.4 billion. The Alternative Investments group invests in the private equity market. The vast majority of its investments are made through limited partnerships, which consist of pools of capital raised from, among others, pension funds, endowments, and high net worth individuals. These funds invest primarily in private companies, providing financial and operational expertise in order to achieve a significant return on investment upon exit. The group also manages a co-investment portfolio of companies in which CalSTRS has invested alongside the partnership that made the direct investment. It also invests in secondary interests. There are 182 partnerships, 30 co-investments, and five secondaries in the Alternative Investments portfolio. At the end of the fiscal year, the total market value was $8.6 billion, representing approximately 6.0 percent of the total CalSTRS portfolio. CalSTRS continues to increase its commitments in this area as a result of the allocation review completed at the end of June 1999. The Alternative Investments asset class has achieved annualized returns of 32.0, 28.8, and 13.6 percent, for the one-, three-, and five-year periods respectively, lagged one quarter.

CREDIT ENHANCEMENT

CalSTRS has long-term credit ratings of AA+/Aaa/AAA by Standard and Poor's, Moody's Investors Service, and Fitch Inc., respectively. The ratings are utilized by issuers of municipal debt in California to assist in the issuance of variable rate municipal bonds. CalSTRS enters into agreements with a number of issuers of tax-exempt debt to provide the payment of principal and interest in the event of a non-payment and/or market support in the capital markets. In return, CalSTRS earns fee income for these commitments. As of June 30, 2006, the Credit Enhancement Program had commitments of approximately $2 billion and fee income earned during the fiscal year was approximately $4.5 million.

REAL ESTATE

CalSTRS portfolio of real estate assets is valued at $10.6 billion. Real estate assets are 7.4 percent of the total fund with a 7 percent allocation. The real estate portfolio is divided into two segments: 1) Core with the objective of producing stable current income and market level returns commensurate with a low to moderate level of risk; and 2) Tactical with the objective of enhancing the performance of the real estate portfolio and to provide additional diversification. The core portfolio is comprised of 115 properties which are diversified by property type and geographic region. The largest component of the core portfolio is office buildings, with the largest weighting in the western region of the United States. The tactical portfolio includes 17 joint venture relationships and 71 investments in opportunity funds, both domestic and international. The CalSTRS Real Estate Portfolio has achieved gross annualized returns of 35.7, 22.1, and 16.5 percent for the one-, three-, and five-year periods, respectively. CalSTRS' return exceeded the NCREIF benchmark by 15.6, 7.0, and 4.8 percent for each of the one-, three-, and five-year periods.

GLOBAL EQUITIES — EXTERNAL MANAGEMENT (formerly External Equity Managers)

The Global Equity Portfolio, comprised of both internally and externally managed portfolios, continued to be an important investment vehicle to the fund. At the end of fiscal year 2005-06, this segment of the portfolio accounted for 64.3 percent (or $92.5 billion) of the total fund. U.S. Equity accounted for 65 percent of the total equity allocation, while Non U.S. Equity accounted for the remaining 35 percent.

The Global Equity portfolio is managed by one internal and 19 external U.S. managers and 19 external Non U.S. managers. Overall, global equity markets continued to advance through fiscal year 2005-06 with a rate of return for the MSCI All Country World Index ("ACWI") ex-U.S. ex-Tobacco of 28.39 percent. However, both U.S. and Non U.S. active composites underperformed their benchmarks for the fiscal year, with U.S. active managers underperforming the Russell 3000 ex-Tobacco Index by 10 basis points (9.32 percent vs. 9.42 percent) and Non U.S. active managers underperforming the MSCI EAFE + Canada ex-Tobacco Index by 61 basis points (26.06 percent vs. 26.67 percent).

External U.S. and Non U.S. Equity Programs

During the 2005–06 fiscal year, the External Equities group implemented the following key initiatives:

- Shifted international emerging markets equity exposure from passive to active management strategies with the funding of 5 active emerging markets managers. In addition to the shift to active managers, CalSTRS increased its emerging markets exposure to the MSCI ACWI ex-U.S. ex-Tobacco "benchmark weight."
- Continued an overall increase to low-risk active U.S. equity strategies by increasing exposure to enhanced index strategies from pure passive indexing.
- Launched a search for up to four investment management firms with expertise in managing environmentally focused sustainable investment strategies. The final selections are expected during the first half of the 2006–07 fiscal year.

CORPORATE GOVERNANCE

During the 2005–06 fiscal year, CalSTRS voted on a variety of proxy issues including financial, corporate governance, and social issues. Nearly 8,121 votes were cast on proxy issues for corporations whose shares were owned in the investment portfolio. Proxy issues were presented on 3,050 companies. The overall number of proxy issues increased from 7,900 last year.

The major proxy issues voted on are summarized below.

1. Election of Directors: CalSTRS generally votes in favor of a director unless the proxy statement shows circumstances contrary to policy. Examples of such circumstances include: potential conflict of interest due to other directorships or employment, providing legal or investment banking advice, and poor board meeting attendance (less than 75%).

- » Number Voted: 2,857
- » Voted For All: 843 (29%)
- » Split Vote: 1,480 (52%)
- » Voted Against All: 534 (19%)

2. Selection of Auditors: CalSTRS will vote in favor of the independent auditors recommended by management unless the auditor provides services that run contrary to what CalSTRS' policy allows for. Examples of such services are: consulting, information system design and implementation, investment banking support, and excessive non-audit fees (greater than 30% of the total fees billed).

» Number Voted: 2,170

» Voted For: 1,887 (87%)

» Voted Against: 283 (13%)

3. Compensation Plans: (Stock Option Plans, Employee Stock Purchase Plans, etc.) Companies provide a variety of compensation plans for executives, employees, and non-employee directors. Many of these plans provide for the issuance of long-term incentives to attract, reward, and retain key employees. Compensation plans are evaluated based on CalSTRS Financial Responsibility Criteria.

» Number Voted: 1,460

» Voted For: 464 (32%)

» Voted Against: 996 (68%)

4. Approve Merger/Acquisition—Management: CalSTRS generally votes in favor of the acquisition or merger of one company into another.

» Number Voted: 205

» Voted For: 189 (92%)

» Voted Against: 16 (8%)

5. Corporate Actions/Corporate Governance Issues: These are issues related to spin-offs, incorporation, stock issuance, and stock splits. CalSTRS votes on these proposals on a case-by-case basis.

» Number Voted: 231

» Voted For: 77 (33%)

» Voted Against: 154 (67%)

6. Miscellaneous Issues—Management: CalSTRS will vote in favor of other miscellaneous business recommended by management unless the issue to be voted on is contrary to policy. These issues are voted on a case-by-case basis.

» Number Voted: 596

» Voted For: 257 (43%)

» Voted Against: 339 (57%)

7. Shareholder Proposals: CalSTRS votes on a variety of shareholder proposals. Examples of the issues voted on include: removing classified boards of directors, requiring an independent board chairman, eliminating poison pills, tying compensation plans to company performance, and requiring shareholder approval for large severance packages.

» Number Voted: 526

» Voted For: 425 (81%)

» Voted Against: 101 (19%)

The Corporate Governance unit continues to manage three governance funds, accounting for a combined $1.1 billion in assets under management. One fund invests in governance-strong equities, while the other two funds invest in governance-poor companies and engage management in securing governance and shareholder value improvement. For the year ending June 30, 2006, the Corporate Governance funds returned 3.55 percent.

CASH BALANCE BENEFIT PROGRAM

The Cash Balance Benefit Program contributions were invested into pooled funds from inception (February 1, 1997) through June 30, 2001. Sixty percent of the contributions were allocated to the S & P 500 Portfolio and forty percent to the Government Index Portfolio. Beginning July 1, 2002, Cash Balance Benefit Program contributions are invested in the Teachers' Retirement Fund, excluding private equity (Alternative and Real Estate investments). The investment value of contributions, as of June 30, 2006, is $68 million. The rate of return for the Cash Balance Benefit Program for the fiscal year was 11 percent.

DEFINED BENEFIT SUPPLEMENT PROGRAM

The Defined Benefit Supplement Program contributions are invested in the Teachers' Retirement Fund excluding private equity (Alternative and Real Estate investments). Contributions were first received in the Defined Benefit Supplement Program in January 2001. The investment value of those contributions, as of June 30, 2006, is $3.7 billion. Since the inception of the Defined Benefit Supplement Program, the annualized rate of return is 5.1 percent. The rate of return for the Defined Benefit Supplement Program for the fiscal year is 11 percent.

Chart F Investment summary for the current and previous fiscal year (dollars in millions)

	30-Jun-05		*30-Jun-06*			
Portfolio Type	**Book Value**	**Market Value**	**Book Value**	**Market Value**	**% of Market Value**	**Net Market Change**
U.S. Equity	$36,982	$55,468	$40,377	$60,456	42.03%	$4,988
Non-U.S. Equity	21,941	27,228	23,922	32,053	22.28	4,825
Fixed Income	31,094	31,642	32,871	31,765	22.08	123
Alternative Investments	5,730	6,944	7,071	8,629	6.00	1,685
Real Estate	6,074	7,183	8,579	10,618	7.38	3,435
Liquidity	1,127	1,127	324	327	0.23	-800
Total Portfolio	***$102,948***	***$129,592***	***$113,144***	***$143,848***	***100.00%***	***$14,256***
Adjustments						
Securities Lending Collateral		22,619		27,626		
Real Estate Accruals		1,367		1,236		
SSB Accruals		24		398		
Cash & Cash Equivalent		-169		-236		
Plan Net Assets-Investments		**$153,433**		**$172,872**		

Chart G Schedule of investment fees from continuous appropriation July 1, 2005 through June 30, 2006 (dollars in thousands)

	Assets Under Management	Fees	Basis Points
Investment Managers' Fees:			
U.S. Equity	$39,046,688	$30,119	7.7
Non-U.S. Equity	31,391,753	41,842	13.3
Fixed Income	1,451,590	6,232	42.9
Alternative Investments	8,178,276	3,485	4.3
Real Estate	9,977,717	20,102	20.1
Total Investment Managers' Fees	**$90,046,024**	**$101,780**	**11.3**

Chart H Broker commissions July 1, 2005, through June 30, 2006

Broker Name	Commission	Shares	Commission per Share
US Equity Transactions			
Lehman Bros Inc.	$1,495,296	51,706,267	0.029
CitiGroupGlobal Markets Inc	1,060,592	42,110,145	0.025
BNY Brokerage Inc	841,916	19,582,376	0.043
Merrill Lynch Pierce Fenner + Smith Inc.	832,271	35,907,147	0.023
Goldman Sachs	765,189	21,812,725	0.035
Investment Technology Group Inc.	689,456	41,681,602	0.017
Bear, Stearns Securities Corp	552,483	13,540,298	0.041
J.P. Morgan Securities Ltd	539,149	33,245,225	0.016
Jefferies + Co	444,786	14,948,654	0.030
Deutsche Bank Securities Inc	439,799	9,290,037	0.047
Other US Brokers	9,122,436	307,924,361	0.030
Total US Commissions	**16,783,373**	**591,748,837**	**0.028**
Non-US Equity Transactions			
Merrill Lynch	3,264,204	306,135,209	0.011
Agora Corde	3,094,114	17,708,399,166	0.000
Credit Suisse Bank	2,599,556	362,331,521	0.007
ABN Amro Securities	2,182,379	1,350,699,242	0.002
Citigroup	1,857,456	182,039,513	0.010
Lehman Brothers Securities	1,540,314	115,926,121	0.013
Credit Lyonnais	1,491,610	157,884,800	0.009
Probursa Casa De Bolsa Sa De Cv	1,487,396	427,895,175	0.003
J.P. Morgan Securities Ltd	1,284,546	94,653,934	0.014
Goldman Sachs	1,199,542	98,007,459	0.012
Other Non-US Brokers	13,090,616	1,943,323,661	0.007
Total Non-US Commissions	**33,091,733**	**22,747,295,801**	**0.001**

research research research research solution
analyze
design
advise
solve

Actuarial

Defined Benefit Program ACTUARY'S CERTIFICATION LETTER

A MILLIMAN GLOBAL FIRM

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December 4, 2006

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Defined Benefit Program

Dear Members of the Board:

We have performed an actuarial valuation of the Defined Benefit Program of the California State Teachers' Retirement System as of June 30, 2005. Our findings indicate the projected income stream from contributions mandated by the Education Code will not be sufficient to pay the Normal Costs and to amortize the Unfunded Actuarial Obligation. The DB Program was funded on a sound actuarial basis in the 2001 actuarial valuation. The decline in the funded status is due primarily to subsequent investment returns less than the long-term actuarial assumption of 8% per year.

Actuarial valuations are normally performed every two years, as of June 30 of each odd-numbered year. An additional valuation was performed as of June 30, 2004 and was supplemented by actuarial estimations reflecting revised covered payroll information for the 2003 and 2004 plan years.

In preparing the 2005 valuation, we relied upon the financial information and membership data furnished by the System, and the Report of Independent Accountants. Although we did not audit this data, we compared the data for this and the prior valuation and tested for reasonableness. Based on these tests, we believe the data to be sufficiently accurate for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

Milliman did not prepare Schedules I and II, nor the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2006 Comprehensive Annual Financial Report. However, the actuarial information contained in Schedule I of the Financial Section and in this Actuarial Section was derived from our June 30, 2005 actuarial valuation report.

The Teachers' Retirement Board has sole authority to determine the actuarial assumptions and methods used for the DB Program. The Board adopted all of the actuarial methods and assumptions used in the 2005 valuation.

