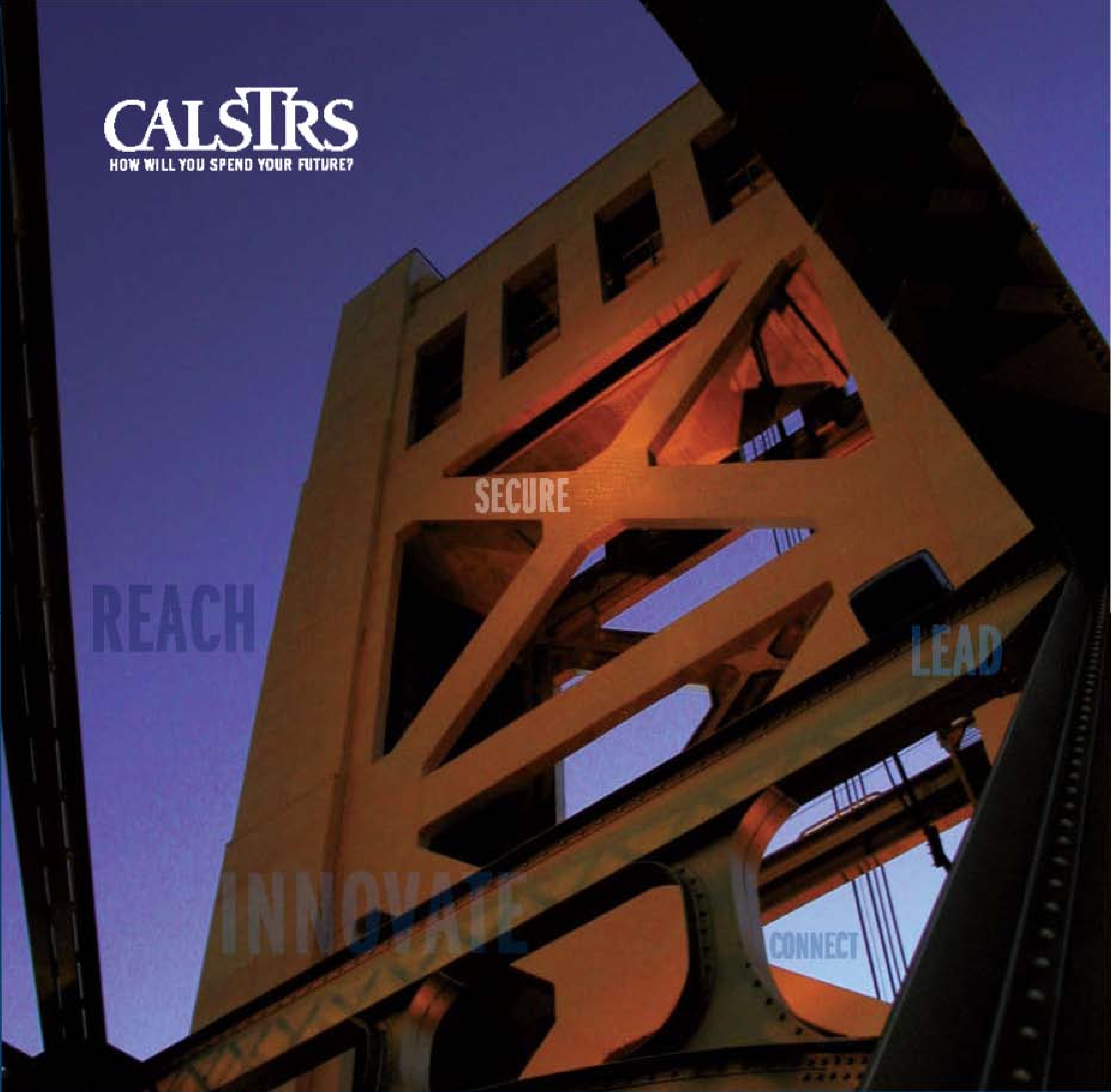
CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?



California State Teachers' Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component of the State of California
For the Fiscal Year Ended June 30, 2007

FUTURE

MISSION STATEMENT

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

4 MAIN GOALS

No Surprises

Customer Service

Provide the customer what they need, when they need it.

One and Done

Quality

Provide timely, accurate, and cost–effective products and services the first time, every time.

Trusted Guide

Informed Decisions

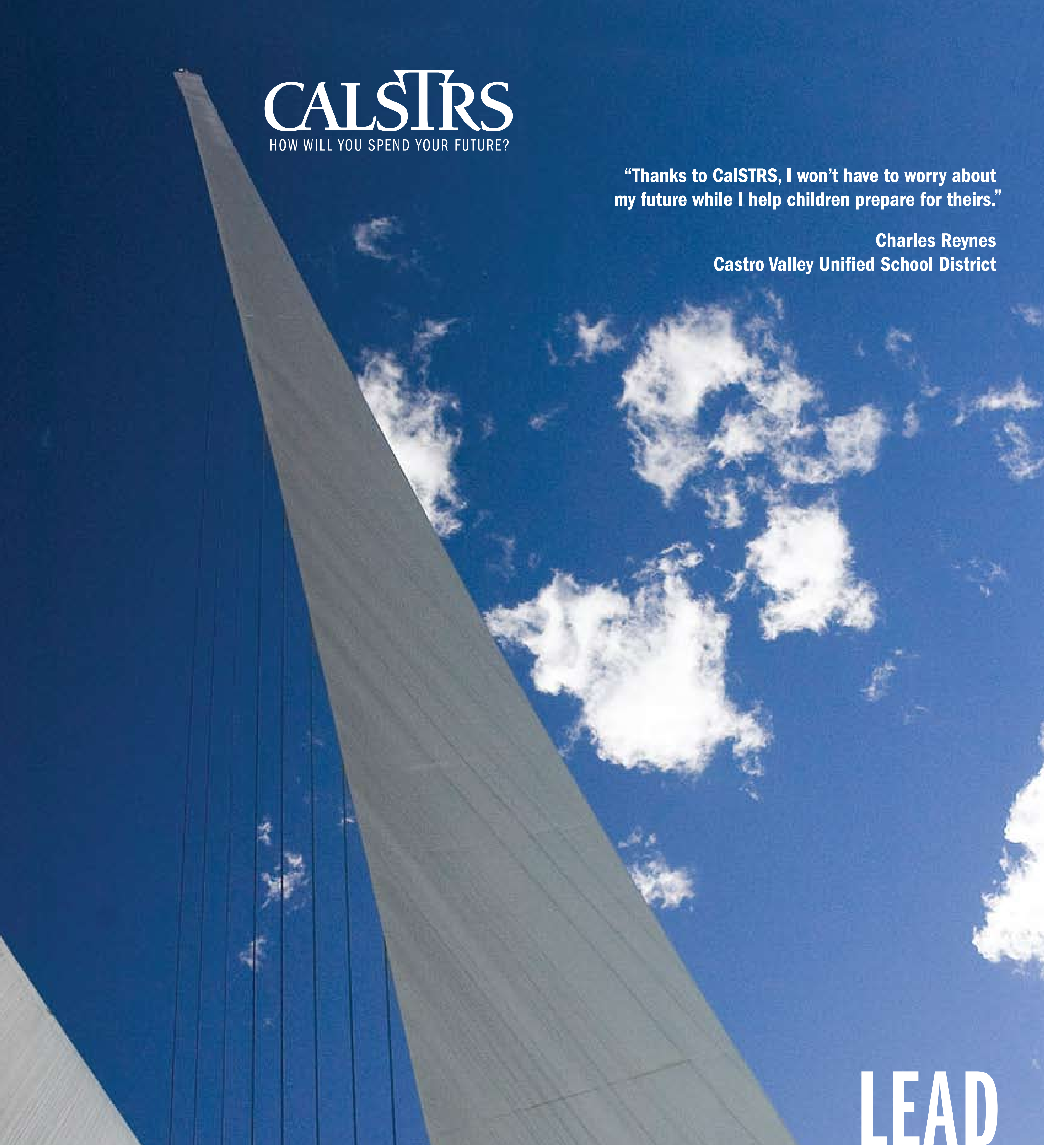
Deliver knowledgeable, compassionate and consistent education and consultation to make smart decisions.

Rock Solid

Organizational and Financial Strength

Develop and support our people, ensure the integrity of our systems, and strengthen the trust fund.

CalSTRS
HOW WILL YOU SPEND YOUR FUTURE?



"Thanks to CalSTRS, I won't have to worry about my future while I help children prepare for theirs."

Charles Reynes
Castro Valley Unified School District

LEAD INTRO

California State Teachers' Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component of the State of California
For the Fiscal Year Ended June 30, 2007

Prepared by CalSTRS Staff

NAME
Charles Reynes

SCHOOL DISTRICT
Castro Valley Unified

WHY I TEACH
To make children's science experience as exciting as possible. I want to give kids really big, really rich experiences.

SUBJECT AREA
Science - 4^{th} and 5^{th} grade

CalSTRS member since 1986

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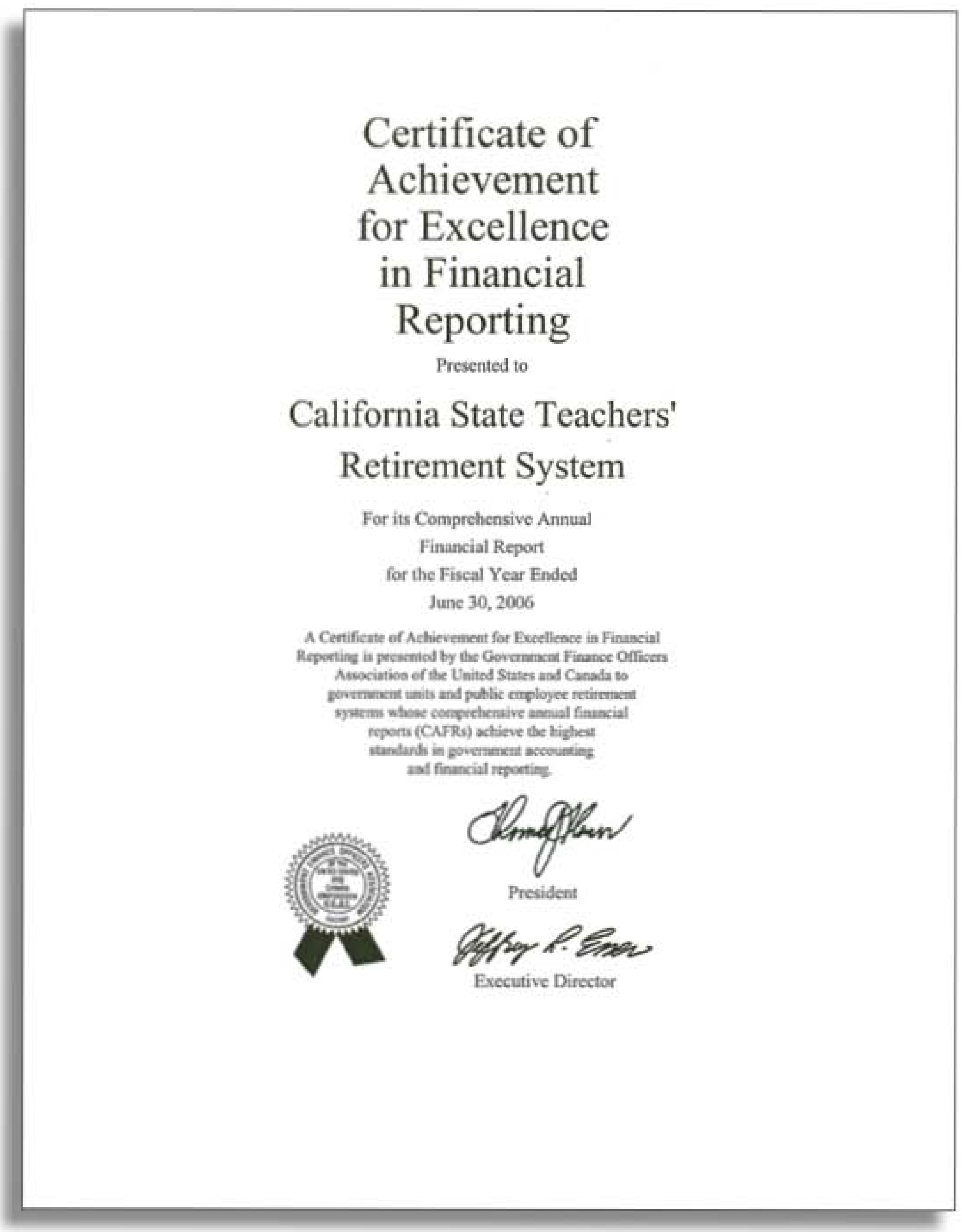


Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Teachers' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

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

CONNECT SECURE LEAD

REACH INNOVATE

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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

February 4, 2008

The Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the Fiscal Year Ended June 30, 2007 details the performance of our state fund.

CalSTRS financial services span five generations of Californians and connect a diverse population across 163,707 square miles of state geography. Our services bridge the new teacher just starting out with the retired educator enjoying the fruits of 30 years in the classroom.

The past year saw many changes to the way CalSTRS serves its more than 800,000 members and beneficiaries. From our proactive approach on significant and far-reaching issues like corporate governance and climate change to our continual strengthening of our investment portfolio, the promised retirement benefits remain our foremost concern.

While we have ended the 2006–07 fiscal year with another record high in our investment portfolio, we are continually reminded that behind the CalSTRS numbers, demographics and statistics are California educators who serve our public school students. In recognition of their dedication, we have included a sampling of member reflections within each report section.

MEMBER PROFILE

CalSTRS provides retirement, disability and survivor benefits to California's 812,784 public school educators and their beneficiaries, from pre-kindergarten through community college. The Teachers' Retirement Law, part of the California Education Code, established these programs with CalSTRS as administrator. The law sets required member and employer contribution rates. CalSTRS members, as of June 30, 2007, included employees of approximately 1,400 school districts, community college districts, county offices of education and regional occupational programs.

The median CalSTRS pension replaces only 53 percent of final salary for current and retired members. Financial planners recommend income replacement of 80 percent to 85 percent to maintain a similar lifestyle in retirement. Public school teachers do not receive Social Security benefits for their CalSTRS teaching service. Moreover, due to the federal Government Pension Offset and Windfall Elimination Provision, retirees often have their Social Security benefits reduced when receiving a CalSTRS benefit. Most retired educators also do not have employer-sponsored health insurance after age 65.

We continue to reach members in their communities—from Eureka to San Diego—with counseling services and workshops that explain retirement options and stress the need for early savings. With over 40 publications delivered to their home or workplace, we strive to be their trusted guide to retirement.

CalSTRS FUNDING STRATEGY

As of June 30, 2006, the Defined Benefit Program had an estimated unfunded actuarial obligation of $19.6 billion, with an estimated 87 percent of the funds needed to fund the cost of the benefit plan. The Teachers' Retirement Board voted to approve a Comprehensive Funding Strategy that will guide the long-term effort towards fully funding the Defined Benefit Program. While our investment income goes a long way to maintaining the health of our fund, providing approximately 70 percent of the member benefits paid, we also realize that we need to take additional steps in order to close the funding gap.

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. CalSTRS investment earnings finance the cost of administering the State Teachers' Retirement Plan.

INVESTMENTS SECTION

Through the innovation and measured risk of investment policies, CalSTRS' investment portfolio has doubled over the past ten years. Our members can rest assured that their contributions are well-managed. The following summary of our investment performance reflects the work of our investment staff in solidifying the retirement fund for our members.

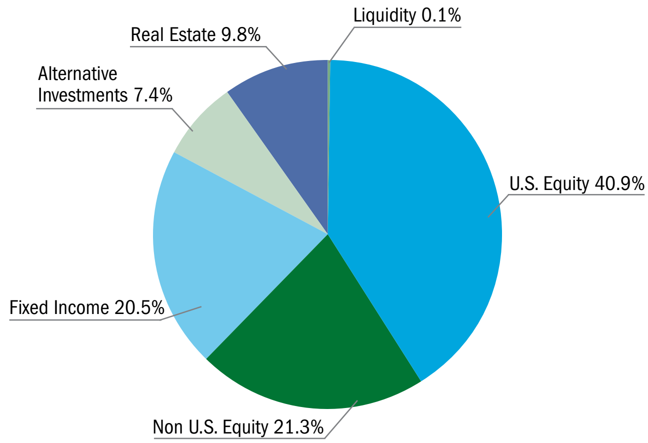
CalSTRS investment portfolio finished with a record-high value of $171.9 billion at the close of the fiscal year, adding $28.1 billion in fiscal year 2006-07. With an amazing 21.03 percent return in fiscal year 2006-07, CalSTRS investment portfolio has posted four straight years of double-digit returns. Our investment return ranked in the top one percent of public pension plans (as measured by the Trust Universe Comparison Service). Over a three-year period ending June 30, 2007, the fund has earned a 15.07 percent return. CalSTRS remains one of the best performing investment portfolios among public and comparable pension plans across the nation.

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 span five 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 institutional pension plans.

The Investment Committee of the Teachers' Retirement Board and CalSTRS investment staff regularly review and revise CalSTRS investment policies. In the past year, CalSTRS revised ten investment policies, from asset allocation targets to investment management approaches among the different asset classes. Despite the normal ups and downs of the markets, our investment professionals continue to adapt and effectively respond to the increasing size and complexity of the CalSTRS investment portfolio.

Asset Allocation as of June 30, 2007

Total investment portfolio of $171.9 billion



FINANCIAL SECTION

This section presents the financial performance of our funds in the past fiscal year. Financial statements and notes along with the Management Discussion and Analysis present and analyze the changes in CalSTRS fiduciary net assets for the fiscal year ended June 30, 2007.

CalSTRS maintains a system of internal controls designed to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and financial statements are reliable. In addition, Audit Services staff performs a yearly enterprise-wide risk assessment to determine processes and operations to include in the yearly audit plan. The Audits and Risk Management Committee is apprised of findings and recommendations and the status of management's implementation of recommendations on a regular basis.

The financial statements have been prepared according to generally accepted accounting principles applied on a consistent basis as stated 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.

ACTUARIAL SECTION

A summary of demographic and economic assumptions adopted from experience studies that CalSTRS conducts every four years is highlighted in this section. These assumptions are applied to an actuary valuation that is performed at a minimum of every two years. The actuarial valuation provides a picture of the overall funding health of our programs, including Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit and Medicare Premium Payment Programs.

A qualified independent actuarial firm and CalSTRS actuarial staff certified the Actuarial section. The last experience study was completed June 30, 2003, and approved by the Teachers' Retirement Board March 4, 2004. The last valuation was completed June 30, 2006, and approved by the Teachers' Retirement Board June 7, 2007.

STATISTICAL SECTION

This section connects past and current data. It includes tables that reflect the net assets and demographic characteristics of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, Voluntary Investment and Medicare Premium Payment Programs.

Also captured in the tables, when applicable, is information comparing the last nine years to the previous fiscal year. This look back shows us overall trends in our programs and membership demographics that help us accurately forecast our future ability to meet our member's retirement needs.