The findings have been determined according to actuarial assumptions and methods that were chosen on the basis of recent experience of the DB Program and of current expectations concerning future economic conditions. In our opinion, the assumptions used in the actuarial valuation are appropriate for purposes of the valuation, are internally consistent, and reflect reasonable expectations. The assumptions represent our best estimate of future conditions affecting the DB Program. Nevertheless, the emerging costs of the DB Program will vary from those presented in this report to the extent that actual experience differs from that projected by the assumptions.

I certify that the information included in this report is complete and accurate to the best of my knowledge and belief. The actuarial valuation was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Standards of Practice adopted by the Actuarial Standards Board of the American Academy of Actuaries. In addition, the assumptions and methods used meet the parameters set for disclosures by Statement No. 25 of the Governmental Accounting Standards Board.

Milliman has been engaged by CalSTRS as an independent actuary. The undersigned is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, an Enrolled Actuary, and experienced in performing valuations for large public employee retirement systems.

In conclusion, based on the current actuarial assumptions, the current projected income from member, employer, and State contributions will not finance the DB Program of the California State Teachers' Retirement System on an actuarially sound basis. That is, the expected contributions are not sufficient to fund the annual cost of the program and amortize the Unfunded Actuarial Obligation over a period of 30 years or less.

Respectfully submitted,

Mark O. Johnson, F.S.A., M.A.A.A., E.A.
Principal and Consulting Actuary

Defined Benefit Program

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

CalSTRS, through its consulting actuary, performs an experience study every four years to determine appropriate demographic and economic assumptions. These assumptions are then applied when the consulting actuary performs an actuarial valuation to monitor the funding status of the Defined Benefit Program. The most recent experience study for the period 1999 through 2003 was completed as of June 30, 2003. The study was adopted by the Teachers' Retirement Board on March 4, 2004. The most recent actuarial valuation was completed as of June 30, 2005, and adopted by the Teachers' Retirement Board on April 7, 2006. The following summary and tables (pages 62–92) were prepared by the CalSTRS staff. All of the assumptions used in the actuarial valuation were adopted by the Teachers Retirement Board when the experience study was adopted on March 4, 2004. All information is considered in the June 30, 2005, actuarial valuation.

Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 8.00 percent.
- Method used to value program assets for actuarial valuation purposes: Expected actuarial value adjusted for one-third of the difference between actual market value and expected actuarial value.
- Assumption for general wage increase is 4.25 percent of which 3.25 percent is due to inflation and 1.00 percent is due to expected gains in productivity.
- The actuarial cost method used by the program is the entry age normal actuarial cost method.
- The extent to which benefits are expected to increase as a result of cost-of-living type adjustments is an annual 2 percent increase to the initial allowance beginning on September 1 following the first anniversary of the effective date of the allowance. Since 1972, this increase is applied to all eligible continuing allowances.

Discussion of recent changes in:

The nature of the program–Since the last experience study as of June 30, 2003, program amendments have been made that have affected the June 30, 2005 actuarial valuation.

These program amendments include:

Effective January 1, 2005
- Recalculate the benefits to part-time and adult education community college employees who were members prior to July 1, 1996
- Expand eligibility for partial lump-sum benefit
- Eliminate 1-year prohibition on employment in a California public school for members who receive a Retirement Incentive benefit
- Extend a 5 year prohibition on employment with a granting employer to Community College and County Office of Education members
- Extend for up to two years an existing post-retirement earnings exemption for retired members who fill a vacant administrative position in an emergency situation
- Extend required retirement date and sunset date for other existing post retirement earnings exemptions
- Allow up to 2/10 of one year of unused sick leave to count towards qualifying for one-year final compensation, longevity bonus and career factor

Effective January 1, 2004
Death Before Retirement – Coverage B
- Expand the definition of spouse for purposes of receiving a survivor benefit to include a person married to the member for less than 12 months

prior to the accidental death of the member or for the period beginning prior to the occurrence of the injury or diagnosis of an illness that resulted in the member's death.

Funding

- The General Fund contribution to the Supplemental Benefit Maintenance Account was reduced by $500 million effective for the 2003/04 fiscal year.

Actuarial assumptions–The actuarial valuation utilizes various methods and two different types of assumptions: economic and demographic. Economic assumptions are related to the general economy and its impact on CalSTRS or to the operation of the membership. Demographic assumptions predict the future experience of the membership with respect to eligibility and benefits and are directly related to the specific experience of CalSTRS members.

Economic assumptions: The two major economic assumptions are investment return and wage growth and each is affected by the underlying assumed rate of inflation. Table 5 provides the economic actuarial assumptions for this program as reflected in the most recent actuarial valuation for the program (as of June 30, 2005).

Demographic assumptions: Tables 1–4 and 6–9 provide demographic assumption information for this program as reflected in the most recent actuarial valuation for the program (as of June 30, 2005).

ACTUARIAL METHODS

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Expected Value with one-third adjustment to Market Value (3-Year Asset Smoothing)

The asset smoothing method projects an Expected Value of Assets using the assumed rate of investment return, then one-third of the difference between the Expected Value and the Market Value is recognized in the Actuarial Value of Assets. There were no revisions to either the Actuarial Cost Method or the Asset Valuation Method for this actuarial valuation.

Valuation Results

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been the program's actuary since January 15, 2000.

Tables 10–13 provide summaries of the valuation results. The data displayed in Table 10 is as of June 30 of the specified year. Other information, specifically annual payroll amounts, reported in the financial section of this report will generally not be consistent. The reason for this is that the financial data reflects payroll for all individuals who were active during the year, while Table 10 only includes those individuals who are active as of June 30. It does not include those individuals who were active at some point during the year but not as of June 30.

Amounts provided in Table 11 represent the status of the population as of June 30 of the indicated year. The information provided in the Removed From Rolls and Rolls End of Year columns include the application of the annual post-retirement 2 percent not-compounded cost-of-living adjustment.

The data provided for each year end in Table 11 is a snapshot of the population taken following year-end closing for the indicated period. It is likely adjustments will be made subsequent to this closing. No attempt is made to update the data in Table 11 for these adjustments.

Because of the potential for post-closing adjustments that are not updated in Table 11, and for post-retirement adjustments that are included in the individual accounts rather than separately maintained, any update of a prior end-of-year total using additions and deletions from the next year most likely will not equal the total provided for the next year.

The following significant plan changes have taken place during the time depicted in Table 12. These program amendments include:

Effective January 1, 1999

- Increased age factor for members who retire after age 60
- Career factor for members who retire with more than 30 years of service
- Service credit for unused sick leave

Effective January 1, 2000

- Minimum Guarantee payable to certain benefit recipients with at least 20 years of creditable service, equal to $15,000, increasing in $500 increments for each additional year of service to $20,000 at 30 or more years of credited service.

Effective January 1, 2001

- Final compensation based upon the highest average consecutive 12-month period with 25 years of credited service.
- 25 percent of the 8 percent member contributions allocated to the Defined Benefit Supplement Program.
- Longevity Bonus of an additional $200, $300, or $400 per month in Defined Benefit Program benefits with 30, 31 or 32 or more years of credited service.
- An ad hoc minimum guarantee of up to 6 percent, based on the initial allowance plus the simple 2 percent benefit improvement, depending upon the year in which the benefit began. This ad hoc was not initially payable until July 1, 2001.

Effective January 1, 2002

- Education requirements for dependent children receiving a disability or family allowance under Coverage A were eliminated.
- Defined Benefit Program members who were formerly Cash Balance Benefit Program participants are allowed to purchase their prior Cash Balance Benefit Program service credit.

Effective January 1, 2003

- A temporary reduction in the member contribution rates of specified state members of the Defined Benefit Program.
- A change to the basis for calculation of the post-retirement earnings limitation from the increase in the All Urban California Consumer Price Index to the increase in the average earnable salary of active members of the Defined Benefit Program.

The most recent actuarial valuation of the system (as of June 30, 2005) determined there is an unfunded actuarial obligation for this program. The prior actuarial valuation (as of June 30, 2003) also indicated there was an unfunded actuarial obligation.

With the exception of the actuarial valuations performed as of June 30, 1998, June 30, 2000 and June 30, 2004, actuarial valuations are normally performed every two years in odd-numbered years to analyze the sufficiency of the statutory contributions to meet the current and future obligations of the program. By using the actuarial methods and assumptions adopted by the Teachers' Retirement Board, the actuarial valuation provides the best estimate of the program's long-term financing.

Comparing the unfunded actuarial obligation as of two valuation dates does not provide enough information to determine if there were actuarial gains or losses. The correct comparison is between the unfunded actuarial obligation on the valuation date and the expected unfunded actuarial obligation projected from the prior valuation date using the actuarial assumptions in effect for the period of comparison.

Actuarial gains reduce the unfunded actuarial obligation as of the valuation date, and actuarial losses increase the unfunded actuarial obligation. Most actuarial gains and losses are a result of short-term fluctuations in experience or changes in actuarial assumptions. Because of the long-term nature of actuarial assumptions, future patterns of emerging experience may offset these short-term fluctuations.

INDEPENDENT ACTUARIAL REVIEW

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the staff actuary.

The work performed for CalSTRS by the independent actuarial firm may be reviewed by the Bureau of State Audits, at the discretion of the Teachers' Retirement Board. Also, through the competitive bid process, the work of a prior actuary will be verified in a subsequent actuarial valuation performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent review of that firm's work through an actuarial audit completed by another firm. These audit services are acquired using the competitive bid process.

An audit of the 2003 Actuarial Experience Analysis of the Defined Benefit Program was performed by the firm Gabriel, Roeder, Smith and Company. The result of the audit was reported to the Board on May 4, 2005.

An audit of the 2003 Actuarial Valuation of the CalSTRS Defined Benefit Program was performed by the firm Cheiron. The result of the audit was reported to the Board on May 4, 2005.

The current actuarial consultant was retained on January 15, 2000, as a result of the competitive bid process.

SUMMARY OF DEFINED BENEFIT PROGRAM PROVISIONS

(The following summary and tables were prepared by the CalSTRS staff. All information is considered in the June 30, 2005, actuarial valuation.)

Normal Retirement

Eligibility Requirement

Age 60 with five years of credited service.

Allowance

2 percent of final compensation for each year of credited service.

Allowance Factors

Credited Service

For each year of membership, credited service is granted based on the ratio of salary earned to full-time salary earnable for one position.

No more than one full year of service credit is allowed during any school year; however, the contributions for any service in excess of one year are deposited to the member and employer contribution accounts within the Defined Benefit Supplement Program.

Final Compensation

For members with 25 years of service, the calculation is based on the highest average annual compensation earnable in a consecutive 12-month period. For members with less than 25 years of service, average salary earnable for the highest three consecutive years of credited service for one position.

Sick Leave Service Credit

Credited service is granted for unused sick leave at the time of retirement. Sick leave service credit of up to 0.2 years of credited service may be used for eligibility for One-Year final compensation or to attain the Career Factor or the Longevity Bonus.

Career Factor

If a member has thirty years of credited service, the age factor is increased up to 0.2 percent. However, the maximum age factor is 2.4 percent.

Longevity Bonus

For members attaining 30 years of service by January 1, 2011, a longevity bonus of $200 per month is added to the unmodified allowance. The bonus is increased to $300 per month with 31 years of service, and $400 per month with 32 or more years of service.

Post-Retirement Benefit Adjustment

Benefit Improvement Factor
2 percent simple increase on September 1 following the first anniversary of the effective date of the allowance, applied to all continuing allowances.

IRC Section 401(a)(17)

Compensation is limited under Internal Revenue Code Section 401(a)(17) and assumed to increase at the rate of inflation.

IRC Section 415

Benefits are subject to limits imposed under Internal Revenue Code Section 415. However, no limits are imposed in the valuation of the Defined Benefit Program in order to address the potential pay-as-you-go funding needs of the Teachers' Replacement Benefits Program Fund.

Early Retirement

Eligibility Requirement
Age 55 with five years of credited service, or age 50 with 30 years of credited service.

Benefit Reduction
A $^1/_2$ percent reduction in the normal retirement allowance for each full month or partial month the member is younger than age 60, plus a reduction of $^1/_4$ percent for each full month or partial month the member is younger than age 55.

Late Retirement

Allowance
Members continue to earn additional service credit after age 60. The 2 percent age factor increases by 0.033 percent for each quarter year of age that the member is over age 60, up to a maximum of 2.4 percent.

Deferred Retirement

Allowance
Any time after satisfying the minimum service requirement, a member may cease active service, leave the accumulated contributions on deposit, and later retire upon attaining the minimum age requirement.

Disability Allowance – Coverage A

Eligibility Requirement
Member has five years of credited California service and has not attained age 60, or is disabled due to an unlawful act of bodily harm committed by another person while performing creditable service.

Allowance
50 percent of final compensation, regardless of age or service credit.

or
5 percent of final compensation for each year of service credit if over age 45 with less than 10 years of service credit.

Children's Benefit
10 percent for each eligible dependent child, up to a maximum of 40 percent of final compensation. The increment for each eligible child continues until the child marries or attains age 22.

Offsets
Allowance, including children's increment, is reduced by disability benefits payable under Social Security, Workers' Compensation and employer-paid income protection plan.

Disability Allowance – Coverage B

Eligibility Requirement
Member has five years of credited California service, or is disabled due to an unlawful act of bodily harm committed by another person while performing creditable service.

Allowance
50 percent of final compensation, regardless of age and service credit.

Children's Benefit
10 percent for each eligible child up to four children, for a maximum of 40 percent of final compensation. The increment for each child continues until the child attains age 21, regardless of student, marital or employment status.