GFOA 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, 2006. This is the 12th consecutive year CalSTRS has received this prestigious award. To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. Our report must satisfy both generally accepted accounting principles and applicable legal requirements.

ACKNOWLEDGEMENTS

This *2007 Comprehensive Annual Financial Report* is the culmination of the hard work put forth by numerous CalSTRS staff under the leadership and guidance of the Teachers' Retirement Board.

While many have contributed to the successful completion of the report, responsibility for both the accuracy of the financial data and the fairness of the presentation rests with me and the management of CalSTRS.

I would also like to give my thanks to all the staff, advisors and the many other stakeholder organizations who have demonstrated their commitment to ensuring that the California State Teachers' Retirement System meets the needs of its members.

Finally, I would like to praise our members for their dedication and their service to our children, who will become California's future leaders. Our endeavor is to make sure their efforts are rewarded with a secure retirement.

Respectfully submitted,

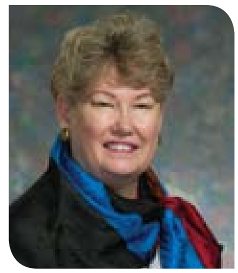
Jack Ehnes
Chief Executive Officer

TEACHERS' RETIREMENT BOARD

AS OF JUNE 30, 2007

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

Jerilyn Harris
Vice Chair
Term:
4/29/05 – 12/31/07



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

John Chiang
State Controller
Ex-Officio Member

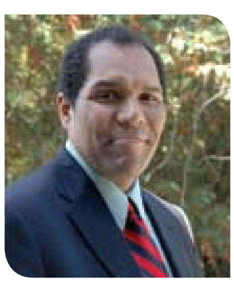
Michael C. Genest
State Finance Director
Ex-Officio Member

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

Bill Lockyer
State Treasurer
Ex-Officio Member

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

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



Peter Reinke
Public Representative
Term:
02/14/07 - 02/14/11

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

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

EXECUTIVE STAFF

Pictured from lower left to right:
Janice Hanson
Ed Derman
Peggy Plett
Christopher J. Ailman
Jack Ehnes
Kathleen Andleman
Christine Ford

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

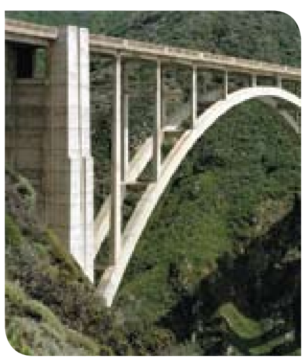
CHRISTOPHER J. AILMAN
Chief Investment Officer
Investments

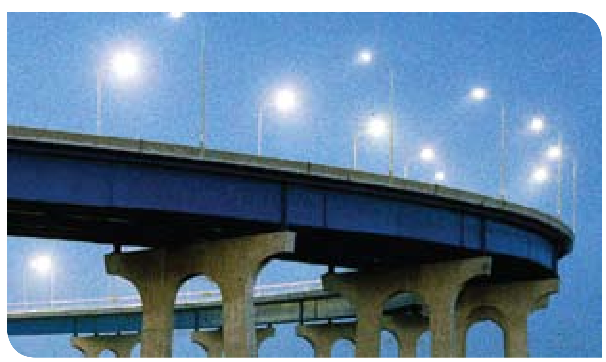
KATHLEEN ANDLEMAN
General Counsel
Legal Services

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, Inc. 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, pre-kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising people 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 an option receives a continuing lifetime benefit upon the retired member's death.

As of June 30, 2007, there were a total of 455,693 active, 141,450 inactive and 215,641 retired members, and disability and survivor benefit recipients. The combined total of members and benefit recipients equals 812,784, an increase of 17,972 from the previous fiscal year.

(The financial statements, presented in the financial section, contain Defined Benefit Program membership data as of June 30, 2006, 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 fiscal year 2006–07, 11,762 members applied for retirement, which is a 4.8 percent increase from the previous year.

SURVIVOR BENEFITS

In fiscal year 2006–07, CalSTRS received 6,210 survivor benefits applications, which is a decrease of 3.9 percent over last fiscal year. Of the applications completed, 77 percent were processed within 30 days from the receipt of the last required document.

DISABILITY BENEFITS

In fiscal year 2006–07, CalSTRS received 854 applications for disability benefits, representing a slight increase over the previous fiscal year. Of the applications completed during this fiscal year, 92 percent were processed within 180 days of receipt.

The work of the Continuing Qualifications and Vocational Rehabilitation programs resulted in 49 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 258,913 customer contacts during the 2006–07 fiscal year.

The Call Center customer service representatives responded to the questions and concerns of 224,279 customers. Another 89,721 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 158 seconds; 58 percent of all calls were answered in less than one minute.

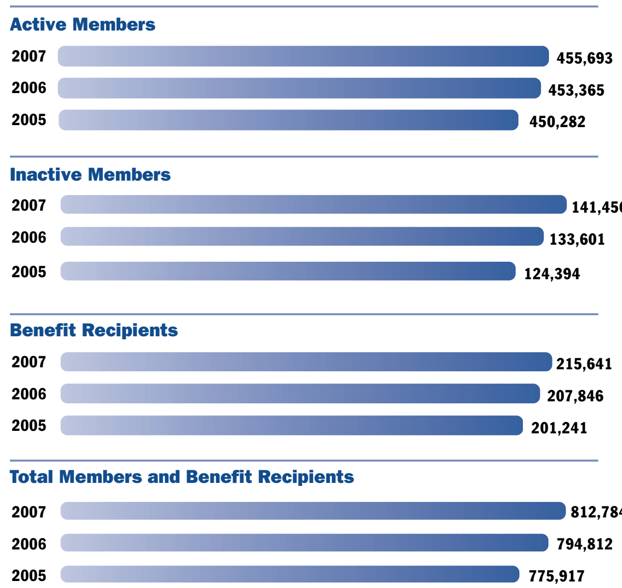
The Correspondence Center staff responded to 32,550 e-mails, online messages and postal correspondence and provided services to 2,084 customers who visited the Member Service counter at the CalSTRS Sacramento office. Staff responded to 31 percent of e-mails within one business day, with an average response time of 2.0 days; 64 percent of all correspondence was completed within three business days.

MEMBER COMMUNICATION

CalSTRS communicates four times 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 Defined Benefit members and Cash Balance participants. 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.



CalSTRS annually mails a *Retirement Progress Report* to its Defined Benefit Program members and Cash Balance Benefit Program participants. This report includes personalized account information, such as service credit and designated beneficiaries. *Your Retirement Guide* includes important information and the necessary forms to apply for retirement.

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 provides county and school district personnel with pertinent information.

When visiting the CalSTRS Web site, CalSTRS members can register for a secure, online service called *my*CalSTRS. 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. In fiscal year 2006–07, personal retirement counseling was provided to 38,067 members at more than 30 locations throughout California. In addition, 3,356 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. A fourth workshop assists members in managing their retirement income. CalSTRS will provide customized workshops by request.

CalSTRS presented 810 workshops to 20,125 members in fiscal year 2006–07. The workshop atmosphere encourages members to actively participate and to obtain answers to questions.

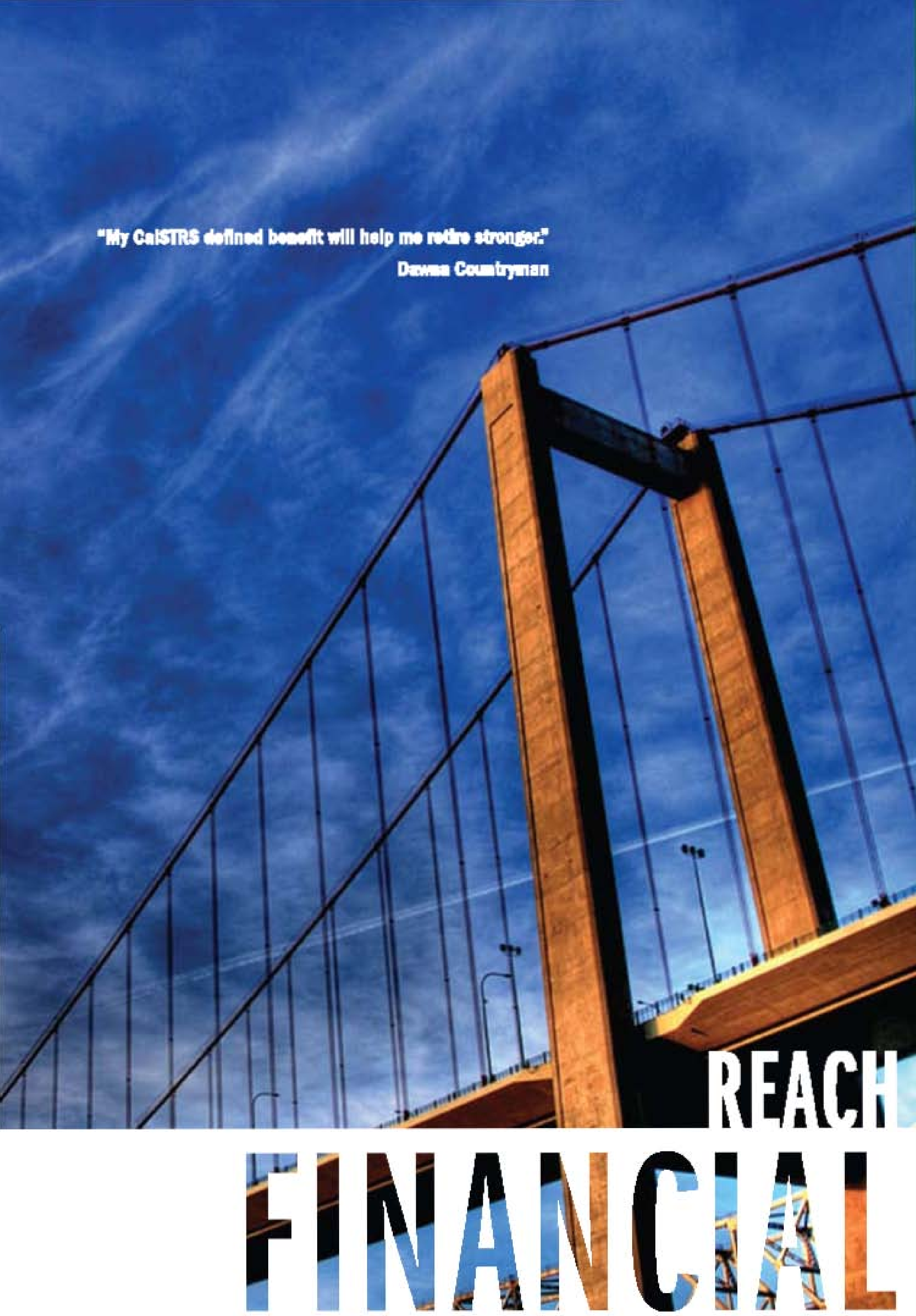
Services to Employers, Member and Client Organizations

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 members of various organizations representing CalSTRS members and benefit recipients. 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 fiscal year 2006–07, staff and counselors attended 51 events and served more than 10,409 members.


"My CalSTRS defined benefit will help me retire stronger."
Dawna Countryman
REACH
FINANCIAL

NAME
Dawna Countryman

SCHOOL DISTRICT
Saugus Union

WHY I TEACH
I have had so many wonderful learning experiences. So many teachers affected my life, from before kindergarten on. I became a teacher because of them.

SUBJECT AREA
Multisubject - 5th and 6th grade

CalSTRS member since 1990

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

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
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

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

INDEPENDENT AUDITOR'S REPORT

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, 2007, 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 2006 financial statements on which our report dated September 22, 2006, 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, 2007, 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, 2006, the System's independent actuaries determined that, at June 30, 2006, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by $19.6 billion.

As described in Note 2, effective July 1, 2006, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

In accordance with *Government Auditing Standards*, we have issued our report dated October 1, 2007, 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 19 through 23, the Schedule of Funding Progress on pages 43 through 44 and the Schedule of Contributions from Employers and Other Contributing Entities on pages 45 through 46 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 other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to 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.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 1, 2007

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
As of June 30, 2007

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, 2007. 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 five 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)
5. Teachers' Retirement Program Development Fund (TRPDF)

FINANCIAL HIGHLIGHTS

- Net assets increased by $28.2 billion or 20% to $172.6 billion.
- Net investment income totaled $29.9 billion, an increase of $13.8 billion or 86%.
- As of June 30, 2006, the System's Defined Benefit Program was estimated to be funded at 87%, compared to an estimated funding level of 86% as of June 30, 2005.
- Total contributions increased by $256.9 million or 5% to $5.8 billion.
- Benefit payments increased by $528.5 million or 8% to $7.2 billion.
- Refund of members' contributions increased by $1.2 million or 1% to $106.2 million.
- The Medicare Premium Payment Program (MPPP) had its first actuarial valuation performed as of June 30, 2006. Under the reporting parameters set by Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, the MPPP is .3% funded with an estimated actuarial obligation exceeding actuarial assets by $793.8 million at June 30, 2006. However, taking into consideration the Defined Benefit (DB) Program statutory employer contributions that exceed the amount needed to finance the actuarial liability of the DB Program based on the June 30, 2000 actuarial valuation, and that are allocated to the MPPP, the MPPP actuarial accrued liability is less than the current value of the excess. The amount of the excess allocated to the MPPP from the June 30, 2000 actuarial valuation was $1.257 billion and has a value of $1.687 billion as of the June 30, 2006 actuarial valuation. For the purposes of GASB Statement No. 43 reporting requirements, the $1.687 billion is not considered in the June 30, 2006 valuation because it is not held in a separate trust.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
As of June 30, 2007

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 statement 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 statement of changes in fiduciary net assets show how the System's net assets changed during the fiscal year.

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 provides a summary of the System's funded status and funding progress for the MPPP in accordance with GASB Statement No. 43.
- Note 4 describes investments, including disclosures required by 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 5 generally describes potential contingencies of the System.
- Note 6 provides a summary of significant commitments incurred by the System.
- Note 7 provides a summary of subsequent events that occur after June 30, 2007.
- Note 8 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 and other postemployment benefit 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.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
As of June 30, 2007

FINANCIAL ANALYSIS

Teachers' Retirement Fund (TRF). The TRF 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 20% during the fiscal year, from $144.2 billion in fiscal year 2005-06 to $172.4 billion as of June 30, 2007. Investments, excluding securities lending collateral, increased by $28 billion or 20% to $173.6 billion as of June 30, 2007. At June 30, 2007, the STRP held $35.4 billion in debt securities, an increase of $3.1 billion or 10% from fiscal year 2005-06. At June 30, 2007, the STRP also held $105.8 billion in U.S. and international equity securities, an increase of $14.7 billion or 16% from fiscal year 2005-06. Remaining holdings in short-term, alternative, and real estate investments totaled $32.4 billion at June 30, 2007, an increase of $10.5 billion or 48% from fiscal year 2005-06. Net appreciation on investments totaled $25.2 billion in fiscal year 2006-2007 compared to $12.2 billion in fiscal year 2005-06, an increase of $13 billion or 107%.

NET ASSETS
(Dollars in Thousands)

ASSETS	2007	2006	Percent Change
Investments [1]	$205,647,758	$172,872,149	19%
Cash and Cash Equivalents	423,322	309,484	37%
Receivables	4,273,254	3,449,874	24%
Other	1,151	1,307	(12)%
TOTAL ASSETS	**210,345,485**	**176,632,814**	**19%**
LIABILITIES			
Benefits in Process of Payment	55,026	44,297	24%
Investment Settlement	4,183,326	2,905,945	44%
Real Estate Leverage Program Obligation	491,850	568,049	(13)%
Other Liabilities	1,170,751	1,275,954	(8)%
Securities Lending Obligation	32,066,614	27,626,193	16%
TOTAL LIABILITIES	**37,967,567**	**32,420,438**	**17%**
TOTAL NET ASSETS	**$172,377,918**	**$144,212,376**	**20%**

[1] Includes securities lending collateral.

The System funds STRP benefits from employer, member and State contributions, federal proceeds, and investment earnings. Member contributions overall increased in fiscal year 2006-07 by $104.2 million or 5% from fiscal year 2005-06. Employer contributions increased by $82.2 million or 4%. The State contributions increased in fiscal year 2006-07 by $65.7 million or 6% from fiscal year 2005-06. The STRP experienced a net investment gain of $29.8 billion in fiscal year 2006-07 compared with $16.1 billion in fiscal year 2005-06.

CHANGES IN NET ASSETS
(Dollars in Thousands)

ADDITIONS	2007	2006	Percent Change
Member/Participant	$2,334,954	$2,230,754	5%
Employer	2,285,728	2,203,548	4%
State/Federal	1,084,387	1,018,720	6%
Investment/Other Income	29,840,439	16,077,792	86%
TOTAL ADDITIONS	**35,545,508**	**21,530,814**	**65%**
DEDUCTIONS			
Benefit Payments	7,167,918	6,649,007	8%
Refund of Contributions	106,153	97,453	9%
Administrative Expenses	105,895	95,611	11%
TOTAL DEDUCTIONS	**7,379,966**	**6,842,071**	**8%**
NET ASSET INCREASE	28,165,542	14,688,743	92%
BEGINNING NET ASSETS	144,212,376	129,523,633	11%
ENDING NET ASSETS	**$172,377,918**	**$144,212,376**	**20%**

Deductions, which include benefit payments, refund of contributions and administrative expenses, totaled $7.4 billion for the year. Growth in the number of new retirees increased benefit payments to $7.2 billion, an increase of $518.9 million or 8% over the prior year. Refund of contributions in fiscal year 2006-07 increased $8.7 million or 9% to $106.2 million. Administrative expenses in fiscal year 2006-07 increased $10.3 million or 11% to $105.9 million.

The most recent actuarial valuation for the fiscal year ended June 30, 2006, indicates that the DB Program is underfunded, with 87% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2006. This is an increase from the 86% estimated funding status as of June 30, 2005. The amount by which the DB Program actuarial obligation exceeded actuarial assets was $19.6 billion as of June 30, 2006. The actuarial value of the assets for the program excludes $1.687 billion in assets allocated to the MPPP. 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, 2007 investments increased by $36.7 million or 28% and net assets increased by $36.9 million or 28%.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
As of June 30, 2007

Contributions by members in fiscal year 2006-07 increased by $1.8 million or 9% and investment income in fiscal year 2006-07 increased $12.5 million or 122% from the previous fiscal year. Deductions from the VIP decreased by $1.5 million or 14% to $9.2 million.

Teachers' Health Benefits Fund (THBF). The THBF is a trust fund created to administer health benefit programs for members of the Defined Benefit Program. The Medicare Premium Payment Program (MPPP), the only program within the fund, pays Medicare Part A premiums and surcharges and Part B surcharges for members meeting certain eligibility criteria.

The System funds the MPPP from current employer contributions, which increased by $2.7 million or 9% to $32.3 million during fiscal year 2006-07. The THBF paid benefits of $31.3 million in fiscal year 2006-07 compared with $29.3 million the prior year. The System invests the assets of the THBF in the State of California's Surplus Money Investment Fund and earned $240 thousand in interest income for the fiscal year ended June 30, 2007.