Offsets
The member's allowance is reduced by disability benefits payable under Workers' Compensation.

Death Before Retirement – Coverage A

Eligibility Requirement
One or more years of service credit for active members or members receiving a disability allowance.

Lump-Sum Payment
The one-time death benefit recipient receives a $6,163 lump-sum payment.

Allowance
The surviving spouse or registered domestic partner with eligible children will receive a family benefit of 40 percent of final compensation for as long as there is at least one eligible child. An additional 10 percent of final compensation is payable for each eligible child up to a maximum benefit of 90 percent.

If there is no surviving spouse or registered domestic partner, an allowance of 10 percent of final compensation is payable to eligible children up to a maximum benefit of 50 percent.

When there are no eligible children, the spouse or registered domestic partner may elect to receive one half of a 50 percent joint and survivor allowance projected to age 60 or take a lump-sum payment of the remaining contributions and interest.

Death Before Retirement – Coverage B

Eligibility
One or more years of service credit for active members.

Lump-Sum Payment
The one-time death benefit recipient receives a $24,652 lump-sum payment.

Allowance
A lump-sum payment of the contributions and interest.

or
One half of a 50 percent joint and survivor allowance, beginning on the member's 60th birthday or immediately with a reduction based on the member's age and that of the spouse, or registered domestic partner at the time the benefit begins.

If the surviving spouse or registered domestic partner elects a monthly allowance, each eligible child would receive 10 percent of the member's final compensation, with a maximum benefit of 50 percent.

Death After Retirement

Lump-Sum Payment
The one-time death benefit recipient receives a $6,163 lump-sum payment.

Members of retirement age may make pre-retirement election of an option to designate a beneficiary.

Annuity Form
If the retired member had elected one of the joint and survivor options, the retirement allowance would be modified in accordance with the option selected.

If no option had been elected, payment of the unpaid contributions and interest, if any, remaining in the member's account will be made to the beneficiary, if one is named, or to the deceased member's estate.

Termination from CalSTRS

Refund
Refund of the member's contributions with interest as credited to the member's account to date of withdrawal. A refund terminates membership and all rights to future benefits from the system.

Re-entry After Refund
Former members who re-enter the system may redeposit all amounts previously refunded plus regular interest.The member must earn one year of credited service after re-entry before becoming eligible for system benefits.

Funding

Member Contribution
Eight percent of creditable compensation. Two percent of creditable compensation is directed to the Defined Benefit Supplement Program through December 31, 2010, while six percent of creditable compensation remains with the Defined Benefit Program.

Employers Contribution
Eight percent of the total creditable compensation on which member contributions are based. In addition, funding for the Teachers' Health Benefits Fund and Teachers' Replacement Benefit Fund is directed as needed from the employer contributions on a pay-as-you-go basis.

plus
0.25 percent of the total creditable compensation on which members' contributions are based to pay costs for unused sick leave service credit.

State Contribution
The state pays 2.017 percent of the total creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based, calculated annually on October 1 and paid in four equal quarterly payments.

plus
Up to 1.505 percent of the total creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based, calculated annually on October 1 and paid in four equal quarterly payments. This contribution is made if there is an unfunded obligation or normal cost deficit for benefits in effect on July 1, 1990.

CHANGES IN DEFINED BENEFIT PROGRAM PROVISIONS

There have been no program amendments that would affect an actuarial valuation of the Defined Benefit Program since the last CalSTRS annual financial report was issued. All program provisions were considered in the completion of the June 30, 2005 actuarial valuation.

All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on March 4, 2004. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

Table 1 Post-retirement mortality table for sample ages

	Male	*Female*
Age	**1999 CalSTRS Retired–M**	**1999 CalSTRS Retired–F**
50	0.19%	0.12%
55	0.32	0.19
60	0.56	0.34
65	1.02	0.67
70	1.80	1.18
75	2.85	1.83
80	5.02	3.78
85	9.42	6.50
90	14.75	11.63
95	23.36	18.62

Table 2 Probabilities of retirement for sample ages

	Under 30 Years		30 or More Years	
Age	**Male**	**Female**	**Male**	**Female**
55	3.0%	5.0%	6.0%	8.0%
60	7.0	10.0	25.0	30.0
65	14.0	16.0	27.0	27.0
70	100.0	100.0	100.0	100.0

Table 3 Probabilities of withdrawal from active service before age and service retirement for sample ages

	Entry Ages					
Duration	**Under 25**	**25-29**	**30-34**	**35-39**	**40-44**	**45+**
MALE						
1	12.5%	12.5%	12.5%	12.5%	12.5%	13.5%
2	7.7	7.7	7.7	7.7	7.7	8.6
3	6.3	5.4	5.4	5.4	5.4	6.3
4	4.4	4.4	4.4	4.4	4.4	4.4
5	3.9	3.0	3.0	3.0	3.0	3.6
10	2.0	2.0	2.0	2.0	2.4	
15	1.1	1.1	1.1	1.2		
20	0.6	0.6	0.6			
25	0.5	0.5				
FEMALE						
1	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
2	7.2	7.2	7.2	7.2	7.2	7.2
3	6.3	6.3	5.8	5.3	4.9	4.9
4	5.8	5.8	5.4	4.9	3.9	3.0
5	5.5	5.8	4.2	2.9	2.5	2.5
10	2.3	2.0	1.7	1.4	1.6	
15	1.1	0.9	1.0	0.9		
20	0.6	0.7	0.9			
25	0.6	0.6				

Table 3 continued Probabilities of withdrawal from active service before age and service retirement for sample ages

Probability of refund by sample durations of membership and sample entry ages

	Sample Entry Ages				
Duration	Under 25	25-29	30-34	35-39	40+
MALE					
Under 5	100.0%	100.0%	100.0%	100.0%	100.0%
10	50.0	50.0	42.0	45.0	45.0
15	42.0	42.0	36.0	30.0	
20	34.0	36.0	27.0		
25	24.0	27.0			
FEMALE					
Under 5	100.0%	100.0%	100.0%	100.0%	100.0%
10	40.0	35.0	36.0	36.0	35.0
15	30.0	30.0	30.0	30.0	
20	25.0	20.0	20.0		
25	15.0	10.0			

Table 4 Assumption for pay increases due to promotions and longevity for sample ages (exclusive of the assumed general wage increase, which includes inflation)

	Entry Ages					
Duration	Under 25	25–29	30–34	35–39	40–44	45 +
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
5	5.5	4.8	4.5	3.8	3.8	2.6
10	3.2	3.0	2.7	2.3	2.2	1.6
20	1.3	1.1	1.1	0.8	0.8	0.6
30	0.9	0.7	0.6	0.5		
40	0.8	0.6				

Table 5 Economic assumptions

Consumer Price Inflation	3.25%
Investment Yield	8.00
Wage Inflation	4.25
Interest on Member Accounts	6.00
Growth in Active Membership	0.00
Administrative Expenses	0.00*

** Provided by gross investment return*

Table 6 Mortality assumptions

Retired Members	
MALE	1999 CalSTRS Retired-M
FEMALE	1999 CalSTRS Retired-F
Active Members	
MALE	1999 CalSTRS Retired-M (-2)
FEMALE	1999 CalSTRS Retired-F (-2)
Beneficiaries	
MALE	1999 CalSTRS Beneficiary-M
FEMALE	1999 CalSTRS Beneficiary-F

Table 7 Termination from disability due to death

MALE	1994 GAM-M (Min. 2.5% with select rates in first 3 years)
FEMALE	1994 GAM-F (Min. 2.2% with select rates in first 3 years)

Table 8 Service retirement (sample ages)

			DB Program Benefits	
	Age	1990 Benefits	Under 30 years	30 or More Years
MALE	55	5.8%	3.0%	6.0%
	60	25.0	7.0	25.0
	65	20.0	14.0	27.0
	70	100.0	100.0	100.0
FEMALE	55	7.0%	5.0%	8.0%
	60	22.0	10.0	30.0
	65	18.0	16.0	27.0
	70	100.0	100.0	100.0

Table 9 Disability rates (sample ages)

Coverage A		
	Age	Rate
MALE	30	0.030%
	40	0.081
	50	0.159
FEMALE	30	0.030%
	40	0.090
	50	0.220

Coverage B		
	Entry Age Under 40	Entry Age 40 and Up
MALE		
30	0.030%	
35	0.051	
40	0.120	
45	0.150	0.118%
50	0.195	0.202
55	0.270	0.312
FEMALE		
30	0.030%	
35	0.051	
40	0.090	
45	0.141	0.139%
50	0.231	0.252
55	0.318	0.367

Table 10 Schedule of active member valuation data

Date (as of June 30) [1]	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1999	402,220	$17,007,886,951	$42,285	3.7%
2000	420,530	18,224,271,726	43,336	2.5
2001	428,741	20,494,151,991	47,801	10.3
2003[2]	448,478	22,654,369,277	50,514	5.7
2004[2]	444,680	22,589,060,244	50,798	0.6
2005	450,282	23,256,622,046	51,649	1.7

[1] No actuarial report is prepared in even numbered years, June 30, 2000 and June 30, 2004 reports.
[2] Annual Payroll and Annual Average Pay were revised on an estimated basis to reflect date corrections.

Table 11 Schedule of retired members and beneficiaries added to and removed from rolls

	Added to Rolls		Removed from Rolls		Rolls–End of Year			
Date (as of June 30)	Number	Annual Allowances[1]	Number	Annual Allowances[1]	Number	Annual Allowances[1]	% Increase in Annual Allowances	Average Annual Allowances
2001	9,513	$369,689	5,694	$92,039	170,972	$4,006,345	15.3%	$23,433
2002[2]	10,516	448,243	5,629	97,482	177,072	4,438,853	10.8	25,068
2003	12,024	514,545	5,713	106,693	181,868	4,876,488	9.9	26,813
2004	13,167	558,292	5,944	113,075	193,245	5,497,706	12.7	28,449
2005	12,489	519,053	5,846	118,053	201,141	6,018,468	9.5	29,907
2006	11,517	489,261	6,252	132,275	207,846	6,505,067	8.1	31,298

[1] Dollars in thousands.
[2] Figures revised in 2003.

Table 12 Solvency test

	Aggregate Accrued Liabilities For				Funding of Liabilities		
*Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefits to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
1999 [a]	$19,940	$33,019	$33,390	$90,001	100.0%	100.0%	110.9%
2000	21,337	36,238	35,549	102,225	100.0	100.0	125.6
2001 [b]	22,661	41,513	45,707	107,654	100.0	100.0	95.1
2003 [c] [d]	24,313	52,128	51,663	108,667	100.0	100.0	62.4
2004 [d]	24,442	58,225	52,010	114,094	100.0	100.0	60.4
2005	24,619	63,762	53,812	121,882	100.0	100.0	62.3

**No actuarial report is prepared in even-numbered years, except for the June 30, 2000, and June 30, 2004 reports. No estimation using actuarial methodology is made in years between valuations.*

[a] Effective January 1, 1999, program changed to increase retirement multiplier and add career factor and service credit for unused sick leave.
[b] Effective January 1, 2001, program changed to provide one-year final compensation with 25 years of service, Longevity Bonus with 30 or more years of service, and an ad hoc improvement of up to 6 percent monthly, depending upon benefit effective date.
[c] Effective January 1, 2002, program changed to direct 25 percent of the 8 percent member contributions to the Defined Benefit Supplement Program.
[d] Service Already Rendered by Active Members was revised on an estimated basis to reflect data corrections.

Table 13 Analysis of financial experience (gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience) (dollars in millions)

	Actuarial Valuation as of June 30	
	2005 (2004)	**2004** [1] (2003)
Actuarial Obligation at June 30:	$138,254	$128,104
Normal Cost	4,287	–
Benefit Payments	(5,915)	–
Expected Interest	10,996	–
Expected Actuarial Obligation at June 30:	147,622	–
Expected Actuarial Value of Assets at June 30:	121,434	–
Expected UAO at June 30	26,188	–
Actuarial (Gains) or Losses		
Change in Assumptions		–
Investment Return Assump	(448)	–
Demographic Assump	(5,085)	–
Net Change other sources	(344)	–
Total Actuarial (Gains) & Losses	(5,877)	–
Unfunded Actuarial Obligation at June 30	$20,311	$20,583
Funded Ratio	86%	85%

[1] *Actuarial Valuation data as of June 30, 2004 are not available. The Actuarial Obligation, Unfunded Actuarial Obligation and Funded Ratio is estimated. No other data are available.*

Defined Benefit Supplement Program

ACTUARY'S CERTIFICATION LETTER

A MILLIMAN GLOBAL FIRM

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December 4, 2006

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Defined Benefit Supplement Program

Dear Members of the Board:

We have performed an actuarial valuation of the Defined Benefit Supplement Program of the California State Teachers' Retirement System as of June 30, 2005. Our findings indicate the projected income stream from contributions will be sufficient to pay the Normal Costs. The DBS Program had an Actuarial Surplus of $266,978,000 as of June 30, 2005, which was retained as a reserve for potential future Additional Earnings Credits or Additional Annuity Credits.

Actuarial valuations are performed as of June 30 of each year.

In preparing the 2005 valuation, we relied upon the financial information and membership data furnished by the System. Although we did not audit this data, we compared the data for this and the prior valuation and tested for reasonableness. Based on these tests, we believe the data to be sufficiently accurate for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

Milliman did not prepare Schedules I and II, nor the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2006 Comprehensive Annual Financial Report. However, the actuarial information contained in Schedule I of the Financial Section and in this Actuarial Section was derived from our June 30, 2005 actuarial valuation report.

The Teachers' Retirement Board has sole authority to determine the actuarial assumptions and methods used for the DBS Program. The Board adopted all of the actuarial methods and assumptions used in the 2005 valuation.

The findings have been determined according to actuarial assumptions and methods that were chosen on the basis of recent experience of the DBS Program and of current expectations concerning future economic conditions. In our opinion, the assumptions used in the actuarial valuation are appropriate for purposes of the valuation, are internally consistent, and reflect reasonable expectations. The assumptions represent our best estimate of future conditions affecting the DBS Program. Nevertheless, the emerging costs of the DBS Program will vary from those presented in this report to the extent that actual experience differs from that projected by the assumptions.

Teachers' Retirement Board
December 4, 2006
Page 2

I certify that the information included in this report is complete and accurate to the best of my knowledge and belief. The actuarial valuation was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Standards of Practice adopted by the Actuarial Standards Board of the American Academy of Actuaries. In addition, the assumptions and methods used meet the parameters set for disclosures by Statement No. 25 of the Governmental Accounting Standards Board.

Milliman has been engaged by CalSTRS as an independent actuary. The undersigned is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, an Enrolled Actuary, and experienced in performing valuations for large public employee retirement systems.

In conclusion, based on the current actuarial assumptions, the DBS Program of the California State Teachers' Retirement System is an actuarially sound program.

Respectfully submitted,

Mark O. Johnson, F.S.A., M.A.A.A., E.A.
Principal and Consulting Actuary

Defined Benefit Supplement Program

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

CalSTRS, through its consulting actuary, will perform an experience study at least every four years to determine appropriate demographic and economic assumptions. These assumptions are then applied every year when the consulting actuary performs an actuarial valuation to monitor the funding status of the Defined Benefit Supplement Program. The most recent actuarial valuation was completed June 30, 2005, and adopted by the Teachers' Retirement Board April 7, 2006. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2005, actuarial valuation.

The Defined Benefit Supplement Program was established January 1, 2001 and, therefore, has not yet existed for a sufficient period of time to allow completion of the first experience study. The economic and demographic assumptions were based on those adopted for the Defined Benefit Program by the Board on March 4, 2004, and used to complete the latest actuarial valuation. The Defined Benefit Program and Defined Benefit Supplement Program share the same population, so it is reasonable to use most of the same assumptions for both programs. All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on March 4, 2004. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 8.00 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 4.25 percent, of which 3.25 percent is due to inflation and 1.00 percent is due to expected gains in productivity.
- The actuarial cost method used by the program is the traditional unit credit cost method.
- The Defined Benefit Supplement Program does not provide cost-of-living adjustments for benefit recipients.

Discussion of recent changes in:

The nature of the program–The Defined Benefit Supplement Program is a relatively new program, established January 1, 2001. All provisions of the program were considered when completing the most recent actuarial valuation.

Actuarial assumptions–The following assumptions were used to complete the valuation for this program.

Neither the economic nor the demographic assumptions for the actuarial valuation as of June 30, 2005, affected the unfunded actuarial obligation. Those assumptions for this program will have minimal impact under the traditional unit credit cost method or only have significance when participants elect to annuitize the account balance. Under the program, a member must have at least $3,500 in his or her account to elect to annuitize the account balance.

Actuarial Methods

Actuarial Cost Method	Traditional Unit Credit
Asset Valuation Method	Fair Market Value

The actuarial methods used for the program's actuarial valuation as of June 30, 2005, result in an actuarial surplus of $266,978,000.

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been CalSTRS' actuary since January 15, 2000.

There are no other specific assumptions that have a material impact on valuation results for this program.

INDEPENDENT ACTUARIAL REVIEW

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the staff actuary.

The work performed for CalSTRS by the independent actuarial firm may be reviewed by the Bureau of State Audits at the discretion of the Teachers' Retirement Board. Also, through the competitive bid process, the work of a prior actuary will be verified in a subsequent actuarial valuation performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent review of that firm's work through an actuarial audit completed by another firm. These audit services are acquired using the competitive bid process.

The current actuarial consultant was retained on January 15, 2005, as a result of the competitive bid process.

SUMMARY OF DEFINED BENEFIT SUPPLEMENT PROGRAM PROVISIONS

(The following tables and summary were prepared by CalSTRS staff. All information is considered in the June 30, 2005, actuarial valuation.)

Membership

Eligibility Requirement

All members of the Defined Benefit Program who perform creditable service and earn creditable compensation after December 31, 2000, have a Defined Benefit Supplement account.

Member

An eligible employee with creditable service subject to coverage, who has contributions credited in the Program or is receiving an annuity from the Program.

Account Balance

Account Balance

Nominal accounts are established for the purpose of determining DBS benefits payable to the member. Accounts are credited with contributions, interest at the minimum interest rate, and, if applicable, additional earnings credits.

Contributions

One-quarter of the 8 percent (2 percent) of member contributions on creditable compensation is allocated to the member's DBS account through December 31, 2010.

In addition, member and employer contributions will be credited to the member's DBS account for service greater that one year and compensation for limited term enhancements and retirement incentives.

Minimum Interest Rate

Annual rate determined for the plan year by the Teachers' Retirement Board in accordance with federal laws and regulations. The minimum interest rate is equal to the average of the yields on 30-year Treasury Notes for the twelve months ending in February preceding the beginning of the plan year, rounded to the next highest 0.25 percent. The minimum interest rate is not less than the rate at which interest is credited under the Defined Benefit Program.

Additional Earnings Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the board.

Additional Annuity Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the Board.

Normal Retirement

Eligibility Requirement

Receipt of a corresponding benefit under the Defined Benefit Program.

Benefit
The account balance at the benefit effective date subject to limits imposed under Internal Revenue Code Section 415.

Form of Payment
The normal form of payment is a lump-sum distribution. Annuity options are available if the account balance is at least $3,500.

Early Retirement

Eligibility Requirement
Same as Normal Retirement.

Benefit and Form of Payment
Same as Normal Retirement.

Late Retirement

Benefit and Form of Payment
Same as Normal Retirement.

Contributions and earnings may continue to be credited to the account balance.

Deferred Retirement

Benefit
A member must receive a DBS benefit when the corresponding benefit is received under the Defined Benefit Program.

Disability Benefit

Eligibility Requirement
Receipt of a corresponding benefit under the DB Program.

Benefit
The account balance at the date the disability benefit becomes payable.

Form of Payment
Same as Normal Retirement. An annuity benefit is discontinued upon termination of the corresponding DB Program benefit.

Death Before Retirement

Eligibility Requirement
Deceased member has an account balance.

Benefit
The account balance at the date of death payable to the designated beneficiary.

Form of Payment
Similar to Normal Retirement.

Death After Retirement

Eligibility Requirement
The deceased member was receiving an annuity.

Benefit
According to the terms of the annuity elected by the member.

Termination from the Program

Eligibility Requirement
Termination of all CalSTRS-covered employment.

More than five years has elapsed since the most recent termination benefit, if any, has been paid.

Benefit and Form of Payment
Lump-sum distribution of the account balance as of the date of distribution. The benefit is payable six months from the termination of creditable service.

CHANGES IN DEFINED BENEFIT SUPPLEMENT PROGRAM PROVISIONS

Since the last actuarial valuation, program amendments have been made that would affect the next actuarial valuation. The amendments described below were not considered for the June 30, 2005 actuarial valuation as they were effective after that date:

Effective January 1, 2006

- The one year waiting period for the receipt of termination benefits is reduced to six months.
- More than one termination benefit is prohibited during a single five year period.

All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on March 4, 2004. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

Table 1 Post-retirement mortality table for sample ages

	Male	*Female*
Age	1999 CalSTRS Retired–M	1999 CalSTRS Retired–F
50	0.19%	0.12%
55	0.32	0.19
60	0.56	0.34
65	1.02	0.67
70	1.80	1.18
75	2.85	1.83
80	5.02	3.78
85	9.42	6.50
90	14.75	11.63
95	23.36	18.62

Table 2 Probabilities of retirement for sample ages

	Under 30 years		30 or more years	
Age	Male	Female	Male	Female
55	3.0%	5.0%	6.0%	8.0%
60	7.0	10.0	25.0	30.0
65	14.0	16.0	27.0	27.0
70	100.0	100.0	100.0	100.0

Table 3 Probabilities of withdrawal from active service before age and service retirement for sample ages

	Entry Ages					
Duration	Under 25	25-29	30-34	35-39	40-44	45+
MALE						
1	12.5%	12.5%	12.5%	12.5%	12.5%	13.5%
2	7.7	7.7	7.7	7.7	7.7	8.6
3	6.3	5.4	5.4	5.4	5.4	6.3
4	4.4	4.4	4.4	4.4	4.4	4.4
5	3.9	3.0	3.0	3.0	3.0	3.6
10	2.0	2.0	2.0	2.0	2.4	
15	1.1	1.1	1.1	1.2		
20	0.6	0.6	0.6			
25	0.5	0.5				
30	0.0					
FEMALE						
1	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
2	7.2	7.2	7.2	7.2	7.2	7.2
3	6.3	6.3	5.8	5.3	4.9	4.9
4	5.8	5.8	5.4	4.9	3.9	3.0
5	5.5	5.8	4.2	2.9	2.5	2.5
10	2.3	2.0	1.7	1.4	1.6	
15	1.1	0.9	1.0	0.9		
20	0.6	0.7	0.9			
25	0.6	0.6				
30	0.0					

Table 4 Assumption for pay increases due to promotions and longevity for sample ages (exclusive of the assumed general wage increase, which includes inflation)

Duration	Entry Ages					
	Under 25	25–29	30–34	35–39	40–44	45 +
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
10	3.2	3.0	2.7	2.3	2.2	1.6
20	1.3	1.1	1.1	0.8	0.8	0.6
30	0.9	0.7	0.6	0.5		

Table 5 Economic assumptions

Consumer Price Inflation	3.25%
Investment Yield	8.00
Wage Inflation	4.25
Interest on Member Accounts	8.00

Table 6 Mortality assumptions

Retired Members*	
MALE	1999 CalSTRS Retired-M
FEMALE	1999 CalSTRS Retired-F
Active Members	
MALE	1999 CalSTRS Retired-M (-2)
FEMALE	1999 CalSTRS Retired-F (-2)
Beneficiaries*	
MALE	1999 CalSTRS Beneficiary-M
FEMALE	1999 CalSTRS Beneficiary-F

**Future retirees and beneficiaries are valued with a 2-year age setback.*

Table 7 Termination from disability due to death

MALE	1994 GAM-M (Min. 2.5% with select rates in first 3 years)
FEMALE	1994 GAM-F (Min. 2.2% with select rates in first 3 years)

Table 8 Service Retirement (sample ages)

	Age	Under 30 years	30 or More Years
MALE	55	3.0%	6.0%
	60	7.0	25.0
	65	14.0	27.0
	70	100.0	100.0
FEMALE	55	5.0%	8.0%
	60	10.0	30.0
	65	16.0	27.0
	70	100.0	100.0

Table 9 Disability rates (sample ages)

	Age	Entry Age Under 40	Entry Age 40 and Up
MALE	25	0.021%	
	30	0.030	
	35	0.051	
	40	0.120	
	45	0.150	0.118%
	50	0.195	0.202
	55	0.270	0.312
	60	0.195	0.477
	65	0.120	0.853
FEMALE	25	0.030%	
	30	0.030	
	35	0.051	
	40	0.090	
	45	0.141	0.139%
	50	0.231	0.252
	55	0.318	0.367
	60	0.243	0.530
	65	0.168	0.916

Table 10 Schedule of active member valuation data

Date (as of June 30)	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
2001	428,741*	$20,494,152,000	$47,801	na
2002	442,208	21,731,775,000	49,144	2.810%
2003	447,620	23,867,428,000	53,321	8.499
2004	444,316	23,764,350,000	53,485	0.309
2005	449,773	24,481,444,000	54,431	1.768

** The Defined Benefit Supplement Program was established January 1, 2001. The first actuarial valuation was conducted for the program as of June 30, 2002; however, an actuarial study was performed as of June 30, 2001.*

Table 11 Schedule of retired members and beneficiaries added to and removed from annuity rolls

	*Added to Rolls**		*Removed from Rolls*		*Rolls–End of Year*			
Date (as of June 30)	Number	Annual Allowance	Number	Annual Allowance	Number	Annual Allowance	% Increase in Annual Allowances	Average Annual Allowances
2001	0	$0	0	$0	0	$0	0%	$0
2002	0	0	0	0	0	0	0	0
2003	0	0	0	0	0	0	0	0
2004	1,929	2,143,745	2	3,450	1,927	2,140,295	100	1,110
2005	5,496	7,655,624	19	31,260	5,477	7,624,364	25.4	1,392
2006	9,666	15,774,712	364	591,051	9,302	15,183,661	99	1,632

** The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003 all members who had retired or become disabled had elected a lump-sum distribution. No annuities had been paid.*

Table 12 Solvency Test

	Aggregate Accrued Liabilitites for						
					Funding of Liabilities		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefits to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2001*	$213,169,000	$0	$0	$206,916,000	97.0%	na	na
2002	711,440,000	0	0	660,148,000	93.0	na	na
2003	1,358,635,000	0	0	1,311,269,000	97.0	na	na
2004	2,025,400,000	9,652,000	0	2,203,682,000	100.0	100.0	na
2005	2,722,432,000	33,767,000	0	3,023,177,000	100.0	100.0	na

**The Defined Benefit Supplement Program was established January 1, 2001. The first actuarial valuation was conducted for the program as of June 30, 2002; however an actuarial study was performed as of June 30, 2001.*

Table 13 Analysis of financial experience

	Actuarial Valuation as of June 30	
	2005 (2004)	2004 (2003)
Actuarial Obligation at June 30:	$2,035,052,000	$1,358,635,000
Expected Changes:		
Contributions	669,706,000	691,081,000
Benefits Paid	(84,025,000)	(45,069,000)
Expected Earnings/Credits	186,231,000	134,531,000
Expected Actuarial Obligation at June 30:	2,806,964,000	2,139,178,000
Expected Actuarial Value of Assets at June 30:	2,989,085,000	2,088,023,000
Expected UAO at June 30	(182,121,000)	51,155,000
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(50,765,000)	(104,126,000)
(Gain) on Assets	(34,092,000)	(115,659,000)
Total Actuarial Gains & Losses	(84,857,000)	(219,785,000)
Unfunded Actuarial Obligation (Surplus) at June 30, 2005	($266,978,000)	($168,630,000)
Funded Ratio	110%	108%

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December 4, 2006

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Cash Balance Benefit Program

Dear Members of the Board:

We have performed an actuarial valuation of the Cash Balance Benefit Program of the California State Teachers' Retirement System as of June 30, 2005. Our findings indicate the projected income stream from contributions will be sufficient to pay the Normal Costs. The CBB Program had an Actuarial Surplus of $2,137,000 as of June 30, 2005, which was retained as a reserve for potential future Additional Earnings Credits or Additional Annuity Credits.