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 $514 thousand to pay benefits during fiscal year 2006-07.

Teachers' Retirement Program Development Fund (TRPDF). The TRPDF is a trust fund established to pay any costs related to the development of programs authorized by statute that enhance the financial security of members or beneficiaries for the System. The TRPDF was initially funded with $200,000 of employer contributions during the fiscal year ended June 30, 2007 for the purpose of developing the Compliance and Administration Program which will provide total 403(b) administration and compliance services to school districts that contract with the System for such services.

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, 2007 (with Comparative Totals as of June 30, 2006)
(Dollars in Thousands)

	Teachers' Retirement Fund	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Teachers' Retirement Program Development Fund	Comparative Totals 2007	2006
Assets							
Investments, at fair value:							
Short term	$ 1,724,639	$ 26,669	$ 2,197	$ -	$ -	$ 1,753,505	$ 1,532,207
Debt securities	35,395,073	-	-	-	-	35,395,073	32,269,214
Equities:							
Domestic	68,306,223	-	-	-	-	68,306,223	59,826,205
International	37,507,109	-	-	-	-	37,507,109	31,242,535
Mutual funds	-	142,027	-	-	-	142,027	107,542
Alternative investments	12,634,835	-	-	-	-	12,634,835	8,609,513
Real estate investments	18,013,265	-	-	-	-	18,013,265	11,792,384
Securities lending collateral	32,066,614	-	-	-	-	32,066,614	27,626,193
Total investments	205,647,758	168,696	2,197	-	-	205,818,651	173,005,793
Cash and cash equivalents	423,322	-	2	-	200	423,524	309,484
Receivables:							
Investments sold	1,073,288	-	-	-	-	1,073,288	1,215,865
Foreign currency contracts	2,060,407	-	-	-	-	2,060,407	852,284
Interest and dividends	529,094	122	72	-	-	529,288	455,590
Member, employer and other	610,465	1,056	1,519	-	-	613,040	928,461
Total receivables	4,273,254	1,178	1,591	-	-	4,276,023	3,452,200
Other assets	1,151	-	-	-	-	1,151	1,307
Total assets	210,345,485	169,874	3,790	-	200	210,519,349	176,768,784
Liabilities							
Investments purchase payable	2,121,719	-	-	-	-	2,121,719	2,051,505
Foreign currency contracts payable	2,061,607	-	-	-	-	2,061,607	854,440
Benefits in process of payment	55,026	-	-	-	-	55,026	44,297
Real estate leverage program obligation	491,850	-	-	-	-	491,850	568,049
Other liabilities	1,170,751	-	27	-	202	1,170,980	1,276,238
Securities lending obligation	32,066,614	-	-	-	-	32,066,614	27,626,193
Total liabilities	37,967,567	-	27	-	202	37,967,796	32,420,722
Net assets/(deficit) held in trust for pension and other postemployment benefits (schedules of funding progress are presented in Schedule I)	$172,377,918	$ 169,874	$ 3,763	$ -	$ (2)	$172,551,553	$144,348,062

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, 2007
(with Comparative Totals for the Fiscal Year Ended June 30, 2006)
(Dollars in Thousands)

	Teachers' Retirement Fund	Voluntary Investment Program	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund	Teachers' Retirement Program Development Fund	Comparative Totals 2007	2006
Additions							
Contributions:							
Member contributions	$ 2,334,954	$ 23,338	$ -	$ -	$ -	$ 2,358,292	$ 2,252,263
Employer contributions	2,285,728	-	32,257	514	200	2,318,699	2,233,480
State of California/ Federal Government	1,084,387	-	-	-	-	1,084,387	1,018,720
Total contributions	5,705,069	23,338	32,257	514	200	5,761,378	5,504,463
Investment Income:							
Net appreciation (realized & unrealized) in fair value of investments	25,236,343	13,124	-	-	-	25,249,467	12,220,031
Interest, dividends and other	4,670,151	9,669	240	-	-	4,680,060	3,913,774
Securities lending income	1,573,052	-	-	-	-	1,573,052	1,087,366
Less investment expenses:							
Cost of lending securities	(1,493,236)	-	-	-	-	(1,493,236)	(1,020,130)
Other investment expenses	(146,426)	-	-	-	-	(146,426)	(112,929)
Net investment income	29,839,884	22,793	240	-	-	29,862,917	16,088,112
Other income	555	16	-	-	-	571	68
Total additions	35,545,508	46,147	32,497	514	200	35,624,866	21,592,643
Deductions							
Retirement, disability, death and survivor benefits	6,937,581	-	31,270	507	-	6,969,358	6,455,911
Distributions and withdrawals	-	8,451	-	-	-	8,451	9,767
Purchasing power benefits	230,337	-	-	-	-	230,337	215,258
Refunds of member contributions	106,153	-	-	-	-	106,153	104,934
Administrative expenses	105,895	782	190	7	202	107,076	96,905
Total deductions	7,379,966	9,233	31,460	514	202	7,421,375	6,882,775
Net increase/decrease	28,165,542	36,914	1,037	-	(2)	28,203,491	14,709,868
Net assets/(deficit) held in trust for pension and other postemployment benefits							
Beginning of the year	144,212,376	132,960	2,726	-	-	144,348,062	129,638,194
End of the year	$172,377,918	$ 169,874	$ 3,763	$ -	$ (2)	$172,551,553	$144,348,062

The accompanying notes are an integral part of these 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. These financial statements include only the accounts of the System. The State 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 plan. At June 30, 2007, there were over 1,600 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is a 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, 2006, membership consisted of:

Active Members	
Vested	292,704
Nonvested	160,661
Inactive members	133,601
Retirees and benefit recipients	207,846
Total members, retirees and beneficiaries	794,812

Information as of June 30, 2007 will not be available prior to December 2007.

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, 2007, the rate of interest credited to members' accounts is 4.25%.

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 2006-07, the State statutory SBMA contribution is $598.4 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 - 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, 2006, 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, 2007.

In the most recent actuarial valuation as of June 30, 2006, the System's actuaries determined that, at June 30, 2006, the value of the DB Program's actuarial accrued obligation exceeded the program's actuarial value of assets by $19.6 billion. The actuarial value of the assets for the program excludes $1.687 billion in assets allocated to the MPPP. Based on this valuation, the current statutory contributions are equivalent to 17.656% of covered payroll and are sufficient to fund normal cost (16.820% 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 4.75% for the fiscal year ended June 30, 2007. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return. On June 7, 2007, the Board granted additional earnings of 2.49% of active and inactive members' June 30, 2006 nominal accounts and additional annuity credits of 2.49% of retired members' nominal accounts as of their retirement date. The dollar value of these credits was $88.2 million based on the June 30, 2006 DBS Program actuarial valuation.

In the actuarial valuation, of the DBS Program's assets and liabilities as of June 30, 2006, the System's independent actuaries determined that the actuarial value of assets of the DBS Program exceeded the actuarial obligation by $335 million including taking into account $88.2 million in additional earning and annuity credits. 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 4.75% for the year ended June 30, 2007. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the expected rate of return. On June 7, 2007, the Board granted additional earnings credit of 1.18% of active and inactive members' June 30, 2006 nominal accounts and additional annuity credits of 1.189% of retired members' June 30, 2006 nominal accounts. The dollar value of these credits was $733,000 based on the June 30, 2006 CB Benefit Program actuarial valuation.

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, 2007, there were 30 contributing school districts and 23,941 contributing participants.

In their most recent actuarial valuation as of June 30, 2006, the System's independent actuaries determined that the actuarial value of assets of the CB Benefit Program exceeded the actuarial obligation by $6 million including taking into account $733,000 in additional earnings and annuity credits. 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, 2007, there were 3,878 plan participants and 400 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 (MPPP), a cost-sharing multiple-employer other postemployment benefit plan, to retired members of the DB Program. At June 30, 2007, there were 6,225 retirees participating in the MPPP. The number of active members and terminated vested members who will participate in the program after they retire is unknown because eligibility cannot be determined.

The MPPP was established to pay Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for DB Program members who are retired or will retire prior to July 1, 2001 and who meet certain other eligibility criteria. Subsequently the MPPP has been extended several times. The Board most recently extended the MPPP on April 5, 2007 to members who retired or will retire prior to July 1, 2012. Extending the MPPP to members who retired or will retire before July 1, 2012 will result in an increase in the costs for the MPPP of between $85 million and $150.6 million. The increase in cost is an estimate and the extension of benefits will be included as part of the actuarial accrued liability in the next actuarial valuation.

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

As a convenience, the System also deducts Medicare Part B premiums from the members' allowance and forwards the premiums to the Centers for Medicare and Medicaid Services, the federal agency that administers Medicare.

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 2006-07, there were 36 retirees participating in the TRBPF.

Teachers' Retirement Program Development Fund (TRPDF)
The TRPDF was established pursuant to Chapter 780, Statutes of 2006 (AB 2462) to pay any costs related to the development of programs authorized by statute that enhance the financial security of members or beneficiaries for the System.

The TRPDF was initially funded with $200,000 of employer contributions during the fiscal year ended June 30, 2007 for the purpose of developing the Compliance and Administration Program which will provide total 403(b) administration and compliance services to school districts that contract with the System for such services. These services will allow school districts to comply with new 403(b) regulations that impose new compliance responsibilities on employers. As of June 30, 2007, approximately $202,000 was payable to the TRF.

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, 2007, 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. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Short-term investments are reported at cost or amortized cost, which approximates fair value. Fair value for commingled funds (other than those funds traded on a national or international exchange) is derived from the market value of the underlying securities in the pool, as provided to the custodian, by the applicable fund managers. Real estate equity investment fair values are based on either recent estimates provided by the System's contract real estate advisors or independent appraisers. 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 the general partner and investment advisors, has determined the fair values for the individual investments based on partnership's June 30, 2007 financial statements or the most recent financial information adjusted for cash flow activities through June 30, 2007.

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, including interest, credit, foreign currency exchange and concentration risk, which may subject the System to economic changes occurring in certain industries, sectors, or geographies. See Note 4 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 TRF for administrative services provided on their behalf.

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

Income Taxes
The STRP, THBF, TRBPF and TRPDF 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 income and expenses on the statement of changes in fiduciary net assets.

Reclassification
Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2006 to conform to the presentation as of June 30, 2007.

Comparative Totals
The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

New Accounting Pronouncements
During fiscal year 2006-07, the System implemented the requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, into Note 3 of its financial statements. This new pronouncement provides uniform financial reporting standards for plans that provide postemployment benefits such as healthcare benefits. The statement requires the System to obtain actuarial valuations, and report in its financial statements the funded status and funding progress of the MPPP.

3. Funded status and funding progress of the MPPP

The MPPP is funded from that portion of the monthly DB Program statutory employer contributions 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. Contributions that would otherwise be credited to the TRF each month are redirected to the MPPP to fund monthly program and administrative costs. Total redirections to the MPPP are monitored to ensure that total costs do not exceed the amount initially identified as the cost of the program.

The MPPP had its first actuarial valuation performed as of June 30, 2006 as required by GASB Statement No. 43. Under the reporting parameters set by GASB Statement No. 43, the MPPP is .3% funded with an estimated actuarial accrued liability exceeding actuarial assets by $793.8 million at June 30, 2006.

However, taking into consideration the DB Program statutory employer contributions, that exceed the amount needed to finance the actuarial liability of the DB Program based on the June 30, 2000 actuarial valuation, and that are allocated to the MPPP, the MPPP actuarial obligation is less than the current value of the excess. The amount of the excess allocated to the MPPP from the June 30, 2000 actuarial valuation was $1.257 billion and has a value of $1.687 billion as of the June 30, 2006 actuarial valuation. For the purposes of GASB Statement No. 43 reporting requirements, the $1.687 billion is not considered in the June 30, 2006 valuation because it is not held in a separate trust.

The funded status of the MPPP, under GASB Statement No. 43, as of June 30, 2006 is as follows (dollars in millions):

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)
2006	$3	$797	$794	0.3%	$7,452	10.70%

Management believes the current source of MPPP funding will be adequate to provide for the statutory MPPP benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation.

Actuarial calculations reflect a long-term perspective and the actuarial methods and assumptions used for valuing the MPPP in accordance with GASB Statement No. 43 reporting parameters include techniques that are consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2006
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Basis
Amortization period	Closed
Remaining amortization period	30 Years
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return	4.00%
Healthcare cost trend rate Part A premiums	5.00%
Healthcare cost trend rate Part B premiums	9.00% grading down to 6.00% in 2011
Consumer price inflation	3.25%
Projected salary increases	4.25%

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

4. 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 176 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, 2007, have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yields were 4.50% with maturity dates through July 3, 2007.

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, a commercial mortgage-backed security (CMBS) for $750 million was executed. The System used the proceeds from the CMBS to purchase various investments. At June 30, 2007, the CMBS obligation to the fair value of the underlying collateral of real estate properties was 27.6%.

Approximately $260.8 million and $231.0 million are due November 2007 and November 2009, respectively. Interest on the CMBS is based on various factors and is payable monthly. As of June 30, 2007, the annual interest rates ranged from 4.39% to 6.01%.

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. The 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 the 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, 2007, the weighted duration difference between the investments and these loans was 25 days. As of June 30, 2007, 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. The 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 the 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 the 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, 2007:

Fixed Income & Short Term
(Dollars in Thousands)

Ratings	Securitized Obligations	Credit Obligations	International Government	Money Market Securities	PMIA	U.S. Government	Total
AAA	$ 14,030,405	$ 628,070	$ 113,605	$ -	$ -	$ 28,133	$ 14,800,213
A-1	-	-	-	825,978	-	-	825,978
AA	102,013	1,377,412	93,955	-	-	2,422	1,575,802
A	96,661	2,875,315	320,558	-	-	-	3,292,534
BBB	49,483	2,779,064	74,090	-	-	-	2,902,637
BB	19,722	666,662	13,275	-	-	-	699,659
B	12,013	1,306,942	11,522	-	-	-	1,330,477
CCC	-	580,115	-	-	-	-	580,115
D	-	19,079	-	-	-	-	19,079
NR	677,389	1,485,268	42,260	109,428	267,209	80	2,581,634
NA	-	-	-	-	-	8,511,584	8,511,584
Total	$ 14,987,686	$ 11,717,927	$ 669,265	$ 935,406	$ 267,209	$ 8,542,219	$ 37,119,712

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. Our external managers are permitted to purchase securities that are not rated; however a thorough credit review must be completed along with an estimation of comparable credit quality.

Securities Lending Collateral
(Dollars in Thousands)

Ratings	Money Market Securities	Repurchase Agreements	Short Term Investment Fund	Corporate Bonds	Corporate Floating Rate Notes	Agency Callable Obligations	Agency Bullets (Non-Callables)	Asset Backed Securities	Mortgage Backed Securities	Total
AAA	$ -	$ -	$ -	$ 74,924	$ 1,355,092	$ 373,498	$ 207,588	$8,426,406	$ 45,000	$10,482,508
A-1	7,106,883	1,128,538	-	-	-	-	-	33,816	-	8,269,237
AA	1,215,184	-	-	99,949	4,047,634	-	-	-	-	5,362,767
A	599,808	-	-	-	5,127,711	-	-	-	-	5,727,519
BBB	-	-	-	-	508,678	-	-	-	-	508,678
NR	896,679	525,426	159,416	-	40,000	-	-	21,378	-	1,642,899
Total	$ 9,818,554	$ 1,653,964	$ 159,416	$ 174,873	$ 11,079,115	$ 373,498	$ 207,588	$8,481,600	$ 45,000	$31,993,608

The above amount excludes cash and accruals in the total of a positive $73,006 (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.

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

Investments may contain terms that increase the sensitivity of their fair values to increasing and decreasing interest rates. Although the System has investments which have an inherent prepayment risk as well as caps, floors, and step-up features, these are mitigated through the diversification of asset classes, security selection, maturity, and credit quality. A change to the Lehman US Aggregate Index as of April 1, 2007 included Hybrid Adjustable Rate Mortgage (ARM) Backed Securities wrapped by Government Sponsored Entities (GSE). These Agency Hybrid ARMs may be fully amortizing or interest only for a period of time and then subsequently amortize. As of June 30, 2007 the System held $1.2 billion of Agency Hybrid ARMs of which $439 million or 1.2% of the long term fixed income investments were interest only Agency Hybrid ARMs.

Below is a table which depicts the duration of the portfolio vs. the benchmark in years on June 30, 2007:

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	$ 6,985,280	4.44	4.41	0.03
Credit Obligations				
Corporate	7,362,539	5.89	5.92	-0.03
High Yield	2,439,546	3.76	4.47	-0.71
Debt Core Plus	5,289,592	4.81	4.67	0.14
Securitized Obligation				
Asset Backed Securities	621,379	2.76	2.60	0.16
Commercial Mortgage Backed Securities	1,651,684	4.80	4.74	0.06
Mortgage Backed Securities	10,904,463	4.17	4.15	0.02
Total Market Value with Weighted Avg Duration	$ 35,254,483	4.65	4.67	-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.