Actuarial valuations are performed as of June 30 of each year.

In preparing the 2005 valuation, we relied upon the financial information and membership data furnished by the System. Although we did not audit this data, we compared the data for this and the prior valuation and tested for reasonableness. Based on these tests, we believe the data to be sufficiently accurate for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

Milliman did not prepare Schedules I and II, nor the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2006 Comprehensive Annual Financial Report. However, the actuarial information contained in Schedule I of the Financial Section and in this Actuarial Section was derived from our June 30, 2005 actuarial valuation report.

The Teachers' Retirement Board has sole authority to determine the actuarial assumptions and methods used for the CBB Program. The Board adopted all of the actuarial methods and assumptions used in the 2005 valuation.

The findings have been determined according to actuarial assumptions and methods that were chosen on the basis of recent experience of the CBB Program and of current expectations concerning future economic conditions. In our opinion, the assumptions used in the actuarial valuation are appropriate for purposes of the valuation, are internally consistent, and reflect reasonable expectations. The assumptions represent our best estimate of future conditions affecting the CBB Program. Nevertheless, the emerging costs of the CBB Program will vary from those presented in this report to the extent that actual experience differs from that projected by the assumptions.

Teachers' Retirement Board
December 4, 2006
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I certify that the information included in this report is complete and accurate to the best of my knowledge and belief. The actuarial valuation was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Standards of Practice adopted by the Actuarial Standards Board of the American Academy of Actuaries. In addition, the assumptions and methods used meet the parameters set for disclosures by Statement No. 25 of the Governmental Accounting Standards Board.

Milliman has been engaged by CalSTRS as an independent actuary. The undersigned is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, an Enrolled Actuary, and experienced in performing valuations for large public employee retirement systems.

In conclusion, based on the current actuarial assumptions, the CBB Program of the California State Teachers' Retirement System is an actuarially sound program.

Respectfully submitted,

Mark O. Johnson, F.S.A., M.A.A.A., E.A.
Principal and Consulting Actuary

Cash Balance Benefit Program

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

CalSTRS, through its consulting actuary, will perform an experience study at least every four years to determine appropriate demographic and economic assumptions. These assumptions are then applied every year when the consulting actuary performs an actuarial valuation to monitor the funding status of the Cash Balance Benefit Program. The most recent actuarial valuation was completed as of June 30, 2005, and adopted by the Teachers' Retirement Board April 7, 2006. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2005, actuarial valuation.

The Cash Balance Benefit Program was established July 1, 1996. The most recent experience study of the program was completed June 30, 2003. The experience study was adopted by the Teachers' Retirement Board on March 4, 2004, and used to complete the latest actuarial valuation. All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on March 4, 2004. Where an assumption was revised with this experience study, the assumption used with the past actuarial valuation is also displayed in the tables. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 8.00 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 4.25 percent, of which 3.25 percent is due to inflation and 1.00 percent is due to expected gains in productivity.
- The actuarial cost method used by the program is the traditional unit credit cost method.
- The Cash Balance Benefit Program does not provide cost-of-living adjustments for benefit recipients.

Discussion of recent changes in:

The nature of the program**—**The Cash Balance Benefit Program is a relatively new program, established July 1, 1996. All provisions of the program were considered when completing the most recent actuarial valuation.

Actuarial assumptions**—**The following assumptions were used to complete the valuation for this program.

Neither the economic nor the demographic assumptions for the actuarial valuation as of June 30, 2005, affected the actuarial surplus. Those assumptions for this program will have minimal impact under the traditional unit credit cost method or only have significance when participants elect to annuitize the account balance. Under the program, a participant must have at least $3,500 in his or her account to elect to annuitize the account balance.

ACTUARIAL METHODS

Actuarial Cost Method	Traditional Unit Credit
Asset Valuation Method	Fair Market Value

The actuarial methods used for the program's actuarial valuation as of June 30, 2005, result in an actuarial surplus of $2,137,000.

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been CalSTRS' actuary since January 15, 2000.

There are no other specific assumptions that have a material impact on valuation results for this program.

INDEPENDENT ACTUARIAL REVIEW

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the staff actuary.

The work performed for CalSTRS by the independent actuarial firm may be reviewed by the Bureau of State Audits at the discretion of the Teachers' Retirement Board. Also, through the competitive bid process, the work of a prior actuary will be verified in a subsequent actuarial valuation performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent review of that firm's work through an actuarial audit completed by another firm. These audit services are acquired using the competitive bid process.

The current actuarial consultant was retained on January 15, 2000, as a result of the competitive bid process.

SUMMARY OF CASH BALANCE BENEFIT PROGRAM PROVISIONS

(The following tables and summary were prepared by CalSTRS staff. All information is considered in the June 30, 2005, actuarial valuation.)

Membership

Eligibility Requirement

Membership if employed at less than 50 percent of a full-time position for a California school district, community college district or county office of education that has elected to offer the Cash Balance Benefit Program. May also be hired by a community college district to perform creditable service on a part-time or temporary basis (semester to semester), or for not more than 60 percent of the hours per week considered a regular full-time assignment.

Participant

An eligible employee with creditable service subject to coverage who has contributions credited in the program or is receiving an annuity from the program.

Account Balance

Account Balance

Nominal accounts established for the purpose of determining benefits payable to the participant. Accounts are credited with contributions, minimum interest rate and additional earnings credits.

Contributions

Generally, participant contributions are 4 percent of salary and employer contributions are 4 percent of salary.

Rules for contribution rates may differ for participants covered by a collective bargaining agreement, but the sum of the participant and employer contributions must equal or exceed 8 percent of salary, and in no event can the employer contribution rate be less than 4 percent of salary.

The Teachers' Retirement Board may adjust employer contributions for a fixed number of years, but the adjustment shall not exceed 0.25 percent of salaries in any plan year.

Minimum Interest Rate

Annual rate determined for the plan year by the Teachers' Retirement Board in accordance with federal laws and regulations. The minimum interest rate is equal to the average of the yields on 30-year Treasury Notes for the twelve months ending in February preceding the beginning of the plan year, rounded to the next highest 0.25 percent.

Additional Earnings Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the board.

Additional Annuity Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the Minimum Interest Rate and provide any additions to the Gain and Loss Reserve deemed warranted by the Board.

Normal Retirement

Eligibility Requirement
Age 60.

Benefit
The account balance at the retirement date subject to limits imposed under Internal Revenue Code Section 415.

Form of Payment
The normal form of payment is a lump-sum distribution. Annuity options are available if the sum of the employer and employee accounts equals or exceeds $3,500.

Early Retirement

Eligibility Requirement
Age 55.

Benefit and Form of Payment
Same as Normal Retirement.

Late Retirement

Benefit and Form of Payment
Same as Normal Retirement. Contibutions and interest continue to be credited to the account balances until distributed.

Deferred Retirement

Benefit
A participant may cease active service, leave the accumulated account balance on deposit and later retire upon attaining the minimum age requirement.

Disability Benefit

Eligibility Requirement
Determination by the Teachers' Retirement Board that the participant has a total and permanent disability.

Benefit
The account balance at the date of disability. An annuity benefit is discontinued if the participant is re-employed before age 60 and performs service creditable under the program.

Form of Payment
Same as Normal Retirement.

Death Before Retirement

Eligibility Requirement
Deceased participant has an account balance.

Benefit
The account balance at the date of death payable to the designated beneficiary.

Form of Payment
Normal distribution is a lump-sum benefit. A participant's beneficiary may elect to receive the benefit in the form of either a single life annuity without a cash refund feature or a period-certain annuity if the sum of the balance of credits to the participant's employee and employer accounts equals or exceeds $3,500.

Death After Retirement

Eligibility Requirement
The deceased participant was receiving an annuity.

Benefit
According to the terms of the annuity elected by the participant.

Termination from the Program

Eligibility Requirement

More than five years has elapsed since the most recent termination benefit, if any, has been paid.

Benefit and Form of Payment

Lump-sum distribution of the account balance as of the date of distribution. The benefit is payable six months from the termination of creditable service.

CHANGES IN CASH BALANCE BENEFIT PROGRAM PROVISIONS

Since the last actuarial valuation, program amendments have been made that would affect the next actuarial valuation. The amendments described below were not considered for the June 30, 2005 actuarial valuation as they were effective after that date:

Effective January 1, 2006

- The one year waiting period for the receipt of termination benefits is reduced to six months.
- Extends eligibility to members hired by a community college district to perform creditable service on a part-time or temporary basis (semester to semester), or for not more than 60 percent of the hours per week considered a regular full-time assignment.

All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on March 4, 2004. Where an assumption was revised with this experience study, the assumption used with the past actuarial valuation is also displayed in the tables. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

Table 1 Post-retirement mortality table for sample ages

	Male	*Female*
Age	1999 CalSTRS Retired–M	1999 CalSTRS Retired–F
50	0.19%	0.12%
55	0.32	0.19
60	0.56	0.34
65	1.02	0.67
70	1.80	1.18
75	2.85	1.83
80	5.02	3.78
85	9.42	6.50
90	14.75	11.63
95	23.36	18.62

Table 2 Probabilities of retirement for sample ages

	Under 30 Years		30 or more Years	
Age	Male	Female	Male	Female
55	3.0%	5.0%	6.0%	8.0%
60	7.0	10.0	25.0	30.0
65	14.0	16.0	27.0	27.0
70	100.0	100.0	100.0	100.0

Table 3 Probabilities of withdrawal from active service before age and service retirement for sample ages

	Entry Ages					
Duration	Under 25	25–29	30–34	35–39	40–44	45+
MALE						
1	12.5%	12.5%	12.5%	12.5%	12.5%	13.5%
2	7.7	7.7	7.7	7.7	7.7	8.6
3	6.3	5.4	5.4	5.4	5.4	6.3
4	4.4	4.4	4.4	4.4	4.4	4.4
5	3.9	3.0	3.0	3.0	3.0	3.6
10	2.0	2.0	2.0	2.0	2.4	
15	1.1	1.1	1.1	1.2		
20	0.6	0.6	0.6			
25	0.5	0.5				
30	0.0					
35						
40						
FEMALE						
1	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
2	7.2	7.2	7.2	7.2	7.2	7.2
3	6.3	6.3	5.8	5.3	4.9	4.9
4	5.8	5.8	5.4	4.9	3.9	3.0
5	5.5	5.8	4.2	2.9	2.5	2.5
10	2.3	2.0	1.7	1.4	1.6	
15	1.1	0.9	1.0	0.9		
20	0.6	0.7	0.9			
25	0.6	0.6				
30	0.0					

Table 4 Assumption for pay increases due to promotions and longevity for sample ages (exclusive of the assumed general wage increase, which includes inflation)

	Entry Ages					
Duration	**Under 25**	**25–29**	**30–34**	**35–39**	**40–44**	**45 +**
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
2	5.6	5.1	4.9	4.7	4.7	3.3
3	5.6	5.0	4.8	4.6	4.6	3.0
4	5.5	4.8	4.6	4.4	4.4	2.9
5	5.5	4.8	4.5	3.8	3.8	2.6
10	3.2	3.0	2.7	2.3	2.2	1.6
15	1.5	1.5	1.4	1.1	1.1	0.8
20	1.3	1.1	1.1	0.8	0.8	0.6
25	1.1	0.9	0.8	0.5	0.5	
30	0.9	0.7	0.6	0.5		
35	0.8	0.7	0.6			
40	0.8	0.6				
45	0.8					

Table 5 Economic assumptions

Consumer Price Inflation	3.25%
Investment Yield	8.00
Wage Inflation	4.25
Interest on Member Accounts	8.00

Table 6 Mortality assumptions

Retired Members	
MALE	1999 CalSTRS Retired-M
FEMALE	1999 CalSTRS Retired-F
Active Members	
MALE	1999 CalSTRS Retired-M (-2)
FEMALE	1999 CalSTRS Retired-F (-2)
Beneficiaries	
MALE	1999 CalSTRS Beneficiary-M
FEMALE	1999 CalSTRS Beneficiary-F

Table 7 Termination from disability due to death

MALE	1994 GAM-M (Min. 2.5% with select rates in first 3 years)
FEMALE	1994 GAM-F (Min. 2.2% with select rates in first 3 years)

Table 8 Service Retirement (sample ages)

	Age	**Under 30 years**	**30 or More Years**
MALE	55	3.0%	6.0%
	60	7.0	25.0
	65	14.0	27.0
	70	100.0	100.0
FEMALE	55	5.0%	8.0%
	60	10.0	30.0
	65	16.0	27.0
	70	100.0	100.0

Table 9 Disability rates (sample ages)

	Age	Entry Age Under 40	Entry Age 40 and Up
MALE	25	0.021%	
	30	0.030	
	35	0.051	
	40	0.120	
	45	0.150	0.118%
	50	0.195	0.202
	55	0.270	0.312
FEMALE	25	0.030%	
	30	0.030	
	35	0.051	
	40	0.090	
	45	0.141	0.139%
	50	0.231	0.252
	55	0.318	0.367

Table 10 Schedule of active participant valuation data

Date (as of June 30)	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
2000	7,966	$70,605,000	$8,863	12.7%
2001	11,274	97,921,000	8,686	(2.0)
2002	9,261	89,871,000	9,704	11.7
2003	8,980	81,080,000	9,029	(7.0)
2004	9,114	96,199,000	10,555	16.9
2005	9,385	106,951,000	11,396	8.0

Table 11 Schedule of retired participants and beneficiaries added to and removed from annuity rolls

	*Added to Rolls**		*Removed from Rolls*		*Rolls–End of Year*			
Date (as of June 30)	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase in Annuual Allowances	Average Annual Allowances
2001	0	$0	0	$0	0	$0	na	na
2002	0	0	0	0	0	0	na	na
2003	0	0	0	0	0	0	na	na
2004	3	4,819	0	0	3	4,819	100%	$1,606
2005	4	9,700	1	803	6	13,716	184.6	2,286
2006	5	10,708	0	0	11	24,423	78.1	2,220

**The Cash Balance Benefit Program was established July 1, 1996. As of June 30, 2003, all participants who had retired or become disabled had elected a lump-sum distribution. No annuities had been paid.*

Table 12 Solvency test

	Aggregate Accrued Liabilitites for						
					Funding of Liabilities		
Valuation Date (as of June 30)	**(1) Active Member Contributions on Deposit**	**(2) Future Benefits to Benefit Recipients**	**(3) Service Already Rendered by Active Members**	**Actuarial Value of Assets**	**(1)**	**(2)**	**(3)**
2000	$10,350,720	0	0	$10,868,000	104.9%	na	na
2001	16,938,474	0	0	15,768,000	93.0	na	na
2002	25,080,056	0	0	21,748,000	87.0	na	na
2003	33,836,853	0	0	29,963,000	89.0	na	na
2004	41,972,042	31	0	42,003,000	100.0	100.0%	na
2005	51,728,731	52	0	53,918,000	100.0	100.0	na

Table 13 Analysis of financial experience

	Actuarial Valuation as of June 30	
	2005 **(2004)**	**2004** **(2003)**
Actuarial Obligation at June 30:	$42,003,000	$33,837,000
Expected Changes:		
Contributions	8,639,000	7,712,000
Benefits Paid	(1,480,000)	(777,000)
Expected Earnings/Credits	3,647,000	2,984,000
Expected Actuarial Obligation at June 30:	52,809,000	43,756,000
Expected Actuarial Value of Assets at June 30:	53,079,000	39,572,000
Expected UAO at June 30	(270,000)	4,184,000
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(1,028,000)	(1,753,000)
(Gain) on Assets	(839,000)	(2,681,000)
Total Actuarial Gains & Losses	(1,867,000)	(4,434,000)
Unfunded Actuarial Obligation (Surplus) at June 30, 2005	($2,137,000)	($250,000)
Funded Ratio	104%	101%

expense
average
revenue
compile
fact

Statistical

Defined Benefit Program

Notes: Supplemental statistical tables are available upon request to CalSTRS at 1-800-228-5453.
All non-accounting data presented in the Statistical Section is derived from the pension administration system, except where noted.

The Statistical Section presents data for the Teachers' Retirement Fund and the Voluntary Investment Program, as the remaining Funds are deemed immaterial.

The assets of the Defined Benefit Program, Defined Benefit Supplement Program, and Cash Balance Benefit Program comprise the Teachers' Retirement Fund on the statement of changes in fiduciary net assets.

Table 1 Change in Net Assets (dollars in millions)

Fiscal Year Ending June 30	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*
Additions										
Member Contributions	$1,626.1	$1,748.3	$1,640.7	$1,557.9	$1,381.9	$1,630.4	$1,529.8	$1,424.1	$1,302.8	$1,195.8
Employer Contributions	2,094.5	2,004.6	1,918.3	1,892.1	1,721.4	1,880.9	1,588.5	1,475.7	1,371.4	1,250.0
State of California/ Federal Government (1)	1,018.7	1,218.6	548.7	1,015.0	915.8	946.2	939.2	350.1	1,004.6	872.4
Investment Income	15,732.6	13,897.6	16,354.3	3,622.9	(6,268.5)	(10,230.9)	12,689.8	11,797.8	12,949.5	11,018.8
Other Income	0.1	1.4	(0.3)	0.0	0.7	0.4	0.2	0.1	0.7	0.7
Total Additions	**$20,472.0**	**$18,870.5**	**$20,461.7**	**$8,087.9**	**($2,248.7)**	**($5,773.0)**	**$16,747.5**	**$15,047.8**	**$16,629.0**	**$14,337.7**
Deductions										
Benefit Payments to Members	$6,334.4	$5,835.9	$5,279.5	$4,715.6	$4,244.0	$3,764.6	$3,435.2	$3,145.2	$2,923.8	$2,752.9
Refunds of Member Contributions	82.9	79.1	79.2	78.7	73.9	77.4	80.0	74.6	69.0	65.9
Purchasing Power Benefits	215.3	221.3	223.5	233.8	257.0	189.4	190.5	197.9	179.4	159.4
Administration Expenses	93.6	92.9	93.5	72.1	63.5	54.5	50.5	45.0	36.3	37.1
Other Expense	0.0	10.1	1.7	0.1	2.3	0.0	0.0	0.0	0.0	0.0
Total Deductions	**$6,726.2**	**$6,239.3**	**$5,677.4**	**$5,100.3**	**$4,640.7**	**$4,085.9**	**$3,756.2**	**$3,462.7**	**$3,208.5**	**$3,015.3**
Changes in Net Assets	**$13,745.8**	**$12,631.2**	**$14,784.3**	**$2,987.6**	**($6,889.4)**	**($9,858.9)**	**$12,991.3**	**$11,585.1**	**$13,420.5**	**$11,322.4**

(1) Includes Elder Full Funding, SBMA contributions and school lands revenue.

Table 2 Benefit and Refund Deductions from Net Assets by Type (dollars in millions)

Fiscal Year Ending June 30	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Type of Benefit										
Age & Service Benefits										
Retired Members	$6,033.0	$5,568.1	$5,080.2	$4,518.5	$4,103.2	$3,785.8	$3,458.7	$3,180.5	$2,953.7	$2,769.7
Survivors	351.9	329.8	233.8	247.6	233.5	36.7	33.7	31.8	30.3	28.9
Death	27.6	34.2	74.0	78.1	69.6	42.1	53.2	56.4	51.7	53.5
Disability Benefits										
Retired Members	137.2	125.1	115.0	105.4	94.7	88.4	79.0	73.2	66.5	59.4
Survivors	0.0	0.0	0.0	0.0	0.0	1.0	1.1	1.2	1.0	0.8
Total Benefits	$6,549.7	$6,057.2	$5,503.0	$4,949.6	$4,501.0	$3,954.0	$3,625.7	$3,343.1	$3,103.2	$2,912.3
Type of Refund										
Separation	$82.9	$79.1	$79.2	$78.7	$73.9	$77.4	$80.0	$74.6	$69.0	$65.9
Total Refunds	$82.9	$79.1	$79.2	$78.7	$73.9	$77.4	$80.0	$74.6	$69.0	$65.9

Table 3 Active Member Characteristics

Fiscal Year Ending June 30	Count	Average Earnable Salary[1]	Average Age	Average Service Credit	Average Service Projected to Age 60
1997	364,000	$42,557	44.5	11.3	26.8
1998	385,530	43,766	44.3	11.0	26.7
1999	402,220	45,421	44.2	10.8	26.6
2000	420,530	46,677	44.2	10.7	26.5
2001	428,741	51,478	44.3	10.7	26.4
2002	442,208	53,113	44.3	10.5	26.2
2003	448,478	54,066	44.3	10.5	26.2
2004	444,680	54,978	44.5	10.7	26.2
2005	450,282	46,677	44.5	10.7	26.2
2006	453,365	57,698	44.7	10.8	26.1

[1] *Average salary that would be paid if members worked full-time basis*

Table 4 Members Retired for Service During the 2005/06 Fiscal Year, Classified by Unmodified Allowance [1]

Monthly Unmodified Benefit [2]	Count	Average Age at Retirement	Average Service Credit	Average Final Compensation	Average Benefit Payable
Less than $500	550	61.3	6.249	$3,157	$312
500 – 1000	868	60.8	9.880	4,200	709
1000 – 1500	758	60.2	14.242	4,941	1,197
1500 – 2000	743	60.1	18.039	5,300	1,679
2000 – 2500	767	61.2	20.347	5,629	2,137
2500 – 3000	686	61.8	22.541	5,967	2,625
3000 – 3500	645	61.5	25.972	6,025	3,092
3500 – 4000	613	60.8	28.693	6,221	3,587
4000 – 4500	799	60.5	31.052	6,263	4,054
4500 – 5000	870	60.7	32.508	6,426	4,494
5000 – 6000	1,713	61.5	34.610	6,623	5,173
6000 & Greater	1,865	62.4	37.147	8,045	6,742
Total	**10,877**	**61.2** [3]	**26.044** [3]	**6,079** [3]	**3,600**

[1] *Does not include formerly disabled members*
[2] *As of the June 30, 2004 population report the longevity bonus is included in the unmodified allowance*
[3] *Overall averages*

Table 5 Members Retired for Service During the 2005/06 Fiscal Year [1], **Classified by Age and Joint & Survivor Option Elected** [2]

			Options						
Age	**Total**	**Unmodified**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Under 55	28	9	4	2	0	2	6	5	0
55	260	156	21	1	1	1	50	30	0
56	689	403	37	16	4	2	137	86	4
57	566	298	41	10	0	1	126	86	4
58	700	337	61	15	5	1	170	106	5
59	962	447	89	15	5	2	238	158	8
60	1,242	583	81	18	6	6	310	231	7
61	1,201	581	89	21	8	3	299	197	3
62	1,429	660	109	27	9	3	366	240	15
63	1,111	585	64	19	3	2	249	178	11
64	747	406	48	15	4	4	138	125	7
65	480	276	29	9	5	0	85	69	7
66	382	219	21	5	2	2	86	41	6
67	261	150	12	5	2	0	47	45	0
68	201	114	14	2	1	0	36	29	5
69	153	95	7	1	0	1	30	17	2
70	115	76	6	2	0	0	17	13	1
71	93	57	4	2	0	2	15	12	1
72	66	39	5	3	1	0	6	12	0
73	43	24	1	1	0	0	2	13	2
74	39	25	4	1	0	0	6	2	1
75	30	16	4	1	0	0	4	5	0
Over 75	79	47	4	4	0	0	13	6	5
Age Unknown	0	0	0	0	0	0	0	0	0
Total	**10,877**	**5,603**	**755**	**195**	**56**	**32**	**2,436**	**1,706**	**94**

[1] *Does not include formerly disabled members*

[2] *See Plan Summary for description of Joint and Survivor Options*

Table 6 Characteristics of members going on disability

Fiscal Year Ending June 30	Count	Average Disability Allowance Payable	Average Service Credit	Average Final Compensation	Average Age at Disability
1997	464	$1,923	15.660	$3,883	52.0
1998	451	1,989	14.446	3,906	52.3
1999	414	2,114	15.630	4,027	52.2
2000	454	2,124	15.224	4,190	52.6
2001	486	2,270	15.802	4,476	53.9
2002	554	2,272	14.840	4,580	53.6
2003	614	2,385	14.894	4,849	53.0
2004	580	2,409	14.453	4,899	53.3
2005	538	2,488	14.016	5,103	53.3
2006	402	2,522	14.061	5,134	54.5

Table 7 Number of benefit recipients by type of benefit

Fiscal Year Ending June 30	Service Retirement	Disability Benefits	Benefits for Survivors	Total Benefit Recipients
1997	135,809	5,676	12,154	153,639
1998	139,193	5,758	12,796	157,747
1999	142,309	5,822	13,326	161,457
2000	145,415	5,885	13,982	165,282
2001	149,727	6,477	14,768	170,972
2002	154,884	6,723	15,465	177,072 (1)
2003	159,172	6,949	15,747	181,868
2004	169,022	7,311	16,912	193,245
2005	176,008	7,571	17,662	201,241
2006	181,833	7,683	18,330	207,846