Below is a table depicting the segmented time distribution for the types of short term fixed income investments based upon the expected maturity, 1st call date and/or 1st reset date, as of June 30, 2007:

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	Totals
Money Market Securities	$ 615,022	$242,909	$ 79,608	$ -	$ -	$ -	$ 937,539
PMIA	267,209	-	-	-	-	-	267,209
Credit Obligations							
Corporate Bonds	-	15,000	14,997	-	-	-	29,997
Corporate Floating Rate Notes	101,601	179,545	17,000	-	25,000	-	323,146
US Government and Agency Obligations							
Bullets (Non-Callables)	40,000	10,000	-	-	-	-	50,000
Discounted Notes	24,957	124,138	49,254	24,571	62,704	-	285,624
Callable	49,235	166,652	10,000	13,984	-	-	239,871
US Treasury	-	24,712	49,244	98,285	48,804	4,976	226,021
Asset Backed Securities	22,832	26,444	-	-	-	-	49,276
Totals	$1,120,856	$789,400	$220,103	$136,840	$ 136,508	$ 4,976	$2,408,683
Weightings	46.53%	32.77%	9.14%	5.68%	5.67%	0.21%	100.0%

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. 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, 2007:

Securities Lending Collateral
Segmented Time Distribution
(Dollars in Thousands)

Investment Type	0-1 day	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	TOTALS
Money Market Securities	$ -	$ 1,062,799	$ 3,263,559	$ 1,203,816	$ 978,559	$ 3,309,821	$ 9,818,554
Repurchase Agreements	46,426	1,607,538	-	-	-	-	1,653,964
Short Term Investment Fund	159,416	-	-	-	-	-	159,416
Corporate Bonds	-	-	-	-	-	174,873	174,873
Corporate Floating Rate Notes	-	2,734,346	1,928,675	2,917,220	2,891,879	606,995	11,079,115
Agency Callable Obligatons	-	25,000	116,993	92,996	118,526	19,983	373,498
Bullets (Non-Callables)	-	2,589	10,000	45,000	50,000	99,999	207,588
Asset Backed Securities	-	46,442	5,229,182	1,248,477	1,725,138	232,361	8,481,600
Mortgage Backed Securities	-	-	45,000	-	-	-	45,000
TOTALS	$ 205,842	$ 5,478,714	$ 10,593,409	$ 5,507,509	$ 5,764,102	$ 4,444,032	$ 31,993,608
Weightings	0.64%	17.12%	33.11%	17.21%	18.02%	13.89%	100.00%

The above amount excludes cash and accruals in the total of $73,006 (in thousands) which is included in 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, 2007, 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, 2007, 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, 2007, 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	Debt	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	$ 5,387	$ 1,596,114	$ 25,805	$ (174,691)	$ 1,452,615
Brazilian Real	2,380	438,449	25,543	(14,107)	452,265
Canadian Dollar	13,763	1,390,714	884	(85,247)	1,320,114
Chilean Peso	64	12,805	-	-	12,869
Colombian Peso	-	-	867	-	867
Czech Koruna	433	13,443	-	(428)	13,448
Danish Krone	2,489	221,671	-	-	224,160
Egyptian Pound	293	82,160	-	-	82,453
Euro Dollar	85,316	12,725,341	58,727	(961,676)	11,907,708
Hong Kong Dollar	3,485	1,320,244	-	(8,192)	1,315,537
Hungarian Forint	22	74,272	-	(12,805)	61,489
Indian Rupee	2,186	279,279	-	-	281,465
Indonesian Rupiah	804	92,540	-	-	93,344
Israeli Shekel	217	85,005	1	-	85,223
Japanese Yen	41,294	5,415,746	-	(41,317)	5,415,723
Malaysian Ringgit	24	146,549	-	-	146,573
Mexican Peso	6	211,369	-	(67,730)	143,645
New Russian Ruble	-	-	-	(25,491)	(25,491)
New Taiwan Dollar	982	760,186	-	-	761,168
New Turkish Lira	7	164,641	2,536	(6,133)	161,051
New Zealand Dollar	100	50,285	35,747	(22,330)	63,802
Norwegian Krone	3,525	438,556	-	(40,788)	401,293
Philippine Peso	581	7,888	-	-	8,469
Polish Zloty	21	42,996	-	(80,832)	(37,815)
Pound Sterling	35,529	6,133,684	70,101	(479,744)	5,759,570
Singapore Dollar	2,036	346,617	-	(121)	348,532
South African Rand	2,600	491,843	-	-	494,443
South Korean Won	790	923,452	-	-	924,242
Swedish Krona	11,101	641,194	-	(711)	651,584
Swiss Franc	7,498	1,905,909	-	(39,261)	1,874,146
Thailand Baht	1,829	113,084	-	-	114,913
Total	**$ 224,762**	**$ 36,126,036**	**$ 220,211**	**$ (2,061,604)**	**$ 34,509,405**

This table represents securities purchased in a foreign currency. The investment figures are comprised of numerous portfolios within the international equity, debt securities, 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.

In accordance with the Investment Policy and Management Plan, the System has established a strategic allocation to non-dollar public and private equity assets (i.e. alternative investments and real estate). Considering this commitment to non-dollar assets and the impact currency fluctuations can have on the total return of dollar-based investors, the System has recognized the need to implement strategies designed to address the management of currency risk. The System believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar first, yet recognizes that there also exists opportunities for alpha generation (the ability to derive a return in excess of a market return) within the currency markets. The System's fixed income staff has management responsibilities for the Currency Management Program. The hedging range has been designed to allow for some degree of symmetry around the unhedged program benchmark in order to enable the Currency Management Program to both protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the hedging range is -25% to 50% of the total market value of the non-dollar public and private equity portfolios.

5. 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.

6. 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 $13.9 billion and $12.4 billion, respectively, at June 30, 2007.

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, 2007, the STRP had commitments of approximately $2.3 billion expiring through April 2013. The STRP is paid a fee over the term of such agreements and earned approximately $5 million for the year ended June 30, 2007.

7. Subsequent Events

In fiscal year ended June 30, 2004, special legislation reduced the State's contribution to the Supplemental Benefit Maintenance Account by $500 million. Subsequently, the System took legal action to compel the State to contribute the remaining $500 million. On August 30, 2007, the Third District Court of Appeal in Sacramento issued a decision requiring the State to pay the System $500 million plus interest for the withheld contribution from fiscal year 2003-04. On September 6, 2007, the State paid the System $500 million for the withheld contributions. Discussion is ongoing in regards to the payment of interest on the withheld contributions.

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

8. New Accounting Pronouncements

GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits.

The requirements of this statement will be implemented in the financial statements for fiscal year 2007-08.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. The statement will require that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases) and that relevant authoritative guidance for capital assets should be applied to these intangible assets. This statement also established a specified-conditions approach to recognizing intangible assets that are internally generated. The requirements of this statement will be implemented in the financial statements for fiscal year 2009-10.

Required Supplementary Information—Unaudited

California State Teachers' Retirement System
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, 2006 except where noted. For the year ended June 30, 2002, the DBS Program was funded by member contributions only.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets[7] (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)
State Teachers' Retirement Plan						
Defined Benefit Program						
2007	(1)	(1)	(1)	(1)	(1)	(1)
2006	$131,237	$150,872	$19,635	87 %	$24,240	81 %
2005	121,882	142,193	20,311	86 %	23,257	87 %
2004 (3)	114,094	134,677	20,583	85 %	22,591	91 %
2003 (3)	108,667	128,104	19,437	85 %	22,649	86 %
2002	(2)	(2)	(2)	(2)	(2)	(2)
Cash Balance Benefit Program						
2007	(1)	(1)	(1)	(1)	(1)	(1)
2006	$ 69	$63	$(6)	109 %	$122	(5) %
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 %
Defined Benefit Supplement Program						
2007	(1)	(1)	(1)	(1)	(1) (4)	(1)
2006	$ 3,951	$ 3,616	$(335)	109 %	$ 24,239	(1.38) %
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 %
Teachers' Health Benefits Fund						
Medicare Premium Payment Program (5)(6)						
2007	(1)	(1)	(1)	(1)	(1)	(1)
2006	$ 3	$ 797	$ 794	0.3 %	$ 7,452	10.70 %

(1) Actuarial valuations as of June 30, 2007, are expected to be available by summer of 2008.

(2) Except for the year ended June 30, 2004 and June 30, 2006 actuarial valuations were not prepared in even numbered years. No estimation using actuarial methodology is made in years between valuations.

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

(4) 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.

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

(5) Effective January 1, 2001, the Medicare Premium Payment Program (MPPP) was established. June 30, 2006 was the first year an actuarial valuation of the MPPP was performed using assumptions in accordance with GASB Statement No. 43. A study of the MPPP was performed as of June 30, 2005 for comparison purposes. The MPPP is funded from that portion of the monthly DB Program statutory employer contributions 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. The System allocated \$1.257 billion of the excess, which has a current value of \$1.687 billion, identified in the June 30, 2000 valuation as reserved within the TRF for the MPPP. Contributions that would otherwise be credited to the TRF each month are redirected to the MPPP to fund monthly program and administrative costs. In undertaking the valuation of the DB Program, the resources available to fund the DB Program benefits are reduced by the unspent portion of the current value of the original \$1.257 billion. Total redirections to the MPPP are monitored to ensure that total costs do not exceed the amount initially identified as the cost of the program. GASB Statement No. 43 reporting parameters limit those assets used in the actuarial valuation only to those assets held within the THBF. The Systems' actuaries determined that, at June 30, 2006, the MPPP's actuarial obligation is less than the \$1.687 billion current value of the original excess that was identified in the June 30, 2000 valuation. Figures shown include MPPP program benefits for members retiring through June 30, 2007.

(6) At the April 5, 2007 meeting of the Board, the MPPP was extended to members who retire or will retire before July 2012. Extending the MPPP to members who retire or will retire before July 1, 2012, will result in an increase in the costs for the MPPP of between \$85 million and \$150.6 million. The increase in cost is an estimate and the extension of benefits will be included as part of the actuarial accrued liability in the next actuarial valuation.

(7) The DB Program actuarial value of assets excludes \$1.687 billion in assets allocated to the MPPP. Exclusions from prior actuarial valuations is as follows:

June 30, 2005 actuarial valuation, \$1.518 billion assets excluded
June 30, 2004 actuarial valuation, \$1.393 billion assets excluded
June 30, 2003 actuarial valuation, \$1.218 billion assets excluded

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
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)
State Teachers' Retirement Plan					
Defined Benefit Program [3][6]					
2007	$ 3,980	$ 2,168	$ 481	$ 2,649	67%
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%
Cash Balance Benefit Program [3]					
2007	$ 5.61	$ 5.93	$ 0	$ 5.93	106%
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%
Defined Benefit Supplement Program [3]					
2007	$ 93	$ 111	$ 0	$ 111	119%
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]					
2007	$ 604	$ 1	$ 603	$ 604	100%
2006	673	3	670	673	100%
2005	626	2	624	626	100%
2004	601	3	98	101	17%
Teachers' Health Benefits Fund					
Medicare Premium Payment Program[7]					
2007	$47	$32	$0	$32	68%
2006	47	30	0	30	63%

(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 open amortization period of 30 years on a level percentage of payroll basis is used for the Unfunded Actuarial Accrued Liability.

(4) The amount included in the "Contributed by the State/Federal" column includes federal proceeds from School Lands Income and 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.

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

(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.

(7) Fiscal year ending June 30, 2006 was the first year that an ARC was determined for the MPPP.

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

Additional information as of the June 30, 2006 actuarial valuations are as follows:

	DB Program	CB Benefit Program
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll	Not applicable
Amortization Period	Open	Not applicable
Remaining Amortization Period	Not amortizable	Not applicable
Asset Valuation Method	Expected value with 33% adjustment to market value	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	8.00%
Interest on accounts	6.00%	8.00%
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	2.00% simple	Not applicable

	DBS Program	Medicare Premium Payment Program
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Not applicable	Level dollar basis
Amortization Period	Not applicable	Closed
Remaining Amortization Period	Not applicable	30 years
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	8.00%	4.00%
Interest on accounts	8.00%	Not applicable
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	Not applicable	Not applicable
Healthcare cost trend rate Part A premiums	Not applicable	5.00%
Healthcare cost trend rate Part B premiums	Not applicable	9.00% grading down to 6.00% in 2011

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	$ 42,533
Staff benefits	14,316
Accrued vacation	661
Accrued personal leave expense	(79)
Total personnel services	57,431
Operating expenses and equipment:	
General expense	4,063
Depreciation expense	538
Printing	1,503
Communications	938
Postage	1,192
Insurance	45
Travel	1,169
Training	920
Facilities operations	5,875
Consultants and professional services	20,872
Consolidated data center:	
Consultants and professional services	5,254
Data Processing:	
Consultants and professional services	214
Software and other	1,613
Indirect State central services	3,856
Equipment	328
Other	84
Total operating expenses and equipment	48,464
Total	$105,895

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	$	1,008
Barclays Global Investors		2,122
Batterymarch Financial Management, Inc.		200
Brown Capital Management, Inc.		436
Chicago Equity Partners		2,923
Delaware Investment Advisors		190
Delphi Management, Inc.		1,981
Denver Investment Advisor, LLC		967
DSI International Management, Inc.		525
First Quadrant		5,037
FIS Funds Management, Inc.		1,829
Frank Russell Trust Co.		1,806
Mellon Capital Management Corp.		1,354
NCM Capital Management Group, Inc.		822
Northern Trust Global Advisors, Inc.		1,524
Sasco Capital, Inc.		8,045
State Street Global Advisors		1,782
Sterling Capital Management, LLC		165
TCW Asset Management		684
UBS Global Asset Management		697
Total Domestic:		34,097
International:		
Baillie Gifford Overseas Ltd.		4,041
Bank of Ireland		3,082
Barclays Global Investors		956
Batterymarch Financial Management, Inc.		2,218
Blackrock International Ltd.		1,187
Capital Guardian Trust		5,197
Fidelity Management Trust Co.		2,337
Fiduciary Trust International		3,092
Goldman Sachs		2,426
Lazard Asset Management, LLC		9,054
Mondrian Investment Partners		4,230
Morgan Stanley		2,346
Nicholas Applegate Capital Management		2,546
Oechsle International Advisors, LLC		4,348
Schroder Management Investment North America, Inc.		1,493
State Street Global Advisors		2,007
T. Rowe Price International, Inc.		4,212
Templeton Asset Management		4,266
UBS Global Asset Management		2,053
Total International:		61,091
Total External Equity Managers:		95,188

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:		
Aberdeen Asset Management	$	389
Julius Baer Investment Management		510
LM Capital Group, LLC		109
Post Advisory Group, LLC		1,721
Seix Investment Advisors		1,298
Shenkman Capital Management, Inc.		1,433
Western Asset Management Co.		626
Total External Fixed Income Managers:		6,086
Real Estate Managers/Advisors:		
Blackrock Realty Advisors		2,904
CB Richard Ellis		9,666
Heitman Capital Management, LLC		1,969
ING Clarion Partners		5,927
Lowe Enterprises		256
Principal Global Investors		3,049
Thomas Properties		955
Total Real Estate Managers/Advisors:		24,726
Research and Rating Services:		
BCA Pulications		74
Credit Sights		18
Dow Jones & Co. Inc.		14
Factiva, Inc.		14
Fitch Information, Inc.		66
Gimme Credit		12
Institutional Investor		70
Intex Solutions, Inc.		284
ISI Group, Inc.		50
Moodys Investors Service		284
Oxford Analytica, Ltd.		38
Realpoint		41
Reuters America, LLC		37
Standard & Poor's		331
Strategic Economic Decisions Inc.		15
The Yield Book		77
Thomson Financial		94
Thomson Tradeweb, LLC		27
Trans-Lux		79
Tropp, LLC		44
Zephyr Associates Inc.		18
Total Research and Rating Services:		1,687
Risk Management Systems:		
Barra, Inc.		206
Blackrock Financial Management, Inc.		2,566
Bloomberg, LP		546
Total Risk Management Systems:		3,318

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

Advisers and Consultants:		
Altius Associates	$	470
Altura Capital		135
Angeles Investment Advisors		50
Bard Consulting		562
Bonuccelli & Associates, Inc.		39
Callan Associates		50
Cambridge Associates		2,863
Courtland Partners		329
Ennis Knupp & Associates		96
Houlihan Lokey Howard & Zukin		196
KPMG, LLP		425
McKinsey & Co., Inc. United States		345
McLagan Partners, Inc.		55
Pension Consulting Alliance		1,135
Valuation Research Corporation		332
Westwood Consulting Group		241
Total Advisers and Consultants:		7,323
Attorneys, Master Custodian and Insurers:		
Aon Risk Services		875
Cox Castle Nicholson		101
Groom Law Group		126
Sheppard Mullin Richter & Hampton		58
State Street Bank (Master Custodian)		5,263
Total Attorneys, Master Custodian and Insurers:		6,423
Corporate Goverance:		
Broadridge ICS		25
Corporate Governance Management		692
Council of Institutional Investors		30
Glass Lewis & Co., LLC		199
Governance Metics International		20
Institutional Shareholder Services		155
Investor Responsibility Support Services, Inc.		35
Runyon Saltzman & Einhorn, Inc.		30
The Altman Group, Inc.		94
The Conference Board		10
The Corporate Library		22
Total Corporate Goverance:		1,312
Other Expenses:		
American Express		14
Bayard Advertising Agency		45
Miscellaneous		183
Travel		88
University Enterprises, Inc.		33
Total Other Expenses:		363
Total	$	146,426

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:		
Agreeya Solutions	$ 170	Consulting Services
Alameda County Office of Education	109	Regional Counseling Services
Anne Staines Marketing Consult	45	Consulting Services
The Ballard Group	187	Consulting Services
Benchmark Consulting Services	235	Consulting Services
Business Advantage	192	Consulting Services
Cal Gov Technology	503	Consulting Services
Calif Department of General Services	49	Consulting Services
CalPERS	30	Consulting Services
Capital Network Solutions	23	Consulting Services
Citistreet Advisors, LLC	122	Consulting Services
Contra Costa County Office of Education	133	Regional Counseling Services
Cooperative Personnel Services	20	Consulting Services
Crusade	66	Consulting Services
CSUS Foundation	187	Consulting Services
Department of Finance	200	Consulting Services
Department of Justice	401	Legal Services
Department of Personnel Administration	14	Consulting Services
DSG Group, Inc.	81	Consulting Services
Eclipse Solutions, Inc.	449	Consulting Services
Elk Grove Unified School District	20	Regional Counseling Services
Employee Relations, Inc.	11	Consulting Services
Employment Development Department	44	Consulting Services
Filenet Corporation	174	Consulting Services
Folsom Cordova Unified School	183	Regional Counseling Services
Forward Solutions	170	Consulting Services
Fresno County Office of Education	92	Regional Counseling Services
Gilbert Associates, Inc.	23	Consulting Services
Graphic-Focus	50	Consulting Services
Hareline Graphics	32	Consulting Services
Helm Technical Services	356	Consulting Services
The Highlands Consulting	100	Consulting Services
Hogan & Hartson	166	Legal Services
Image Access West	14	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):		
Infiniti Consulting Group, Inc	$ 332	Consulting Services
Inforce Incorporated	891	Consulting Services
Insight Technologies, Inc.	41	Consulting Services
Intergalactic Placements	180	Consulting Services
International Network	602	Consulting Services
Jaykumar Maistry	1,329	Consulting Services
Jeve Consulting, Inc.	160	Consulting Services
Jubilee Technologies	94	Consulting Services
Kearnford Application Systems	28	Consulting Services
Kern County Superintendent of Schools	206	Regional Counseling Services
KPMG, LLP	121	Consulting Services
Linda Rogers & Associates	235	Consulting Services
Los Angeles Community Colleges	67	Regional Counseling Services
Los Angeles County Superintendent of Schools	474	Regional Counseling Services
M Corporation	246	Consulting Services
Macias, Gini & O'Connell LLP	141	Audit Services
Madsen Rayner Consulting, LLC	17	Consulting Services
Mara Consulting, Inc.	390	Consulting Services
Mayer Hoffman McCann, P.C.	175	Consulting Services
Milliman USA	351	Consulting Services
Monterey County Office of Education	54	Regional Counseling Services
Montridge Consulting	315	Consulting Services
Nanran, Inc.	924	Consulting Services
Olson, Hagel & Fishburn, LLP	96	Legal Services
Orange County Department of Education	384	Regional Counseling Services
Personal Enterprises, Inc.	353	Consulting Services
Pinnacle Consulting	228	Consulting Services
Placer County Office of Education	67	Regional Counseling Services
Pleasanton Unified School District	163	Regional Counseling Services
Princeton Solutions Group	246	Consulting Services
Public Sector Consultants, Inc.	242	Consulting Services
Q Data Consulting	197	Consulting Services
Quest Media & Supplies	105	Consulting Services
Rapidigm	70	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):		
Russbo, Incorporated	$ 265	Consulting Services
Saber Consulting, Inc.	16	Consulting Services
San Bernardino County Office of Education	429	Regional Counseling Services
San Diego County Office of Education	207	Regional Counseling Services
San Francisco County Office of Education	43	Regional Counseling Services
San Joaquin County Office of Education	75	Regional Counseling Services
San Jose Unified School District	213	Regional Counseling Services
San Mateo-Foster City School	88	Regional Counseling Services
Santa Barbara County Office of Education	80	Regional Counseling Services
Santa Cruz County of Education	71	Regional Counseling Services
Senate Rules Committee	74	Consulting Services
Shasta County Office of Education	142	Regional Counseling Services
Shiva Systems	173	Consulting Services
Sierra Metrics, Inc.	640	Consulting Services
Software AG, Inc.	176	Consulting Services
Solano County Office of Education	52	Regional Counseling Services
Sonoma County Superintendent of Schools	119	Regional Counseling Services
Stanislaus County Office of Education	104	Regional Counseling Services
State Controller's Office	1,038	Consulting Services
State Personnel Board	55	Consulting Services
Systems West Computer	120	Consulting Services
Thirdwave Corporation	143	Consulting Services
Thomas V. Ennis Consulting	176	Consulting Services
Thomas/Ferrous	128	Consulting Services
Tulare County Superintendent of Schools	89	Regional Counseling Services
University Enterprises, Inc.	927	Consulting Services
Ventura County Superintendent of Schools	87	Regional Counseling Services
Visionary Integration	142	Consulting Services
Visual Communication	24	Consulting Services
Worldgroup Consulting, Inc.	187	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):		
Wright On-Line Systems	246	Consulting Services
YOH Services, LLC	110	Consulting Services
Yuba County Office of Education	43	Regional Counseling Services
Other	215	Various Services under $10
	20,872	
Data Processing:		
E Eye Digital Security	14	Data Processing
IBM Corporation	21	Data Processing
Quest Media & Supplies	168	Data Processing
Other	11	Various Services under $10
	214	
Consolidated Data Center:		
Department of Technology Services	4,606	Data Processing
Health & Welfare Data Center	21	Data Processing
Stephen P. Teale Data Center	627	Data Processing
	5,254	
Total consultant and professional services expenses	$ 26,340	

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

CitiStreet administrative fee	$	712
System administrative/sponsor fees		49
Loan fees		2
Mutual fund fees		16
Redemption fees		3
Total	$	782

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

Personnel services:		
Salaries & Wages	$	86
Staff benefits		35
Accrued Vacation		2
Total personnel services		123
Operating expenses and equipment:		
General expense		55
Communications		
Facilities Operations		
Consultants and professional services		
Indirect State central services		12
Total operating expenses and equipment		67
Total	$	190

"CalSTRS creates value for my retirement. That lets me focus on creating positive results in our communities."