(1) *Disability and survivor counts revised in 2003*

Table 8 Members retired for service characteristics by year of retirement (Does not include formerly disabled members)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Benefit	Average Final Compensation	Average Age at Retirement
7/1/1996 thru 6/30/1997					
0 - 5	50	2.4	$292	-	-
5 - 10	419	7.3	398	-	-
10 - 15	480	12.4	769	-	-
15 - 20	526	17.6	1,245	-	-
20 - 25	790	22.6	1,724	-	-
25 - 30	1,066	27.6	2,251	-	-
30 - 35	1,447	32.5	2,722	-	-
35 - 40	1,026	37.2	3,443	-	-
40 & over	207	42.0	4,080	-	-
Total	**6,011**	**26.6**	**$2,210**	**$4,206**	**60.9**
7/1/1997 thru 6/30/1998					
0 - 5	73	2.5	$298	-	-
5 - 10	530	7.4	414	-	-
10 - 15	572	12.6	834	-	-
15 - 20	581	17.7	1,280	-	-
20 - 25	884	22.6	1,811	-	-
25 - 30	1,356	27.7	2,331	-	-
30 - 35	1,799	32.5	2,817	-	-
35 - 40	1,259	37.2	3,548	-	-
40 & over	278	42.0	4,251	-	-
Total	**7,332**	**26.8**	**$2,310**	**$4,345**	**60.8**
7/1/1998 thru 6/30/1999					
0 - 5	72	2.8	$355	-	-
5 - 10	459	7.6	491	-	-
10 - 15	611	12.6	959	-	-
15 - 20	644	17.5	1,394	-	-
20 - 25	806	22.6	1,999	-	-
25 - 30	1,081	27.6	2,574	-	-
30 - 35	1,852	32.5	3,237	-	-
35 - 40	1,312	37.2	4,093	-	-
40 & over	411	42.6	5,147	-	-
Total	**7,248**	**27.2**	**$2,706**	**$4,541**	**61.2**

Table 8 continued Members retired for service characteristics by year of retirement (Does not include formerly disabled members)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Benefit	Average Final Compensation	Average Age at Retirement
7/1/1999 thru 6/30/2000					
0 - 5	92	2.2	$279	-	-
5 - 10	519	7.6	504	-	-
10 - 15	658	12.5	994	-	-
15 - 20	694	17.6	1,512	-	-
20 - 25	900	22.5	2,099	-	-
25 - 30	960	27.4	2,733	-	-
30 - 35	1,968	32.5	3,487	-	-
35 - 40	1,382	37.1	4,495	-	-
40 & over	383	42.3	5,532	-	
Total	**7,556**	**26.8**	**$2,872**	**$4,688**	**61.3**
7/1/2000 thru 6/30/2001[2]					
0 - 5	86	2.3	$226	-	-
5 - 10	505	7.3	513	-	-
10 - 15	661	12.6	1,067	-	-
15 - 20	707	17.4	1,594	-	-
20 - 25	821	22.4	2,165	-	-
25 - 30	988	27.3	3,076	-	-
30 - 35	2,446	32.6	4,138	-	-
35 - 40	2,041	37.2	5,267	-	-
40 & over	446	42.1	6,417	-	-
Total	**8,701**	**28.1**	**$3,524**	**$5,312**	**61.2**
7/1/2001 thru 6/30/2002[2]					
0 - 5	86	2.4	$228	-	-
5 - 10	499	7.3	512	-	-
10 - 15	679	12.6	1,093	-	-
15 - 20	860	17.4	1,714	-	-
20 - 25	886	22.3	2,387	-	-
25 - 30	1,081	27.1	3,288	-	-
30 - 35	2,912	32.7	4,536	-	-
35 - 40	2,277	37.2	5,738	-	-
40 & over	482	42.1	6,907	-	-
Total	**9,762**	**28.3**	**$3,869**	**$5,686**	**61.1**

Table 8 continued Members retired for service characteristics by year of retirement (Does not include formerly disabled members)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Benefit	Average Final Compensation	Average Age at Retirement
7/1/2002 thru 6/30/2003[2]					
0 - 5	103	2.4	$206	-	-
5 - 10	674	7.2	525	-	-
10 - 15	749	12.6	1,149	-	-
15 - 20	1,074	17.5	1,821	-	-
20 - 25	1,063	22.6	2,494	-	-
25 - 30	1,212	27.1	3,372	-	-
30 - 35	3,384	32.7	4,640	-	-
35 - 40	2,444	37.2	5,855	-	-
40 & over	486	42.3	7,114	-	-
Total	**11,189**	**27.9**	**$3,879**	**$5,807**	**61.2**
7/1/2003 thru 6/30/2004[2]					
0 - 5	116	2.4	$242	-	-
5 - 10	883	7.2	559	-	-
10 - 15	944	12.6	1,178	-	-
15 - 20	1,277	17.6	1,864	-	-
20 - 25	1,200	22.5	2,614	-	-
25 - 30	1,393	27.1	3,416	-	-
30 - 35	3,495	32.6	4,761	-	-
35 - 40	2,477	37.2	5,919	-	-
40 & over	516	42.1	7,255	-	-
Total	**12,301**	**27.1**	**$3,817**	**$5,891**	**61.2**
7/1/2004 thru 6/30/2005[2]					
0 - 5	122	2.5	$268	-	-
5 - 10	1,008	7.2	591	-	-
10 - 15	897	12.6	1,170	-	-
15 - 20	1,311	17.5	1,906	-	-
20 - 25	1,286	22.3	2,579	-	-
25 - 30	1,217	27.0	3,475	-	-
30 - 35	3,208	32.5	4,847	-	-
35 - 40	2,162	37.2	6,100	-	-
40 & over	413	42.0	7,422	-	-
Total	**11,624**	**26.3**	**$3,744**	**$5,944**	**61.7**

Table 8 continued Members retired for service characteristics by year of retirement (Does not include formerly disabled members)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Benefit	Average Final Compensation	Average Age at Retirement
7/1/2005 thru 6/30/2006[2]					
0 - 5	115	2.4	$281	$5,724	61.2
5 - 10	980	7.3	607	4,056	61.7
10 - 15	919	12.5	1,197	4,756	61.2
15 - 20	1,235	17.6	1,935	5,387	61.2
20 - 25	1,198	22.2	2,631	5,758	61.3
25 - 30	1,143	27.0	3,678	6,423	61.9
30 - 35	2,843	32.5	4,982	6,685	60.4
35 - 40	2,091	37.2	6,279	7,024	61.2
40 & over	353	42.2	7,575	7,163	65.1
Total	**10,877**	**26.0**	**$3,810**	**$6,079**	**61.2**

[1] *Does not include formerly disabled members*
[2] *The Average Unmodified Allowance for this fiscal year includes the Longevity Bonus*

Table 9 All Members Retired for Service Characteristics[1]

Fiscal Year Ending June 30	Average Age at Retirement	Average Years of Service Credit	Average Final Compensation	Average Current Benefit Payable
1997	60.8	24.8	$2,837	$1,566
1998	60.8	24.7	2,945	1,638
1999	60.7	24.8	3,057	1,729
2000	60.7	25.0	3,175	1,824
2001	60.7	25.4	3,356	2,033
2002	60.7	25.7	3,539	2,183
2003	60.7	25.9	3,735	2,339
2004	60.7	26.0	3,931	2,488
2005	60.8	26.1	4,103	2,617
2006	60.8	26.2	4,264	2,741

[1] *Does not include formerly disabled members*

Table 10 All Retired Members by Type of Benefit and Option Selected

		Type of Benefit [1]			Option Selected [2]							
Monthly Unmodified Benefit [4]	Total	1 [3]	2	3	Unmodified	2	3	4	5	6	7	8
Less than $500	21,076	17,695	278	3,103	15,798	2,445	865	88	110	1,144	530	96
500 - 1000	28,780	24,145	1,080	3,555	19,544	3,466	2,190	147	140	1,928	1,320	45
1000 - 1500	28,301	23,653	1,169	3,479	16,898	3,887	2,424	282	196	2,448	2,127	39
1500 - 2000	26,850	22,514	1,705	2,631	15,153	3,289	1,690	544	222	2,883	3,017	52
2000 - 2500	24,471	20,393	1,986	2,092	12,717	2,896	1,273	470	250	3,338	3,449	78
2500 - 3000	18,656	16,273	1,061	1,322	8,957	2,097	759	351	146	3,308	2,973	65
3000 - 3500	13,222	12,100	299	823	5,952	1,400	472	291	92	2,768	2,202	45
3500 - 4000	9,302	8,783	74	445	4,110	909	309	183	60	2,005	1,673	53
4000 - 4500	7,990	7,674	20	296	3,341	725	245	116	42	1,857	1,587	77
4500 - 5000	7,377	7,181	7	189	3,114	619	215	77	32	1,812	1,441	67
5000 - 6000	12,179	11,933	2	244	5,072	1,007	305	129	42	3,137	2,348	139
6000 & Greater	9,642	9,489	2	151	3,466	998	254	123	33	2,896	1,711	161
Total	207,846	181,833	7,683	18,330	114,122	23,738	11,001	2,801	1,365	29,524	24,378	917

[1] *Type of Benefit:*
1) Service Retirement
2) Disability Benefits
3) Benefits to Survivors

[2] *Option Selected:*
Option 2 - Beneficiary receives 100% of member's modified allowance
Option 3 - Beneficiary receives 50% of member's modified allowance
Option 4 - Beneficiary receives 2/3 of member's modified allowance
Option 5 - Survivors receives 50% of member's modified allowance, upon death of either member of beneficiary
Option 6 - Beneficiary receives 100% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount
Option 7 - Beneficiary receives 50% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount
Option 8 - Compound option that allows the member to provide for more than one beneficiary

[3] *Does not include formerly disabled members*
[4] *As of the June 30, 2004 population report the longevity bonus is included in the unmodified allowance*

Defined Benefit Supplement Program

Table 1 Change in Net Assets (dollars in millions)

Fiscal Year Ending June 30	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*
Additions						
Member Contributions	$599.1	$574.1	$565.8	$532.6	$487.2	$210.2
Employer Contributions	104.0	95.6	125.3	72.2	0.0	0.0
Investment Income	339.0	235.5	247.6	63.9	(27.7)	(0.2)
Total Additions	**$1,042.1**	**$905.2**	**$938.7**	**$668.7**	**$459.5**	**$210.0**
Deductions						
Benefit Payments to Members	$98.0	$75.4	$42.0	$0.6	$0.1	$0.0
Refunds of Member Contributions	14.0	8.6	3.1	0.7	0.0	0.0
Administration Expenses	2.0	1.7	1.2	0.6	0.3	0.1
Other Expense	0.0	0.0	0.0	0.0	3.9	0.0
Total Deductions	**$114.0**	**$85.7**	**$46.3**	**$1.9**	**$4.3**	**$0.1**
Change in Net Assets	**$928.1**	**$819.5**	**$892.4**	**$666.8**	**$455.2**	**$209.9**
Defined Benefit Supplement Program begins in 2001.						

Table 2 Benefit and Refund deductions from Net Assets by Type (dollars in millions)

Fiscal Year Ending June 30	2006	2005	2004	2003	2002	2001
Type of Benefit						
Age & Service Benefits						
Retired Members	$94.0	$71.4	$39.0	$0.5	$0.0	$0.0
Survivors	0.1	0.0	0.2	0.0	0.0	0.0
Death	1.9	2.0	1.1	0.1	0.1	0.0
Disability Benefits						
Retired Members	$2.0	$2.0	$1.6	$0.0	$0.0	$0.0
Total Benefits	$98.0	$75.4	$42.0	$0.6	$0.1	$0.0
Type of Refund						
Separation	$14.0	$8.6	$3.1	$0.7	$0.0	$0.0
Total Refunds	$14.0	$8.6	$3.1	$0.7	$0.0	$0.0

Defined Benefit Supplement Program began in 2001.

Table 3 Members Retired for Service During the 2005/06 Fiscal Year[1], Classified by Age and Annuity Selected

		Regular Annuity				*Period Certain*							
Age	**Total**	**Single Life Without Cash**	**Single Life with Cash**	**100% Joint and Survivor**	**50% Joint and Survivor**	**10 Years**	**9 years**	**8 years**	**7 Years**	**6 Years**	**5 Years**	**4 Years**	**3 Years**
Under 55	17	0	0	3	1	2	1	1	1	1	3	0	4
55	171	16	27	27	4	24	1	1	3	0	31	4	33
56	197	17	28	41	5	15	1	4	0	3	28	12	43
57	216	19	30	41	10	20	6	2	5	4	30	8	41
58	291	15	33	60	5	14	8	4	6	4	49	17	76
59	360	20	46	66	12	21	8	5	9	10	61	11	91
60	524	44	59	95	16	46	10	1	3	8	110	15	117
61	404	30	56	75	9	40	3	6	4	8	59	18	96
62	533	53	58	107	21	46	9	3	5	8	78	28	117
63	349	39	40	68	13	25	6	4	6	6	56	11	75
64	225	22	36	40	10	21	0	0	3	3	29	7	54
65	168	25	26	28	2	15	3	0	0	3	28	3	35
66	123	18	21	17	3	12	1	0	0	2	25	1	23
67	103	8	17	16	4	16	0	2	0	1	17	2	20
68	83	8	17	10	5	8	0	1	1	0	8	3	22
69	53	9	13	7	0	6	0	0	0	0	6	2	10
70	47	4	13	7	0	6	0	0	0	1	9	0	7
71	29	6	3	4	0	1	0	1	1	0	3	2	8
72	21	3	3	3	2	0	0	0	0	0	5	0	5
73	14	0	4	1	2	1	0	0	0	1	2	2	1
74	15	1	0	2	0	2	1	0	0	0	3	1	5
75	7	0	2	1	0	2	0	0	0	0	1	0	1
Over 75	23	0	4	7	2	0	1	0	0	0	2	0	7
Age Unknown	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**3,973**	**357**	**536**	**726**	**126**	**343**	**59**	**35**	**47**	**63**	**643**	**147**	**891**

[1] *Does not include formerly disabled members*

Table 4 Charatcteristics of All Members Retired for Service and Receiving an Annuity

Fiscal Year Ending June 30	Count	Average Retirement Annuity Payable	Average Account Balance [2]	Average Age at Retirement
2001[1]			-	0
2002			-	0
2003			-	0
2004	1,902	$94	$3,120	61.1
2005	5,394	118	4,317	61.3
2006	9,153	138	5,257	61.3

[1]The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003 all members who had retired or become disabled had elected a lump-sum distribution.
[2] Neither Service Credit nor Final Compensation are factors in determining a benefit from the Defined Benefit Supplement Program, and therefore are not included in this table.