Vonna Breeze-Martin

INNOVATE INVESTMENTS

NAME
Vonna Breeze-Martin

SCHOOL DISTRICT
Yosemite Community College

WHY I TEACH
I teach because I love Spanish. Sharing the language and culture with my students opens up the world for them.

SUBJECT AREA
Spanish - Community College

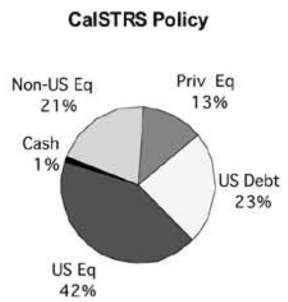
CalSTRS member since 1990

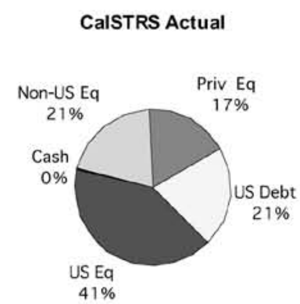
Pension Consulting Alliance, Inc.
Los Angeles · Portland · New York

The CalSTRS Investment Portfolio increased by $28.1 billion over the past twelve months, ending with a value of $171.9 billion on June 30, 2007. 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 strategic investment classes. The fiscal year-end report reflects strategic allocation guidelines for the 2006-2007 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. Private Equity is overweighted, while US Equity and US Debt are underweighted (see right pie chart). Investment gains in the private equity markets over recent periods contributed to the overweighting of this asset class.

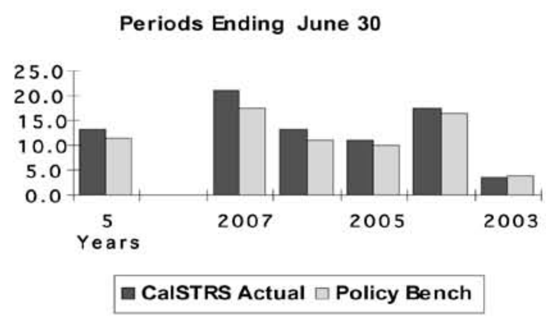




Investment Results

Over the last year, the CalSTRS Investment Portfolio produced a strong absolute return of 21.03%, ranking in the first percentile among its large public pension fund peers[1] (top bar chart). During this period, portfolio results exceeded the policy benchmark return by 3.5%.[2] Relative outperformance by the US Equity and Private Equity asset classes contributed significantly to this result.

During the last three years, CalSTRS' portfolio generated a 15.1% average annual return outperforming the policy benchmark by 2.4% per year and ranking in the top decile vs. their peer funds. Over the last five years, the CalSTRS Investment Portfolio produced an average annual return of 13.1%, exceeding its policy benchmark by 1.5% per year (bottom chart). These results are above 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

The CalSTRS Investment Portfolio gained $28.1 billion in value, earning 21.03 percent in fiscal year 2006–07. This 21 percent return ranked as one of the highest in the U.S.A., and ranked in the top 1 percent of Public Funds measured by the Trust Universe Comparison Service (TUCS). In fiscal year 2006-07, four of the CalSTRS five asset classes earned over 20 percent. Over the last three straight years, the CalSTRS investment portfolio has earned 15.07 percent per year. In fact, CalSTRS investments have generated a double-digit return for four straight years. Over the past three- and five-year periods ending June 30, 2007, the portfolio has placed in the first percentile, besting 94 percent of the public pension plans in the nation, as measured by TUCS.

Asset Allocation as of June 30, 2007

Total investment portfolio of $171.9 billion

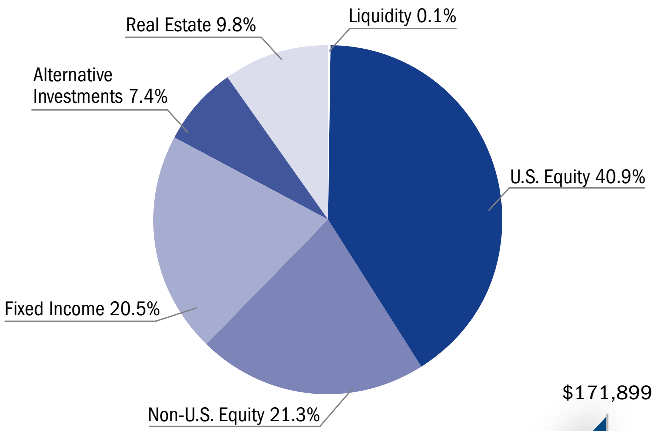


Chart A | Growth in Total Investments

(dollars in millions)

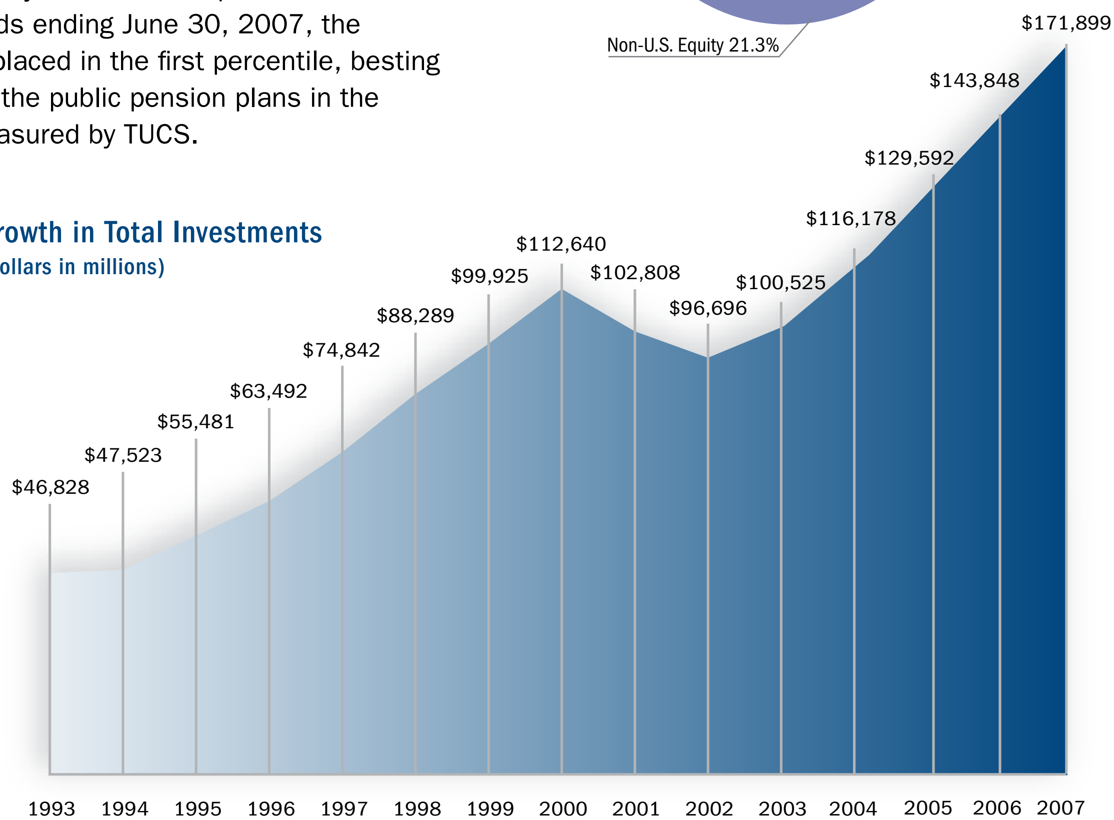
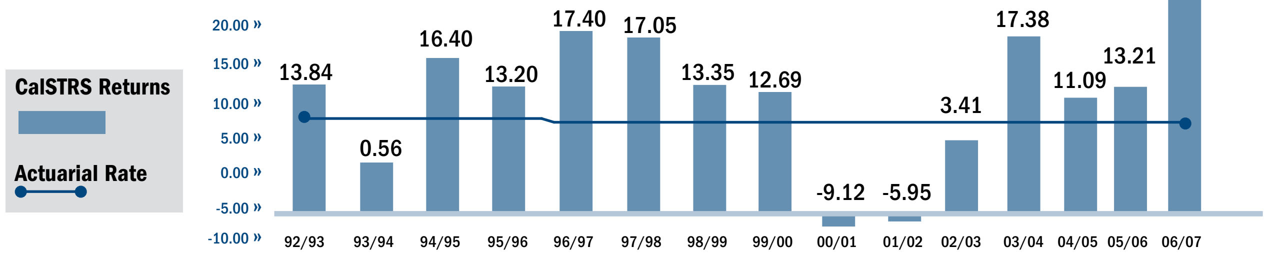


Chart B | Growth in CalSTRS Returns (percent)



This strong performance is the direct result of both the CalSTRS Investment Committee and chief investment officer's dedication to increasing the portfolio's diversification into long-term investments of real estate and alternative investments (private equity). These types of investments that last five 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,

Chart C | Time-Weighted Performance Returns for Major Asset Categories

PORTFOLIO TYPE / ASSOCIATED INDICIES	1 YR	3 YR	5 YR	10 YR
Total Fund	21.03%	15.07%	13.08%	8.97%
U.S. Equity	20.93	12.76	11.87	7.69
U.S. Equity Custom [1]	19.89	12.24	11.39	7.39
Russell 3000 *	19.89	12.24	11.39	7.48
Non-U.S. Equity	30.23	24.58	19.12	8.66
MSCI All Country Free ex U.S. (G) *	30.04	24.93	19.84	8.46
MSCI Europe, Australia, Far East & Canada *	26.93	22.19	17.67	7.62
MSCI Emerging Market Free *	45.55	38.68	30.63	9.34
Fixed Income	6.49	4.41	5.34	6.67
US Debt Custom [2]	6.16	4.08	5.22	6.55
Lehman Brothers U.S. Aggregate	6.12	3.98	4.48	6.02
Lehman Brothers High Yield Cash Pay	11.21	8.88	11.57	6.52
Real Estate	32.89	29.74	21.23	17.83
Real Estate Custom [3]	16.59	17.39	13.73	12.57
Alternative Investments	27.59	28.14	21.32	19.36
Alternative Investments Custom [4]	6.63	7.32	7.59	8.53
Liquidity	9.53	6.31	8.07	6.95
Citigroup 3-Month Treasury Bill	5.24	3.73	2.71	3.68

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.

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

[1] Russell 3000 tobacco free after 9/1/00; Blend S&P 500 and Russell Small Cap Completeness after 7/1/01; Russell 3000 from 7/1/96.

[2] Salomon LPF through 7/1/02; LB US Aggregate tobacco free through 4/1/07; thereafter a blend of LB US Aggregate and LB High Yield Cash Pay tobacco free.

[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.

but are well suited for long-term investors in traditional pension plans.

In addition to the gains registered in real estate and alternative investments for the most recent year, the portfolio's non-U.S. equities also exceeded its benchmark, returning over 30 percent. For the last three years, CalSTRS has purposely over-weighted non-U.S. stocks compared to U.S. stocks to add value above the target benchmark. Over the last year, that decision added $537 million and over the past three years, it generated $1.3 billion. For the sixth straight year, since CalSTRS changed chief investment officers, the total CalSTRS investment portfolio exceeded the policy benchmark. Every asset class exceeded its policy benchmark this year and four out of the five asset classes exceeded their benchmarks over the past five years.

The total CalSTRS investment portfolio outperformed its policy benchmark by 354 basis points or 3.5 percent (21.03% compared to 17.49%). The policy benchmark is made up of the index returns for each asset class at the exact target allocations. This is a tough benchmark since it does not include any transaction costs. Over the past three years, the portfolio outperformed the benchmark by 238 basis points. This means CalSTRS investment staff and investment managers generated an extra $9.9 billion of profit over the past three years, net of investment manager fees.

This out-performance in large part is due to the strength of the investment staff in the real estate and private equity areas; yet, it is also being generated in the U.S. equity, fixed income, and from the non-U.S. equity portfolios. At the start of fiscal year 2006–07, CalSTRS hired five new emerging market investment managers. Not only did those managers outperform their benchmark but in their first year, in aggregate, all five earned an amazing 47.8 percent on CalSTRS investments.

A core tenet that drives and guides the investment portfolio is the CalSTRS Investment Policies developed by the Investment Committee. Under the guidance of CalSTRS expert external investment consultant, Pension Consulting Alliance, the Investment Committee revised several policies during the fiscal year. Changes were made to the asset allocation targets in the Investment Policy and Management Plan in line with the long-term plan developed after the 2006 Asset Liability Study. Additionally, increases in the percentage of active management vs. core/passive management were approved for the global equity, fixed income, currency management and real estate policies. Finally, changes in guidance and discretion to staff were approved in the corporate governance, real estate, and alternative investment policies. In total, 10 policies were revised during the year to accommodate the continued growth in complexity and size of the CalSTRS investment portfolio.

CalSTRS has become a recognized world-class money manager and industry leader in the pension and institutional investment community. Pension plans from Japan, Korea, France, Mexico, Canada, Singapore, and the Philippines have visited our investment operations to learn from CalSTRS. The CalSTRS investment staff serves on the advisory boards of all the major equity and fixed income indices. The CalSTRS chief executive officer and chief investment officer each serve as the chair of the board for two leading non-profit industry educational and advocacy firms.

As the teachers of the state of California would expect and deserve, CalSTRS is at the forefront and leading the way for the institutional investment industry. An example of that leadership is in corporate governance and climate change. In corporate governance, CalSTRS has been instrumental in the Council of Institutional Investors and in major governance improvements across America. Our actions are not bound to our coastline; CalSTRS staff has been active with both the international and Asian corporate governance associations.

In addition, staff and our activist investment managers have influenced improvements at Prudential Insurance, Home Depot, Qwest, United Health, and Computer Associates in the past year. In the area of climate change, CalSTRS has developed a four-pronged approach to manage the risk of climate change and to gain from the opportunity of new solutions in Clean Tech. In alternative investments, CalSTRS is a major investor in the first commercial, all-electric car that goes 0-60 m.p.h. in under four seconds and can drive over 200 miles on a single charge. CalSTRS has also backed a thin-cell photovoltaic solar company that can produce solar cells at a lower cost. On the risk side, CalSTRS is factoring the risk of strong winds and storms into our real estate decisions and the risk of environmental exposure into our debt decisions. All told, CalSTRS is once again ahead of our peers in many forward-thinking areas, all designed to identify change and protect the portfolio from potential risk while positioning to profit from those very changes.

Fixed Income

The fixed income assets within the CalSTRS investment portfolio comprise internally and externally managed portfolios, which amounted to $35.26 billion at fiscal year end. A majority of the fixed income assets (78 percent) are managed internally and follow a Core Strategy, that has an objective of producing market level returns with a low-to-moderate level of risk. The remaining assets (22 percent) are managed externally and follow an Opportunistic Strategy, with higher risk levels and higher expected returns.

The Fixed Income Portfolio has outperformed its benchmark over all time periods (one, three, five and 10 years) ending June 30, 2007. This past year, the portfolio outperformed its benchmark by 33 basis points, contributing in excess of $100 million in additional value to the Fund.

Chart D | Largest Fixed Income Holdings as of June 30, 2007

(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	MATURITY DATE	INTEREST RATE	PAR	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN (LOSS)
US TREASURY NTS	8/15/2012	4.375%	425,000,000	$415,445,996	$420,482,562	$(5,036,566)
UNITED STATES TREAS NTS	3/15/2009	2.625	430,000,000	413,500,909	421,951,912	(8,451,003)
UNITED STATES TREAS NTS	2/15/2010	4.750	395,000,000	393,538,488	396,888,365	(3,349,877)
UNITED STATES TREAS NTS	11/15/2012	4.000	297,800,000	285,441,294	284,950,674	490,620
UNITED STATES TREAS NTS	2/15/2014	4.000	245,000,000	231,907,195	236,928,661	(5,021,466)
FED HM LN PC POOL G12050	1/1/2019	4.500	232,003,861	221,310,109	219,461,152	1,848,957
FEDERAL HOME LN MTG CORP	9/2/2011	5.450	210,000,000	208,908,714	210,000,000	(1,091,286)
FEDERAL HOME LOAN BANK	6/4/2009	5.125	200,000,000	199,566,000	199,637,000	(71,000)
FEDERAL HOME LN MTG CORP	1/9/2014	5.375	200,000,000	196,873,380	198,772,038	(1,898,658)
FEDERAL NATL MTG ASSN	2/1/2017	5.600	200,000,000	196,143,920	199,980,877	(3,836,957)

Breaking this performance down by strategy, the internally managed Core assets were able to add 21 basis points above the benchmark. Within the Opportunistic Strategy, although the high yield sector had another good year of relative performance, returning more than 11 percent, our active external high yield managers under-performed their benchmark again this year. This underperformance was due, in large part, to their higher quality bias. In response to the high correlation among our existing external managers, staff has restructured the high yield portion of the portfolio, resulting in a more diverse pool of manager styles. This should better position the portfolio going forward in a variety of markets. The core plus managers within the Opportunistic Strategy have only just recently completed funding and also represent a group of diverse styles that staff anticipates will be able to provide value to the portfolio over time.

Two other investment programs are managed by the fixed income team: Currency Management and Securities Lending.

CURRENCY MANAGEMENT PROGRAM

Because of the global nature of the Fund, and the impact that currency fluctuations can have on the return of dollar-based investors, CalSTRS has recognized the need to implement strategies designed to address the management of currency risk. The Currency Management Program strives to protect the value of the System's non-dollar assets 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 asset returns. The program also includes a return enhancement component for when the U.S. dollar declines in value, and permits strategies to profit within those environments, giving CalSTRS another potential source of added return to the portfolio. Although the U.S. dollar continued its multiyear trend lower against its major trading partners over the past fiscal year, it was a volatile market environment. Therefore, to maximize the benefit to the fund of holding non-dollar assets, CalSTRS did little to no hedging in order to allow the portfolio to take advantage of the weakening U.S. dollar.

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. CalSTRS size and presence in the capital markets make it a prime resource for securities lending. Approximately 75 percent of the CalSTRS investment portfolio is considered "lendable," in that it includes assets that are in demand by borrowers on a regular basis. Consistent with past experience, approximately 20 to 25 percent of those assets are on loan at any time, which compares favorably to our peers. 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, 2007, the Securities Lending Program earned approximately $79 million in additional income for the Fund.

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

Chart E | Largest Equity Holdings as of June 30, 2007

(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	SHARES	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN/(LOSS)
Exxon Mobil Corp	20,373,725	$1,708,948,053	$594,199,833	$1,114,748,220
General Elec Co	37,047,670	1,418,184,808	752,964,208	665,220,600
Citigroup Inc	19,603,937	1,005,485,929	533,445,025	472,040,904
Microsoft Corp	33,546,328	988,610,286	622,637,879	365,972,407
AT+T Inc	23,447,712	973,080,048	607,875,119	365,204,929
Bank Amer Corp	17,512,069	856,165,053	486,958,270	369,206,783
Pfizer Inc	28,736,790	734,799,720	606,129,661	128,670,059
Chevron Corp	8,359,830	704,232,079	344,361,747	359,870,332
Johnson + Johnson	11,334,639	698,440,455	433,677,551	264,762,904
Cisco Sys Inc	24,204,545	674,096,578	368,117,841	305,978,737

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.

As a result of member feedback, the Reverse Mortgage Program was launched in early 2007 to provide a financial alternative to members age 62 and older.

Internal Equity Management

The Internal Equities team manages approximately one-third of CalSTRS domestic equity allocation. This is accomplished primarily through 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, 2007, the portfolio was valued at $22.08 billion. The portfolio has achieved annualized returns of 20.48 and 12.27 percent for the one- and three-year periods, respectively. For the one-year period ending June 30, 2007, the portfolio outperformed the benchmark by 0.24 percent.

The Cash Equitization Program pools the excess cash in CalSTRS actively managed domestic accounts so that these monies can be invested so as to gain exposure to the equity market. This portfolio is managed in partnership with CalSTRS Fixed Income unit. The program has achieved annualized returns of 20.60 percent and 11.67 percent for the one- and three-year periods, respectively. For the one-year period ending June 30, 2007, the portfolio beat the benchmark by 0.01 percent.

Alternative Investments

During fiscal year 2006–07, CalSTRS made additional commitments of approximately $8.6 billion in this segment of the portfolio. The market value plus unfunded commitments now amount to approximately $25.3 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 216 partnerships, 38 co-investments, and five secondaries in the Alternative Investments portfolio. At the end of the fiscal year, the total market value was $11.4 billion, representing approximately 6.7 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 27.6, 28.2, and 21.3 percent, lagged one quarter, for the one-, three-, and five-year periods respectively.

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 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, 2007, the Credit Enhancement Program had commitments of approximately $2.3 billion and fee income earned during the fiscal year was approximately $5 million.

Real Estate

CalSTRS portfolio of real estate assets is valued at $16.9 billion. Real estate assets are 9.8 percent of the total fund with a 9 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 investments in the core portfolio are held directly or with a joint venture partner and are diversified by property type and region. The core portfolio comprises 42 percent of the real estate portfolio. The tactical portfolio investments are made either with a joint venture partner or are investments in a commingled fund, both domestic and international. The tactical portfolio comprises 58 percent of the real estate portfolio. The CalSTRS real estate portfolio has achieved gross annualized returns of 32.9, 29.7, and 21.2 percent for the one-, three-, and five-year periods, respectively. CalSTRS returns exceeded the NCREIF benchmark by 16.3, 12.3, and 7.5 percent for each of the one-, three-, and five-year periods.

Global Equities – External Management *(formerly External Equity Managers)*

The Global Equity Portfolio, comprising both internally and externally managed portfolios, continued to be an important investment vehicle to the fund. At the end of fiscal year 2006–07, this segment of the portfolio accounted for 62.2 percent (or $106.8 billion) of the total fund. U.S. Equity accounted for 66 percent of the total equity allocation, while non-U.S. Equity accounted for the remaining 34 percent.

The Global Equity portfolio is managed by one internal and 25 external U.S. managers and 20 external non-U.S. managers. Overall, global equity markets continued to advance through fiscal year 2006–07 with a rate of return for the MSCI All Country World Index ("ACWI") ex-U.S. ex-Tobacco of 30.04 percent. Furthermore, both U.S. and non-U.S. active composites outperformed their benchmarks for the fiscal year, with U.S. active managers outperforming the Russell 3000 ex-Tobacco Index by 302 basis points (22.91 percent vs. 19.89 percent) and non-U.S. active managers outperforming the MSCI EAFE + Canada ex-Tobacco Index by 531 basis points (32.24 percent vs. 26.93 percent).

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

During fiscal year 2006–07, the Global Equities group implemented the following key initiatives:

- Implemented an environmentally focused sustainable investment strategy in the Global Equity Portfolio by hiring and fully funding four external investment management firms. Two of the managers have a U.S. mandate, one has a global mandate and one has a Canadian-focused mandate.
- 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 to expand the fund-of-funds manager roster for the Developing Manager Program. The final selections are expected during the first half of the 2007–08 fiscal year.

CORPORATE GOVERNANCE

During fiscal year 2006–07, CalSTRS voted on a variety of proxy issues including financial, corporate governance and social issues. Nearly 7,932 votes were cast on proxy issues for corporations whose shares were owned in the investment portfolio. Proxy issues were presented on 2,963 companies. The overall number of proxy issues decreased slightly from 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 percent).
   - » Number Voted: 2,856
   - » Voted For All: 1,235 (43%)
   - » Split Vote: 960 (34%)
   - » Voted Against All: 661 (23%)
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 percent of the total fees billed).

» Number Voted: 2,190
» Voted For: 1,974 (90%)
» Voted Against: 216 (10%)

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: 1,206
» Voted For: 438 (36%)
» Voted Against: 768 (64%)

4. ***Approve Merger/Acquisition—Management:*** CalSTRS evaluates mergers and acquisitions on a case-by-case basis utilizing a total portfolio view.

» Number Voted: 231
» Voted For: 193 (84%)
» Voted Against: 38 (16%)

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: 144
» Voted For: 36 (25%)
» Voted Against: 108 (75%)

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: 564
» Voted For: 220 (39%)
» Voted Against: 344 (61%)

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, tieing compensation plans to company performance, and requiring shareholder approval for large severance packages.

» Number Voted: 680
» Voted For: 520 (76%)
» Voted Against: 160 (24%)

The Corporate Governance unit continues to manage two governance funds, accounting for a combined $1.5 billion in assets under management. Both funds invest in governance-poor companies and engage management in securing governance and shareholder value improvement. For the year ending June 30, 2007, the Corporate Governance funds returned over 30 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, 2007, is $92 million. The rate of return for the Cash Balance Benefit Program for the fiscal year was 19.5 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, 2007, is $5.2 billion. Since the inception of the Defined Benefit Supplement Program, the annualized rate of return is 7.2 percent. The rate of return for the Defined Benefit Supplement Program for fiscal year 2006–07 is 19.5 percent.

Chart F | Investment Summary for the Current and Previous Fiscal Year (dollars in millions)

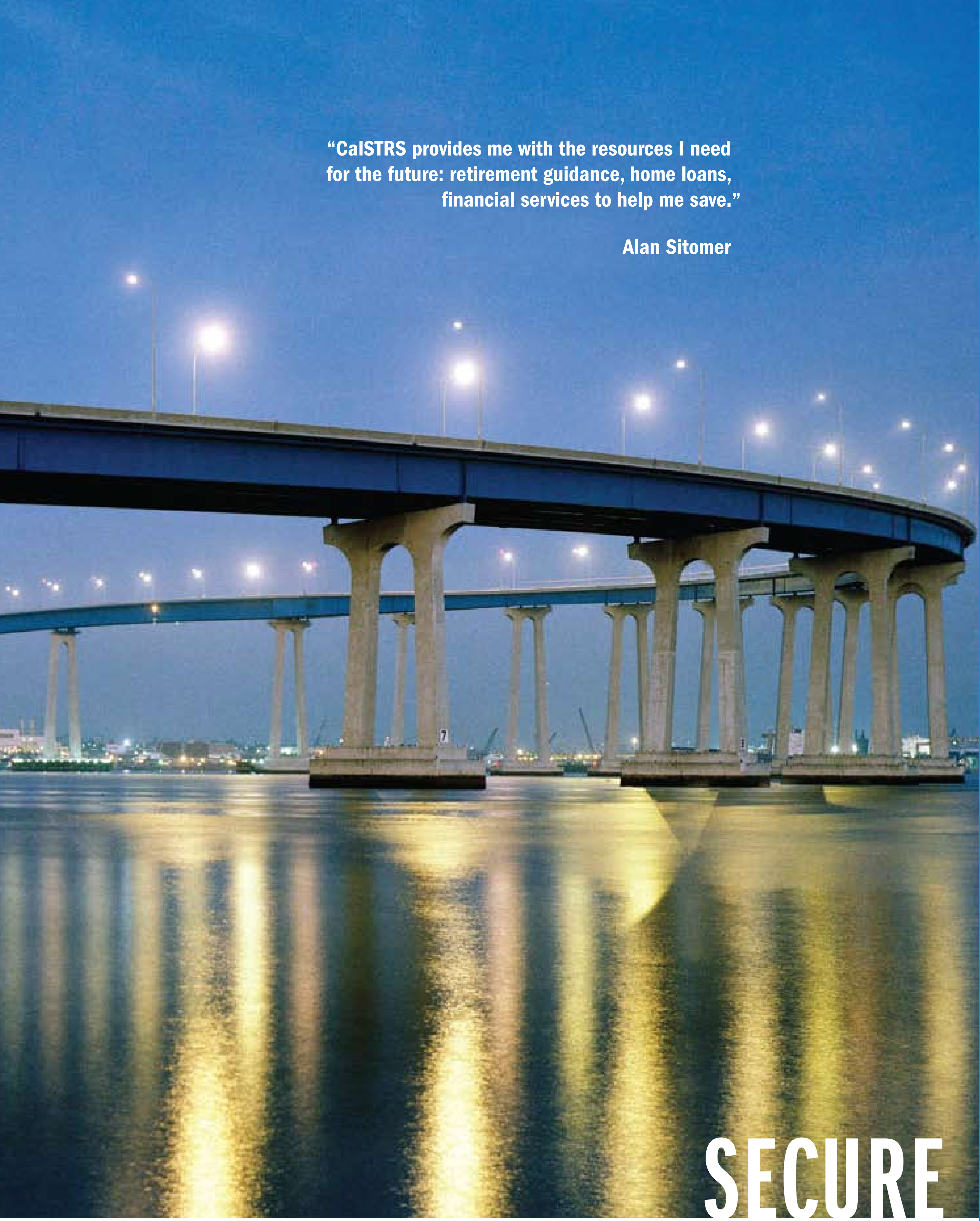
	June 30, 2006		June 30, 2007			
PORTFOLIO TYPE	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	% OF MARKET VALUE	NET MARKET CHANGE
U.S. Equity	$40,377	$60,456	$44,803	$70,263	40.88%	9,807
Non-U.S. Equity	23,922	32,053	24,424	36,569	21.27	4,516
Fixed Income	32,871	31,765	36,421	35,254	20.51	3,489
Alternative Investments	7,071	8,629	9,959	12,742	7.41	4,113
Real Estate	8,579	10,618	13,192	16,899	9.83	6,281
Liquidity	324	327	169	172	0.10	-155
TOTAL PORTFOLIO	**$113,144**	**$143,848**	**$128,968**	**$171,899**	**100.00%**	**28,051**
Adjustments:						
Securities Lending Collateral		27,626		32,067		
Real Estate Accruals		1,236		1,177		
SSB Accruals		398		816		
Cash & Cash Equiv		-236		-311		
PLAN NET ASSETS-INVESTMENTS		**$172,872**		**$205,648**		

Chart G | Schedule of Investment Fees from Continuous Appropriation July 1, 2006, Through June 30, 2007 (dollars in thousands)

	ASSETS UNDER MANAGEMENT	FEES	BASIS POINTS
Investment Managers' Fees			
U.S. Equity	$46,033,973	$34,097	7.4
Non-U.S. Equity	35,925,426	61,091	17.0
Fixed Income	7,729,138	6,086	7.9
Alternative Investments	11,418,794	3,678	3.2
Real Estate	16,834,394	24,726	14.7
TOTAL INVESTMENT MANAGERS' FEES	**$117,941,725**	**$129,678**	**11.0**

Chart H | Broker Commissions July 1, 2006, Through June 30, 2007

BROKER NAME	COMMISSION	SHARES	COMMISSION PER SHARE
US Equity Transactions			
Bear, Stearns Securities Corp	$1,556,754	66,231,660	$0.024
Instinet	1,290,954	91,665,639	0.014
Investment Technology Group Inc.	913,254	55,207,493	0.017
Citigroupglobal Markets Inc	846,363	35,505,751	0.024
Merrill Lynch Pierce Fenner + Smith Inc.	813,122	41,171,618	0.020
J.P. Morgan Securities Ltd	781,437	41,796,580	0.019
Lynch Jones & Ryan	727,706	16,512,431	0.044
Lehman Bros Inc.	721,767	42,192,395	0.017
BNY Brokerage Inc	706,932	18,388,010	0.038
Goldman Sachs	655,421	50,577,918	0.013
Other US Brokers	9,810,748	403,990,529	0.024
TOTAL US COMMISSIONS	**$18,824,458**	**863,240,024**	**$0.022**
Non-US Equity Transactions			
Credit Suisse Bank	$4,484,201	387,109,142	$0.012
Merrill Lynch	3,899,328	597,968,540	0.007
UBS Ag	2,706,868	265,602,179	0.010
Citigroup	2,172,688	203,224,371	0.011
J.P. Morgan Securities Ltd	2,067,401	270,865,394	0.008
Morgan Stanley + Co	1,986,611	190,930,196	0.010
Goldman Sachs	1,891,593	245,578,517	0.008
Lehman Brothers Securities	1,587,521	137,637,776	0.012
Deutsche Bank Securities Corp	1,585,244	178,077,464	0.009
Credit Lyonnais	1,028,260	183,007,599	0.006
Other Non-US Brokers	11,569,503	1,226,996,570	0.009
TOTAL NON-US COMMISSIONS	**$34,979,218**	**3,886,997,748**	**$0.009**



"CalSTRS provides me with the resources I need for the future: retirement guidance, home loans, financial services to help me save."

Alan Sitomer

SECURE ACTUARIAL

NAME
Alan Sitomer

SCHOOL DISTRICT
Lynwood Unified

WHY I TEACH
It's the most personally fulfilling work I can do. I am a better human being because I am a teacher.

SUBJECT AREA
English - High School

CalSTRS member since 2000

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Fax +1 503 227 7956

milliman.com

January 16, 2008

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, 2006. 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, 2006.

In preparing the 2006 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 2007 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, 2006 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 2006 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

Milliman

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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,

MJ Johnson

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, 2006, and adopted by the Teachers' Retirement Board on June 7, 2007. The following summary and tables 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, 2006, actuarial valuation.

Following is a summary of 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 benefit beginning on September 1 following the first anniversary of the effective date of the benefit. Since 1972, this increase is applied to all eligible continuing benefits.

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, 2006 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 one-year prohibition on employment in a California public school for members who receive a Retirement Incentive benefit.

- Extend a five-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.
- Subsequently, CalSTRS took legal action to compel the state to contribute the remaining $500 million. On August 30, 2007, the Third District Court of Appeal in Sacramento issued a decision requiring the state to pay CalSTRS $500 million plus interest for the withheld contribution from fiscal year 2003–04. On September 6, 2007, the State paid CalSTRS $500 million for the withheld contributions. Paying the interest on the withheld contributions requires an appropriation by the Legislature.

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, 2006).

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, 2006).

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.

DEFINED BENEFIT PROGRAM

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 with this data. 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, 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.
- Twenty-five 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 benefit 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

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

DEFINED BENEFIT PROGRAM

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.

Effective January 1, 2004

Death Before Retirement — Coverage B

- The definition of spouse for purposes of receiving a survivor benefit includes a person married to the member for fewer 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 SBMA was reduced by $500 million effective for the 2003–04 fiscal year.

Effective January 1, 2005

- Recalculated benefits to part-time and adult education community college employees who were members prior to July 1, 1996.

- Expanded eligibility for partial lump-sum benefits.

- Eliminated one-year prohibition on employment in a California public school for members who receive a Retirement Incentive benefit.

- Extended five-year prohibition on employment with a granting employer to Community College and County Office of Education members.

- Existing post-retirement earnings exemption for retired members who fill a vacant administrative position in an emergency situation extended for up to two years.

- Extended retirement date and sunset date for other existing post-retirement earnings exemptions.

- Up to $^{2}/_{10}$ of one year of unused sick leave service credit to count towards qualifying for one-year final compensation, longevity bonus and other benefit enhancements.

The most recent actuarial valuation of the system (as of June 30, 2006) determined there is an unfunded actuarial obligation for this program. The prior actuarial valuation (as of June 30, 2005) also indicated there was an unfunded actuarial obligation.

With the exception of the actuarial valuations performed as of June 30, 1998, June 30, 2000, June 30, 2004, and June 30, 2006, 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.

DEFINED BENEFIT PROGRAM

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, 2005, as a result of the competitive bid process.