Table 5 Characteristics of All Members Retired for Disability and Receiving an Annuity

Total				
Fiscal Year Ending June 30	**Count**	**Average Disability Annuity Payable**	**Average Accumulated Credits [2]**	**Average Age at Disability**
2001[1]	0	-	-	-
2002	0	-	-	-
2003	0	-	-	-
2004	25	$82	$2,152	55.4
2005	52	94	2,765	55.2
2006	76	106	3,335	55.8

[1]The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003 all members who had retired or become disabled had elected a lump-sum distribution.
[2] Neither Service Credit nor Final Compensation are factors in determining a benefit from the Defined Benefit Supplement Program, and therefore are not included in this table.

Table 6 All Retired Members by Type of Benefit and Type of Annuity Selected

	Monthly Unmodified Allowance					
Type of Benefit	**Less than $250**	**$250 - 500**	**$500 - 750**	**$750 - 1,000**	**$1,000 & Greater**	**Total**
Retirement	7,878	1,198	74	2	1	9,153
Disability	71	5	0	0	0	76
Survivors	62	10	1	0	0	73
Total	**8,011**	**1,213**	**75**	**2**	**1**	**9,302**
Type of Payment						
Regular Annuity [1]						
A	997	2	0	0	0	999
B	1,022	2	0	0	0	1,024
C	1,657	3	0	0	0	1,660
D	365	0	0	0	0	365
Period Certain Annuity						
10 Year	853	12	1	0	0	866
9 Year	114	3	0	0	0	117
8 Year	86	5	0	0	0	91
7 Year	132	4	0	0	0	136
6 Year	147	6	2	0	0	155
5 Year	1,289	167	10	0	0	1,466
4 Year	316	82	7	0	0	405
3 Year	1,033	927	55	2	1	2,018
Total	**8,011**	**1,213**	**75**	**2**	**1**	**9,302**

[1] *Regular Annuity*
A - Single Life Without Cash Refund
B - Single Life With Cash Refund
C - 100% Joint and Survivor Annuity
D - 50% Joint and Survivor Annuity

Table 7 Principal Participating Employers Current Year and Nine Years Ago

	2006			1997		
Participating Government	**Covered Employees**	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
Los Angeles USD	50,734	1	8.64%	40,712	1	9.62%
San Diego City USD	10,960	2	1.87%	8,922	2	2.10%
Long Beach USD	6,828	3	1.16%	4,998	4	1.18%
Fresno USD	5,795	4	0.99%	5,350	3	1.26%
San Bernardino City USD	4,467	5	0.76%	2,713	10	0.64%
San Francisco USD	4,358	6	0.74%	4,763	5	1.12%
Elk Grove USD	4,199	7	0.72%			
Sacramento City USD	3,869	8	0.66%	3,302	8	0.77%
Oakland USD	3,796	9	0.65%	4,185	6	0.99%
Los Angeles CCD	2,745	10	0.47%			
San Juan USD				3,833	7	0.91%
Santa Ana USD				2,859	9	0.68%
All Other	489,215		83.34%	341,748		80.73%
Total (1,400 Employers)	586,966		100.00%	423,385		100.00%

Cash Balance Benefit Program

Table 1 Change in Net Assets (dollars in thousands)

Fiscal Year Ending June 30	2006	2005	2004	2003	2002	2001	2000 [3]	1999	1998	1997
Additions										
Participant Contributions	$5,503.4	$4,149.1	$3,866.6	$3,580.9	$3,535.1	$2,936.1	$2,589.8	$550.0	$772.0	$74.0
Employer Contributions	5,102.3	4,490.1	3,844.9	3,589.6	3,586.0	3,035.0	2,364.8	560.0	772.0	74.0
Investment Income	6,111.4	4,540.2	5,384.4	1,381.9	(943.8)	(942.2)	812.0	(183.0)	105.0	20.3
Total Additions	**$16,717.1**	**$13,179.4**	**$13,095.9**	**$8,552.4**	**$6,177.3**	**$5,028.9**	**$5,766.6**	**$927.0**	**$1,649.0**	**$168.3**
Deductions										
Benefit Payments to Participant	$1,329.7 [1]	$1,235.2 [1]	$580.3	$188.0	$105.5 [2]	$0.0	$0.0	$0.0	$0.0	$0.0
Refunds of Participant Contributions	472.4	244.8	196.7	132.5	89.8 [2]	118.7	58.5	3.0	0.0	0.0
Administration Expense	36.0	34.0	27.7	16.8	10.8	8.2	4.8	387.0	397.0	393.0
Other Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.0	69.0	34.9
Total Deductions	**$1,838.1**	**$1,514.0**	**$804.7**	**$337.3**	**$206.1**	**$126.9**	**$63.3**	**$432.0**	**$466.0**	**$427.9**
Change in Net Assets	**$14,879.0**	**$11,665.4**	**$12,291.2**	**$8,215.1**	**$5,971.2**	**$4,902.0**	**$5,703.3**	**$495.0**	**$1,183.0**	**($259.6)**

[1] The benefit payments for fiscal years 2003/04, 2004/05 and 2005/06 include member elected Administrative Transfers to purchase service credit in the Defined Benefit program. The amounts were $220,255, $603,499, and $594,133 respectively.

[2] In prior years, all payments were categorized as refunds however in fiscal year 2001/02 benefit payments and refunds were identified separately.

[3] Due to the merger of the Cash Balance Plan with the Teachers' Retirement Plan in fiscal year 1999/00, there was a decrease in administrative expenses. These expenses were absorbed by the Teachers' Retirement Plan (California Education Code 22001.5 and 26000)

Table 2 Benefit and Refund Deductions from Net Assets by Type (dollars in thousands)

Fiscal Year Ending June 30	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Type of Benefit										
Age & Service Benefits										
Retired Members	$1,237.0 [1]	$1,143.2 [1]	$535.4	$132.2	$82.7	$0.0	$0.0	$0.0	$0.0	$0.0
Death	91.4	92.0	44.9	48.3	22.8	0.0	0.0	0.0	0.0	0.0
Disability Benefits										
Retired Members	$1.3	$0.0	$0.0	$7.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total Benefits	**$1,329.7**	**$1,235.2**	**$580.3**	**$188.0**	**$105.5**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Type of Refund										
Separation	$472.4	$244.8	$196.7	$132.5	$89.8	$118.7	$58.5	$3.0	$0.0	$0.0
Total Refunds	**$472.4**	**$244.8**	**$196.7**	**$132.5**	**$89.8**	**$118.7**	**$58.5**	**$3.0**	**$0.0**	**$0.0**

[1] The benefit payments for fiscal years 2003/04, 2004/05 and 2005/06 include member elected Administrative Transfers to purchase service credit in the Defined Benefit program. The amounts were $220,255, $603,499, and $594,133 respectively.

Table 3 Members Retired for Service During the 2005/06 Fiscal Year[1] Classified by Age and Type of Annuity Selected

		Regular Annuity				Period Certain Annuity							
Age	Total	Single Life Without Cash	Single Life with Cash	100% Joint and Survivor	50% Joint and Survivor	10 Years	9 years	8 years	7 Years	6 Years	5 Years	4 Years	3 Years
Under 55													
55													
56													
57													
58													
59													
60													
61													
62													
63	1										1		
64	2		1									1	
65													
66	1												1
67													
68													
69													
70													
71													
72													
73	1	1											
74													
75													
Over 75													
Age Unknown													
Total	5	1	1	0	0	0	0	0	0	0	1	1	1

[1] *Does not include formerly disabled members*

Table 4 Characteristics of All Members Retired for Service and Receiving an Annuity

Fiscal Year Ending June 30 [1]	Average Age at Retirement	Average Account Balance [2]	Average Current Benefit Payable
2001			
2002			
2003			
2004	67.8	$10,344	$134
2005	65.0	13,187	191
2006	65.7	11,596	185

[1] *The Cash Balance Benefit Program was established July 1, 1996. As of June 30, 2003, all participants who had retired or become disabled had elected a Lump-Sum distribution. No annuities had been paid.*

[2] *Neither Service Credit nor Final Compensation are factors in determining a benefit from the Defined Benefit Supplement Program and therefore are not included in this table.*

Table 5 All Participants Receiving an Annuity during 2005–2006 by Type of Benefit and Type of Annuity Selected

	Monthly Unmodified Allowance					
Type of Benefit	**Less than $250**	**$250–500**	**$500–750**	**$750–1,000**	**$1,000 & Greater**	**Total**
Retirement	9	2				11
Disability						
Survivors						
Total	9	2				11
Type of Payment						
Regular Annuity [1]						
A	2					2
B	2					2
C						0
D						0
Period Certain Annuity						
10 Year	1					1
9 Year						0
8 Year						0
7 Year						0
6 Year						0
5 Year	3	1				4
4 Year		1				1
3 Year	1					1
Total	**9**	**2**	**0**	**0**	**0**	**11**

[1] *Regular Annuity*
A - Single Life Without Cash Refund
B - Single Life With Cash Refund
C - 100% Joint and Survivor Annuity
D - 50% Joint and Survivor Annuity

Table 6 Principal Participating Employers for the Cash Balance Benefit Program, Current Year and Nine Years Ago
Participating Government = School District/Community College District

	2006			1997		
Participating Government	**Covered Employees**	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
Los Angeles CCD	2,056	1	9.36%			
Contra Costa CCD	1,888	2	8.59%	490	1	99.00%
West Contra Costa Unified	1,817	3	8.27%			
City College of San Francisco	1,776	4	8.08%			
Peralta CCD	1,672	5	7.61%			
Chabot-Las Positas CCD	1,652	6	7.52%			
San Jose Evergreen CCD	1,355	7	6.17%			
Sonoma Jr.College District	1,188	8	5.41%			
Foothill DeAnza CCD	1,053	9	4.79%			
Glendale CCD	1,040	10	4.73%			
Robla Elementary School District				5	2	1.00%
All Other	6,357		29.46%			
Total (30 Districts)	**21,854**		**100.00%**	**495**		**100.00%**

** Cash Balance Benefit Program had only two participating employers in the 1996/97 Fiscal Year*

Programs Administered or Overseen by the Retirement System

VOLUNTARY INVESTMENT PROGRAM

Note: Non-accounting data provided by CitiStreet LLC, the third party administrator for the Voluntary Investment Program.

Table 1 Change in Net Assets (dollars in thousands)

Fiscal Year Ending June 30	***2006***	***2005***	***2004***	***2003***	***2002***	***2001***	***2000***	***1999***	***1998***	***1997***
Additions										
Participant Contributions	$21,509	$20,379	$19,535	$17,481	$14,472	$14,732	$13,792	$8,675	$5,079	$3,235
Interest, Dividends and Investment Income	10,245	6,143	9,754	1,054	(6,158)	(5,099)	3,116	4,121	2,911	1,833
Total Additions	**$31,754**	**$26,522**	**$29,289**	**$18,535**	**$8,314**	**$9,633**	**$16,908**	**$12,796**	**$7,990**	**$5,068**
Deductions										
Benefit Payments to Participant	$2,286	$2,645	$1,617	$1,965	$453	$250	$250	$237	$165	$710
Refunds of Participant Contributions	7,481	6,131	6,440	3,478	2,553	2,288	2,201	1,610	1,662	888
Administration Expenses	935	917	807	504	372	344	275	205	155	124
Total Deductions	**$10,702**	**$9,693**	**$8,864**	**$5,947**	**$3,378**	**$2,882**	**$2,726**	**$2,052**	**$1,982**	**$1,722**
Change in Net Assets	**$21,052**	**$16,829**	**$20,425**	**$12,588**	**$4,936**	**$6,751**	**$14,182**	**$10,744**	**$6,008**	**$3,346**

Table 2 Principal Participating Employers for CalSTRS Voluntary Investment Program, Current Year and Nine Years Ago
Participating Government = School District/Community College District

	2006			1997		
Participating Government	**Covered Employees**	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
Los Angeles Unified (61)	525	1	14.47%	34	1	5.00%
San Diego Unified	65	2	1.80%	20	5	3.00%
San Francisco Unified	44	3	1.20%	12	10	1.80%
Long Beach Unified	43	4	1.20%			
Sacramento City Unified	42	5	1.20%	19	6	2.80%
Capistrano Unified	37	6	1.00%			
Fresno Unified	33	7	0.90%			
Mount Diablo Unified	31	8	0.90%	25	4	3.70%
San Juan Unified	29	9	0.80%	15	7	2.20%
Orange Unified	28	10	0.80%			
Las Lomitas Elementary				30	2	4.40%
Oceanside Unified				25	3	3.70%
Westminster Elementary				14	8	2.10%
Burbank Unified				12	9	1.80%
All Other	2,752		75.73%	471		69.50%
Total (404 Districts)	**3,629**		**100.00%**	**677**		**100.00%**

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