Summary of Defined Benefit Program Provisions

(The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2006, actuarial valuation.)

NORMAL RETIREMENT

Eligibility Requirement

Age 60 with five years of credited service.

Benefit

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

BENEFIT 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 fewer than 25 years of service, the calculation is based on the average salary earnable for the highest three consecutive years of credited service for one position.

DEFINED BENEFIT PROGRAM

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 30 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 Member-Only Benefit. 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

Two percent simple increase on September 1 following the first anniversary of the effective date of the benefit, applied to all continuing benefits.

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 benefit 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 two 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 if a member has earned one year of creditable service and is disabled due to an unlawful act of bodily harm committed by another person while performing creditable service.

DEFINED BENEFIT PROGRAM

Allowance

Fifty percent of final compensation, regardless of age or service credit.

- or -

Five percent of final compensation for each year of service credit if over age 45 with fewer than 10 years of service credit.

Children's Benefit

Ten 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 if a member has earned one year of creditable service and is disabled due to an unlawful act of bodily harm committed by another person while performing creditable service.

Allowance

Fifty percent of final compensation, regardless of age and service credit.

Children's Benefit

Ten 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 allowance 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, or there is no surviving spouse, 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 a 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 benefit would be reduced 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.

Employer 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.

DEFINED BENEFIT PROGRAM

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

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, 2006, actuarial valuation as they were effective after that date.

Effective January 1, 2007

- Absent a surviving spouse or surviving registered domestic partner, eligible dependent children shall receive the child's portion of the survivor benefit allowance, subject to certain limits.

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 Refund by Sample Duration of Members and Sample Entry Ages

	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			

DEFINED BENEFIT PROGRAM

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

** 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)

			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

DEFINED BENEFIT PROGRAM

Table 9 | Disability Rates (sample ages)

COVERAGE A		
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
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
2006	453,365	24,239,606,097	53,466	3.5

[1] No actuarial report is prepared in even-numbered years, except for June 30, 2000, June 30, 2004, and June 30, 2006 reports.
[2] Annual Payroll and Annual Average Pay were revised on an estimated basis to reflect date corrections.

DEFINED BENEFIT PROGRAM

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 Allowance	Number	Annual Allowance	Number	Annual Allowance	% Increase	Average Annual Allowance
2002	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	201,241	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
2007	12,457	562,542	6,162	137,474	215,641	7,078,199	8.8	32,824

Table 12 | Solvency Test

	AGGREGATE ACCRUED LIABILITIES FOR (in millions)				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	$21,337	$36,238	$35,549	$102,225	100.0%	100.0%	125.6%
2001 [a]	22,661	41,513	45,707	107,654	100.0	100.0	95.1
2003 [b,c]	24,313	52,128	51,663	108,667	100.0	100.0	62.4
2004 [c]	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
2006	25,124	68,774	56,974	131,237	100.0	100.0	65.5

** No actuarial report is prepared in even-numbered years, except for the June 30, 2000, June 30, 2004, and June 30, 2006 reports. No estimation using actuarial methodology is made in years between valuations.*

[a] 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.

[b] Effective January 1, 2002, program changed to direct 25 percent of the 8 percent member contributions to the Defined Benefit Supplement Program.

[c] 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
	2006 (2005)
Actuarial Obligation at June 30:	$142,193
Normal Cost	4,202
Benefit Payments	(6,417)
Expected Interest	11,289
Expected Actuarial Obligation at June 30:	151,267
Expected Actuarial Value of Assets at June 30:	129,149
Expected UAO at June 30	22,118
Actuarial (Gains) or Losses	
Change in Assumptions	–
Investment Return Assumptions	(2,857)
Demographic Assumptions	(365)
Net Change Other Sources	739
Total Actuarial (Gains) & Losses	(2,483)
Unfunded Actuarial Obligation at June 30	$19,635
Funded Ratio	87%

DEFINED BENEFIT SUPPLEMENT PROGRAM

ACTUARY'S CERTIFICATION LETTER

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January 16, 2008

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, 2006. 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 $423,269,000 as of June 30, 2006. The Board allocated $88,201,000 for Additional Earnings Credits and Additional Annuity Credits and the remaining $335,068,000 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 2006 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 2007 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, 2006 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 2006 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

Milliman

Teachers' Retirement Board
January 16, 2008
Page 2

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 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, 2006, and adopted by the Teachers' Retirement Board June 7, 2007. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2006, 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, 2006, 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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

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, 2006, result in an actuarial surplus of $335,068,000.

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, 2006, 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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

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.

Changes in Defined Benefit Supplement Program Provisions

There have been no program amendments that would affect an actuarial valuation of the Defined Benefit Supplement Program since the last CalSTRS annual financial report was issued. All program provisions were considered in the completion of the June 30, 2006, 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

DEFINED BENEFIT SUPPLEMENT PROGRAM

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)

	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%
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

DEFINED BENEFIT SUPPLEMENT PROGRAM

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 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 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 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

DEFINED BENEFIT SUPPLEMENT PROGRAM

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 [1]	54,431	1.768
2006	453,131	25,524,878,188 [1]	56,330	3.489

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.

[1] Annual payroll includes limited term enhancement and extra service credit pay which is different from covered payroll in Schedule I of the Schedule of Funding Progress in the RSI.

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 Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase	Average Annual Allowances
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	2,951 [1]	4,765,404 [1]	18 [1]	29,192 [1]	5,477	7,624,364	256	1,392
2006	4,067 [1]	7,984,912 [1]	363 [1]	588,458 [1]	9,302	15,183,661	99	1,632
2007	4,841	11,483,366	651	1,405,165	13,561	25,387,837	67	1,872

The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003, all members who had retired or became disabled had elected a lump-sum distribution.

[1] Revised in 2007

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)
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
2006	3,546,575,000	69,684,000	0	3,951,327,000	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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 13 | Analysis of Financial Experience

	ACTUARIAL VALUATION AS OF JUNE 30	
	2006 (2005)	2005 (2004)
Actuarial Obligation at June 30	$2,756,199,000	$2,035,052,000
Expected Changes:		
Contributions	703,104,000	669,706,000
Benefits Paid	(112,029,000)	(84,025,000)
Expected Earnings/Credits	244,139,000	186,231,000
Expected Actuarial Obligation at June 30	3,591,413,000	2,806,964,000
Expected Actuarial Value of Assets at June 30	3,879,749,000	2,989,085,000
Expected UAO at June 30	(288,336,000)	(182,121,000)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(63,355,000)	(50,765,000)
(Gain) on Assets	(71,578,000)	(34,092,000)
Total Actuarial Gains & Losses	(134,933,000)	(84,857,000)
Additional Earnings and Annuity Credits		
Additional Earnings Credit	86,284,000	–
Additional Annuity Credit	1,917,000	–
Total Additional Earnings and Annuity Credits	88,201,000	–
Unfunded Actuarial Obligation (Surplus) at June 30, 2006	($335,068,000)	($266,978,000)
Funded Ratio	109%	110%

CASH BALANCE BENEFIT PROGRAM

ACTUARY'S CERTIFICATION LETTER

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January 16, 2008

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, 2006. 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 $6,641,000 as of June 30, 2006. The Board allocated $733,000 for Additional Earnings Credits and Additional Annuity Credits and the remaining $5,908,000 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 2006 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 2007 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, 2006 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 2006 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

Milliman

Teachers' Retirement Board
January 16, 2008
Page 2

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 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, 2006, and adopted by the Teachers' Retirement Board June 7, 2007. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2006, 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. 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. Since the last experience study as of June 30, 2003, program amendments have been made that have affected the June 30, 2006 actuarial valuation.

These program amendments include:

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.

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, 2006, 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, 2006, result in an actuarial surplus of $5,908,000.

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, 2006, 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.

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 four percent of salary and employer contributions are four percent of salary.

CASH BALANCE BENEFIT PROGRAM

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 12 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.

CASH BALANCE BENEFIT PROGRAM

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 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

There have been no program amendments that would affect an actuarial valuation of the Cash Balance Benefit Program since the last CalSTRS annual financial report was issued. All program provisions were considered in the completion of the June 30, 2006, actuarial valuation.

CASH BALANCE BENEFIT PROGRAM

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					
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					

CASH BALANCE BENEFIT PROGRAM

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

** 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
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

CASH BALANCE BENEFIT PROGRAM

Table 10 | Schedule of Active Participant Valuation Data

Date (as of June 30)	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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
2006	9,869	122,316,000	12,394	8.8

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
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
2007	5	10,715	0	0	16	35,139	43.9	2,196

**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.

CASH BALANCE BENEFIT PROGRAM

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 Benefit to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
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	31,000	0	42,003,000	100.0	100.0%	na
2005	51,728,731	52,000	0	53,918,000	100.0	100.0	na
2006	62,749,487	140,000	0	68,797,000	100.0	100.0	na

Table 13 | Analysis of Financial Experience

	ACTUARIAL VALUATION AS OF JUNE 30	
	2006 (2005)	2005 (2004)
Actuarial Obligation at June 30:	$51,781,000	$42,003,000
Expected Changes:		
Contributions	10,605,000	8,639,000
Benefits Paid	(1,802,000)	(1,480,000)
Expected Earnings/Credits	4,495,000	3,647,000
Expected Actuarial Obligation at June 30:	65,079,000	52,809,000
Expected Actuarial Value of Assets at June 30:	67,387,000	53,079,000
Expected UAO at June 30	(2,308,000)	(270,000)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(2,923,000)	(1,028,000)
(Gain) on Assets	(1,410,000)	(839,000)
Total Actuarial Gains & Losses	(4,333,000)	(1,867,000)
Additional Earnings and Annuity Credits		
Additional Earnings Credit	731,000	–
Additional Annuity Credit	2,000	–
Total Additional Earnings and Annuity Credits	733,000	
Unfunded Actuarial Obligation (Surplus) at June 30, 2006	($5,908,000)	($2,137,000)
Funded Ratio	109%	104%

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January 16, 2008

Teachers' Retirement Board
California State Teachers' Retirement System

Re: GASB 43 Reporting for the Medicare Premium Payment Program

Dear Members of the Board:

We have produced GASB 43 reporting information for the Medicare Premium Payment Program (MPPP) of the California State Teachers' Retirement System as of June 30, 2006. The MPPP is essentially funded on a pay-as-you-go basis with a portion of contributions to the DB Program diverted to the Teachers' Health Benefit Fund to make MPPP payments. $1,687 million of future employer contributions to the DB Program has been allocated to pay the MPPP benefits; however, this amount is not included for GASB 43 reporting.

Calculations for GASB 43 reporting are normally performed every two years.

In preparing the GASB 43 reporting, 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 study 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 2007 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, 2006 actuarial valuation report.

The Teachers' Retirement Board has sole authority to determine the actuarial assumptions and methods used for the MPP Program. The Board adopted all of the actuarial methods and assumptions used in the 2006 report.

The findings have been determined according to actuarial assumptions and methods that were chosen on the basis of recent experience of the MPP Program and of current expectations concerning future economic conditions. In our opinion, the assumptions used in the GASB 43 reporting are appropriate for purposes of this work, are internally consistent, and reflect reasonable expectations. The assumptions represent our best estimate of future conditions

ACTUARY'S CERTIFICATION LETTER, CONTINUED

Milliman

Teachers' Retirement Board
January 16, 2008
Page 2

affecting the DB Program. Nevertheless, the emerging costs of the MPP 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 GASB 43 reporting 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. 43 of the Governmental Accounting Standards Board.

Milliman has been engaged by CalSTRS as an independent actuary. The undersigned is an Associate 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, the results presented in this report satisfy GASB 43 reporting purposes. Based on the current actuarial assumptions, the assets of the MPPP program fund 0.3% of the accrued liabilities. It should be noted that these calculations do not include $1,687 million of future employer contributions to the DB Program that has been allocated to pay the MPPP benefits.

Sincerely,

Nick Collier

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

NJC/nlo

MEDICARE PREMIUM PAYMENT 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 two years when the consulting actuary produces GASB 43 reporting information for the Medicare Premium Payment Program. The GASB 43 reporting information was completed as of June 30, 2006, and adopted by the Teachers' Retirement Board April 5, 2007. The following tables and summary were prepared by CalSTRS staff. All information is considered when preparing June 30, 2006, GASB 43 reporting information.

The Medicare Premium Payment 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. Temporary one-time assumptions were adopted for the Medicare Premium Payment Program by the Teachers' Retirement Board on February 9, 2007. The economic and demographic assumptions were based on those adopted for the Defined Benefit Program by the Teachers' Retirement Board on March 4, 2004. The economic, demographic and medical assumptions were used for GASB 43 reporting information. The Defined Benefit Program and the Medicare Premium Payment Program share the same population, so it is reasonable to use most of the same assumptions for both programs. Following are the assumptions adopted by the Teachers' Retirement Board for GASB 43 reporting:

- GASB 43 discount rate is 4.00 percent.
- Method used to value plan assets for GASB 43 reporting purposes: market value of assets held in the Health Benefit Trust Fund.
- 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 for GASB 43 reporting purposes is entry age normal.

DISCUSSION OF RECENT CHANGES IN:

The nature of the program—The Medicare Premium Payment Program is a relatively new program, established January 1, 2001. All provisions of the program as of June 2006 were considered when producing GASB 43 reporting information.

Actuarial Assumptions—There have been no changes to the actuarial assumptions. The following assumptions were used to complete the valuation for this program.

Actuarial Methods

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Fair Market value in the Health Benefit Trust Fund

MEDICARE PREMIUM PAYMENT PROGRAM

The actuarial methods used for GASB 43 reporting purposes as of June 30, 2006, result in an unfunded actuarial accrued liability of $793,800,000.

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 GASB 43 reporting information.

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 compared for reasonableness in subsequent work performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent audit completed by another firm. These audit services are acquired using the competitive bid process.

Summary of Medicare Premium Payment Program Provisions

(The following tables and summary were prepared by CalSTRS staff. All information is considered for GASB 43 reporting purposes as of June 30, 2006.)

MEMBERSHIP

Eligibility requirement – Part A

Member — satisfies either:

1) Retired or disabled prior to January 1, 2001; hired prior to April 1, 1986; age 65 or above; enrolled in Medicare Part A and Part B; and not eligible for Part A without premium payment

- or -

2) Meet all above requirements, except retired or disabled before July 1, 2007; district completed a Medicare Division election prior to retirement; and active member less than 58 years of age at the time of the election.

Spouse eligibility

Spouses of members are not eligible to participate in the program.

Eligibility requirement — Part B

Only those currently enrolled are eligible.

Benefits Paid

Part A – Part A premium ($410 per month in 2007)

Part B – Part B penalty. Based on Part B premium ($93.50 per month in 2007). Small group of high earners will have higher premiums, up to $161.40 in 2007.

MEDICARE PREMIUM PAYMENT PROGRAM

Changes in the Medicare Premium Payment Program Provisions

The amendments described below were not considered for June 30, 2006, GASB 43 reporting as they were effective after that date:

Effective April 5, 2007

- Medicare Premium Payment Program was extended for a five-year period to include members retiring or becoming disabled prior to July 1, 2012.

All of the assumptions used for GASB 43 reporting were adopted by the Teachers' Retirement Board on April 5, 2007. 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

MEDICARE PREMIUM PAYMENT PROGRAM

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					

MEDICARE PREMIUM PAYMENT PROGRAM

Table 4 | Probability of Refund

Entry Age – Male					
YEAR	UNDER 25	25–29	30–34	35–39	40 AND UP
Under 5	100%	100%	100%	100%	100%
10	50	50	42	45	45
15	42	42	36	30	
20	34	36	27		
25	24	27			
30	0				
Entry Age – Female					
YEAR	UNDER 25	25–29	30–34	35–39	40 AND UP
Under 5	100%	100%	100%	100%	100%
10	40	35	36	36	35
15	30	30	30	30	
20	25	20	20		
25	15	10			
30	0				

Table 5 | Economic Assumptions

Investment Yield	n/a
Higher Cost	n/a
GASB Reporting	4.00%
Medical Inflation	
Part A Premiums	5.00
Part B Premiums	9.0 grading down to 6.0% in 2011
Price Inflation	3.25

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
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

MEDICARE PREMIUM PAYMENT PROGRAM

Table 10 | Schedule of Medicare Part A Enrollment Rates

ASSUMPTION	BEST ESTIMATE		HIGHER COST	
	Male	Female	Male	Female
% of Actives and Under 65 Retirees Enrolling (Retired On or After 2001)	3.5%	4.0%	5.0%	6.0%
% of Under 65 Retirees Enrolling (Retired Before 2001)	5.7	7.3	8.6	10.5
% of Over 65 Retirees Enrolling (For Those Not Currently Enrolled) at Age:				
65	3.0	3.0	3.5	3.5
66	2.0	2.0	2.5	2.5
67	1.5	1.5	2.0	2.0
68	1.0	1.0	1.5	1.5
69	0.5	0.5	1.0	1.0
70–74	0.3	0.3	0.8	0.8
75 & above	0.1	0.1	0.6	0.6

Table 11 | Schedule of Retired Members Added to and Removed from Medicare Part A Premium 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
2002	5,308	$19,004	141	$329	5,167	$18,675	100.0%	$3,614
2003	654	1,873	185	388	5,720	20,662	10.6	3,612
2004	720	2,376	207	505	5,921	24,117	16.7	4,073
2005	319	905	195	514	6,120	25,977	7.7	4,245
2006	405	1,193	219	613	6,188	27,326	5.2	4,416
2007	391	1,274	215	630	6,268	29,618	8.4	4,725

** The Medicare Premium Payment Program was established July 1, 2001.*
[1] Dollars in thousands.

MEDICARE PREMIUM PAYMENT PROGRAM

Table 12 | Solvency Test[1]

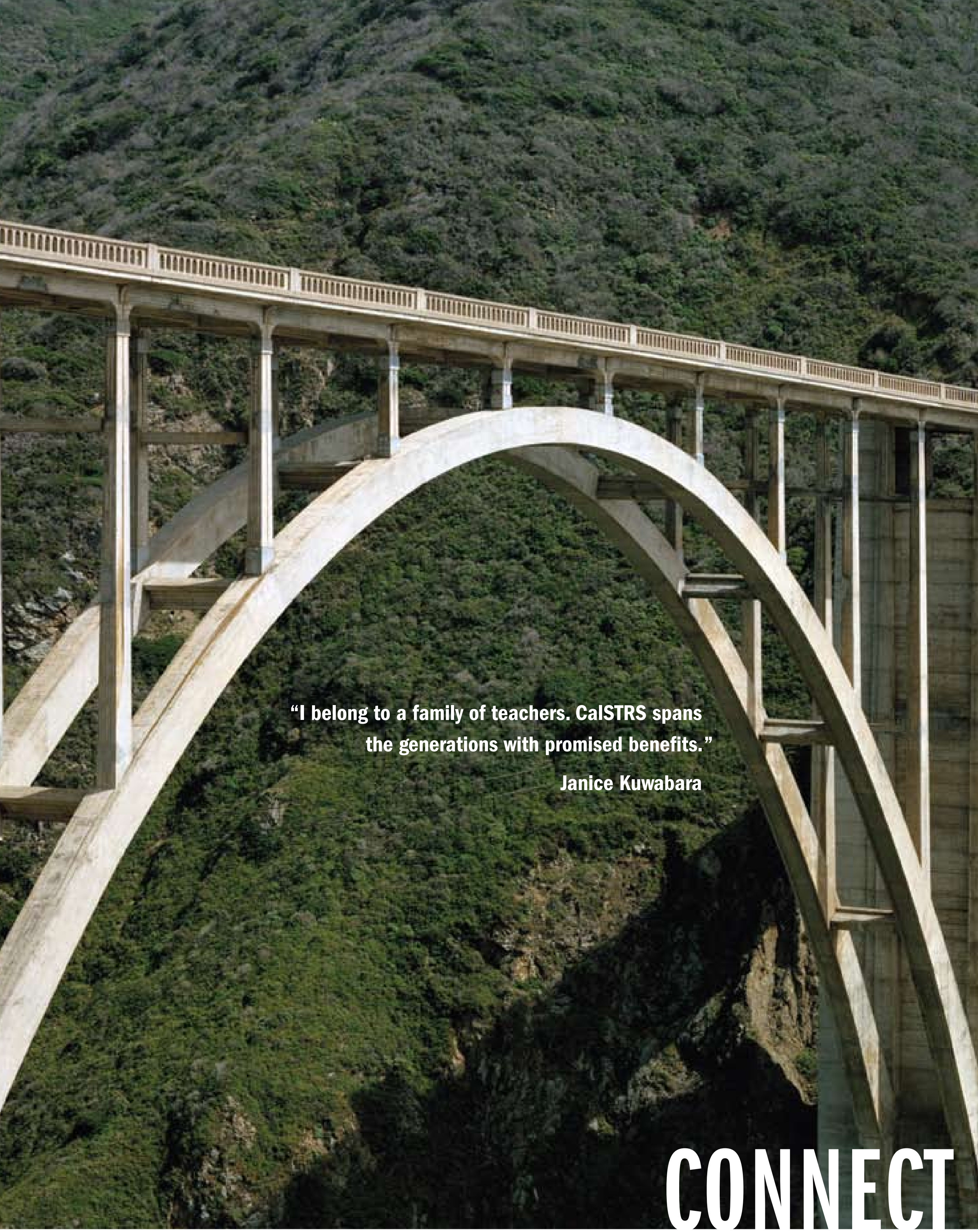
AGGREGATE ACCRUED LIABILITIES FOR (in millions)					FUNDING OF LIABILITIES		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefit to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2006	$0	$796.5	$0	$2.7	100%	0.3%	0%

[1] *GASB 43 reporting information was determined for the first time as of June 30, 2006.*

Table 13 | Analysis of Financial Experience[1]

	GASB 43 REPORTING AS OF JUNE 30	
	2006 (2005)	**2005** (2004)
Actuarial Obligation at June 30:	not calculated	$0.0
Expected Changes:		
Eligibility Extended	not calculated	
Benefits Paid	($29.3)	
Interest	not calculated	
Expected Actuarial Obligation at June 30:	not calculated	
Expected Actuarial Value of Assets at June 30:	not calculated	
Expected UAO at June 30	not calculated	
Actuarial (Gains) or Losses		
(Gain) on Medical Trend Assumption	not calculated	
(Gain) on Premium/Penalty	not calculated	
(Gain) on Part B Premium for higher earners	not calculated	
(Gain) other sources	not calculated	
Total Actuarial Gains & Losses	not calculated	
Unfunded Actuarial Obligation (Surplus) at June 30, 2006	$793.8	
Funded Ratio	0.3%	

[1] *GASB 43 reporting information was determined for the first time as of June 30, 2006.*



"I belong to a family of teachers. CalSTRS spans the generations with promised benefits."

Janice Kuwabara

CONNECT STATISTICAL

MOTHER

NAME
Janice Kuwabara

SCHOOL DISTRICT
San Juan Unified

WHY I TEACH
When I was growing up, women could be teachers, nurses, or secretaries, and we were expected to marry, have kids and stay home. So that's why I started out to be a teacher, but I discovered I really love it.

SUBJECT AREA
1st grade

CalSTRS member since 1996

DAUGHTER

NAME
Marilyn Johnson

SCHOOL DISTRICT
Vacaville Unified

WHY I TEACH
I decided I wanted to teach the dying art of sewing. I am really liking these middle school kids; it breaks my heart sometimes, the trials and tribulations they go through.

SUBJECT AREA
Math and Home Economics - Middle School

CalSTRS member since 2002

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, Voluntary Investment Program and the Medicare Premium Payment 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.

DEFINED BENEFIT PROGRAM

Table 1 | Change in Net Assets (dollars in millions)

FISCAL YEAR ENDING JUNE 30	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Additions										
Member Contributions	$1,690.5	$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
Employer Contributions	2,168.4	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
State of California/ Federal Government [1]	1,084.4	1,018.7	1,218.6	548.7	1,015.0	915.8	946.2	939.2	350.1	1,004.6
Investment Income	29,027.7	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
Other Income	0.5	0.1	1.4	(0.3)	0.0	0.7	0.4	0.2	0.1	0.7
Total Additions	**$33,971.5**	**$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**
Deductions										
Benefit Payments to Members	$6,839.5	$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
Refunds of Member Contributions	87.5	82.9	79.1	79.2	78.7	73.9	77.4	80.0	74.6	69.0
Purchasing Power Benefits	230.3	215.3	221.3	223.5	233.8	257.0	189.4	190.5	197.9	179.4
Administration Expenses	103.4	93.6	92.9	93.5	72.1	63.5	54.5	50.5	45.0	36.3
Other Expense	0.0	0.0	10.1	1.7	0.1	2.3	0.0	0.0	0.0	0.0
Total Deductions	**$7,260.7**	**$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**
Change in Net Assets	**$26,710.8**	**$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**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

[1] *Includes Elder Full Funding, SBMA contributions and school lands revenue.*

DEFINED BENEFIT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Type of Benefit										
Age & Service Benefits										
Retired Members	$6,521.0	$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
Survivors	376.7	351.9	329.8	233.8	247.6	233.5	36.7	33.7	31.8	30.3
Death	26.5	27.6	34.2	74.0	78.1	69.6	42.1	53.2	56.4	51.7
Disability Benefits										
Retired Members	145.6	137.2	125.1	115.0	105.4	94.7	88.4	79.0	73.2	66.5
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.1	1.2	1.0
Total Benefits	**$7,069.8**	**$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**
Type of Refund										
Separation	$87.5	$82.9	$79.1	$79.2	$78.7	$73.9	$77.4	$80.0	$74.6	$69.0
Total Refunds	**$87.5**	**$82.9**	**$79.1**	**$79.2**	**$78.7**	**$73.9**	**$77.4**	**$80.0**	**$74.6**	**$69.0**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

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
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
2007	455,693	61,097	44.7	10.8	26.1

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

DEFINED BENEFIT PROGRAM

Table 4 | Members Retired for Service During Fiscal Year 2006–07, Classified by Member-Only Benefit[1]

MONTHLY MEMBER-ONLY BENEFIT [2]	COUNT	AVERAGE AGE AT RETIREMENT	AVERAGE SERVICE CREDIT	AVERAGE FINAL COMPENSATION	AVERAGE BENEFIT PAYABLE
Less than $500	565	61.3	6.102	$3,113	$315
500 - 1,000	883	61.3	9.721	4,142	705
1,000 - 1,500	788	60.8	13.366	5,026	1,180
1,500 - 2,000	785	60.5	17.223	5,420	1,665
2,000 - 2,500	752	61.0	19.938	5,790	2,141
2,500 - 3,000	700	62.0	22.076	6,023	2,607
3,000 - 3,500	648	61.8	24.790	6,292	3,093
3,500 - 4,000	629	61.4	27.676	6,395	3,578
4,000 - 4,500	742	61.1	29.810	6,547	4,037
4,500 - 5,000	794	60.8	31.872	6,636	4,524
5,000 - 6,000	1,848	61.4	33.886	6,880	5,207
6,000 & Greater	2,628	62.4	36.885	8,292	6,912
Total	**11,762**	**61.5** [3]	**26.100** [3]	**$6,371** [3]	**$3,835** [3]

[1] Does not include formerly disabled members.
[2] As of the June 30, 2004, population report the longevity bonus is included in the Member-Only Benefit.
[3] Overall averages.

DEFINED BENEFIT PROGRAM

Table 5 | Members Retired for Service During Fiscal Year 2006–07[1], Classified by Age and Option Elected

Age	Total	Member-Only	OPTIONS[2] 2	3	4	5	6	7	8	9
Under 55	26	13	2	0	0	0	5	4	1	1
55	261	162	2	0	1	0	58	23	4	11
56	611	371	23	4	2	0	121	66	0	24
57	504	248	16	3	1	0	107	85	5	39
58	675	324	24	6	4	1	159	123	4	30
59	859	378	49	6	0	1	201	156	11	57
60	1,471	666	70	9	4	3	329	286	9	95
61	1,484	660	90	19	3	2	332	296	7	75
62	1,620	762	93	18	4	1	371	250	21	100
63	1,135	598	45	10	1	1	230	185	15	50
64	879	461	39	13	2	0	172	144	11	37
65	610	344	30	1	0	0	116	84	10	25
66	451	260	19	3	2	1	72	65	7	22
67	252	156	11	6	0	0	42	29	3	5
68	205	121	10	4	0	0	33	22	4	11
69	174	107	10	0	1	0	31	15	3	7
70	141	94	8	4	0	0	13	13	5	4
71	110	72	7	2	1	2	13	8	2	3
72	71	47	6	1	0	0	4	8	2	3
73	48	33	0	0	0	0	8	5	1	1
74	35	19	5	0	0	0	7	3	1	0
75	23	15	2	0	1	1	2	2	0	0
Over 75	117	77	7	2	0	1	13	7	7	3
Age Unknown	0	0	0	0	0	0	0	0	0	0
Total	**11,762**	**5,988**	**568**	**111**	**27**	**14**	**2,439**	**1,879**	**133**	**603**

[1] Does not include formerly disabled members.
[2] Option Selected:

Option 2 - Beneficiary receives 100% of member's reduced benefit
Option 3 - Beneficiary receives 50% of member's reduced benefit
Option 4 - Beneficiary receives 2/3 of member's reduced benefit
Option 5 - Survivors receives 50% of member's reduced benefit, upon death of either member or beneficiary
Option 6 - Beneficiary receives 100% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only amount (known as 100% Beneficiary Option)
Option 7 - Beneficiary receives 50% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only amount (known as 50% Beneficiary Option)
Option 8 - Compound option that allows the member to provide for more than one beneficiary (known as Compound Option)
Option 9 - Beneficiary receives 75% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only amount (known as 75% Beneficiary Option)

DEFINED BENEFIT PROGRAM

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
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
2007	501	2,579	13.959	5,281	54.7

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
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
2007	188,659	7,915	19,067	215,641

[1] *Disability and survivor counts revised in 2003.*

DEFINED BENEFIT PROGRAM

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 MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
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**
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**

DEFINED BENEFIT PROGRAM

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 MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
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**
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**

DEFINED BENEFIT PROGRAM

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 MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
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**
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**

DEFINED BENEFIT PROGRAM

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 MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
7/1/2006 thru 6/30/2007[2]					
0 - 5	105	2.5	$253	$5,127	61.0
5 - 10	1,080	7.3	620	4,075	62.0
10 - 15	1,019	12.4	1,239	4,874	61.4
15 - 20	1,311	17.5	2,039	5,625	61.5
20 - 25	1,248	22.2	2,802	5,987	61.8
25 - 30	1,249	27.1	3,847	6,678	62.0
30 - 35	3,078	32.5	5,312	7,087	60.6
35 - 40	2,259	37.3	6,680	7,434	61.4
40 & over	413	42.2	8,151	7,830	65.0
Total	**11,762**	**26.1**	**$4,059**	**$6,372**	**61.5**

[1] *Does not include formerly disabled members.*
[2] *The Average Member-Only Benefit 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
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
2007	60.8	26.3	4,437	2,878

[1] *Does not include formerly disabled members.*

DEFINED BENEFIT PROGRAM

Table 10 | All Retired Members by Type of Benefit and Option Elected

Monthly Member-Only Benefit [3]	TYPE OF BENEFIT [1] Total	1 [4]	2	3	OPTION ELECTED [2] Member-Only Amount	2	3	4	5	6	7	8	9
Less than $500	20,430	17,193	250	2,987	15,274	2,300	807	83	101	1,153	532	58	122
500 - 1,000	28,421	23,827	1,033	3,561	19,206	3,295	2,045	138	128	1,961	1,344	52	252
1,000 - 1,500	28,197	23,501	1,152	3,544	16,763	3,709	2,292	262	179	2,399	2,167	49	377
1,500 - 2,000	27,175	22,738	1,697	2,740	15,269	3,205	1,611	509	205	2,775	3,082	63	456
2,000 - 2,500	24,995	20,681	2,071	2,243	12,964	2,836	1,234	440	236	3,191	3,500	96	498
2,500 - 3,000	19,289	16,639	1,198	1,452	9,304	2,063	725	333	139	3,169	3,013	76	467
3,000 - 3,500	13,843	12,519	379	945	6,264	1,384	451	269	77	2,653	2,279	77	389
3,500 - 4,000	9,979	9,356	91	532	4,412	904	304	177	57	1,983	1,771	64	307
4,000 - 4,500	8,744	8,373	27	344	3,682	738	235	106	41	1,803	1,748	92	299
4,500 - 5,000	8,236	8,005	8	223	3,476	638	214	75	31	1,865	1,567	75	295
5,000 - 6,000	14,041	13,733	6	302	5,870	1,045	304	121	37	3,286	2,639	175	564
6,000 & Greater	12,291	12,094	3	194	4,472	1,187	268	117	37	3,330	2,154	215	511
Total	**215,641**	**188,659**	**7,915**	**19,067**	**116,956**	**23,304**	**10,490**	**2,630**	**1,268**	**29,568**	**25,796**	**1,092**	**4,537**

[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 reduced benefit.
Option 3 - Beneficiary receives 50% of member's reduced benefit.
Option 4 - Beneficiary receives 2/3 of member's reduced benefit.
Option 5 - Survivors receives 50% of member's reduced benefit, upon death of either member or beneficiary.
Option 6 - Beneficiary receives 100% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only amount (known as 100% Beneficiary Option).
Option 7 - Beneficiary receives 50% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only amount (known as 50% Beneficiary Option).
Option 8 - Compound option that allows the member to provide for more than one beneficiary (known as Compound Option).
Option 9 - Beneficiary receives 75% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only amount (known as 75% Beneficiary Option).

[3] *As of the June 30, 2004, population report, the longevity bonus is included in the Member-Only Benefit.*

[4] *Does not include formerly disabled members.*

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 1 | Change in Net Assets (dollars in millions)

FISCAL YEAR ENDING JUNE 30	2007	2006	2005	2004	2003	2002	2001
Additions							
Member Contributions	$638.5	$599.1	$574.1	$565.8	$532.6	$487.2	$210.2
Employer Contributions	111.4	104.0	95.6	125.3	72.2	0.0	0.0
Investment Income	798.1	339.0	235.5	247.6	63.9	(27.7)	(0.2)
Total Additions	**$1,548.0**	**$1,042.1**	**$905.2**	**$938.7**	**$668.7**	**$459.5**	**$210.0**
Deductions							
Benefit Payments to Members	$97.2	$98.0	$75.4	$42.0	$0.6	$0.1	$0.0
Refunds of Member Contributions	18.0	14.0	8.6	3.1	0.7	0.0	0.0
Administration Expenses	2.5	2.0	1.7	1.2	0.6	0.3	0.1
Other Expense	0.0	0.0	0.0	0.0	0.0	3.9	0.0
Total Deductions	**$117.7**	**$114.0**	**$85.7**	**$46.3**	**$1.9**	**$4.3**	**$0.1**
Change in Net Assets	**$1,430.3**	**$928.1**	**$819.5**	**$892.4**	**$666.8**	**$455.2**	**$209.9**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

Defined Benefit Supplement Program began in 2001.

DEFINED BENEFIT SUPPLEMENT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2007	2006	2005	2004	2003	2002	2001
Type of Benefit **Age & Service Benefits**							
Retired Members	$91.3	$94.0	$71.4	$39.0	$0.5	$0.0	$0.0
Survivors	0.2	0.1	0.0	0.2	0.0	0.0	0.0
Death	2.6	1.9	2.0	1.1	0.1	0.1	0.0
Disability Benefits							
Retired Members	3.1	2.0	2.0	1.6	0.0	0.0	0.0
Total Benefits	$97.2	$98.0	$75.4	$42.0	$0.6	$0.1	$0.0
Type of Refund							
Separation	$18.0	$14.0	$8.6	$3.1	$0.7	$0.0	$0.0
Total Refunds	**$18.0**	**$14.0**	**$8.6**	**$3.1**	**$0.7**	**$0.0**	**$0.0**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.
Defined Benefit Supplement Program began in 2001.

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 3 | Members Retired for Service During Fiscal Year 2006–07 [1], Classified by Age and Option Elected

		ANNUITIES												
		Regular Annuity					Period Certain Annuity							
Age	Total	Single Life Without Cash	Single Life with Cash	100% Beneficiary Annuity	75% Beneficiary Annuity	50% Beneficiary Annuity	10 Years	9 Years	8 Years	7 Years	6 Years	5 Years	4 Years	3 Years
Under 55	16	1	5	3	0	2	0	1	0	0	0	1	1	2
55	210	9	51	32	0	11	22	0	0	5	2	32	2	44
56	184	8	51	23	2	4	12	1	1	4	1	25	11	41
57	221	5	41	37	3	11	22	3	6	3	2	30	1	57
58	318	9	55	61	4	9	19	7	4	11	1	52	12	74
59	387	5	65	70	6	17	23	4	2	8	18	67	11	91
60	663	17	105	117	14	38	62	8	1	9	18	136	12	126
61	581	15	95	95	7	32	57	7	3	6	8	128	33	95
62	646	19	132	104	9	28	66	8	4	7	8	107	27	127
63	430	18	90	75	4	26	39	7	6	7	4	52	11	91
64	258	6	66	32	3	17	26	2	1	2	5	37	4	57
65	222	9	49	38	2	11	29	3	1	1	2	37	3	37
66	162	7	49	23	7	10	11	0	0	0	1	23	5	26
67	106	4	24	14	0	6	15	0	1	1	1	16	3	21
68	68	5	11	9	2	0	9	0	0	1	0	11	1	19
69	57	3	14	6	3	2	8	0	0	0	2	10	2	7
70	39	1	6	11	0	3	5	0	0	0	0	6	2	5
71	41	1	11	5	2	1	3	0	1	1	0	7	1	8
72	23	1	6	2	0	2	3	0	0	0	0	5	0	4
73	14	0	6	2	0	0	0	0	0	1	0	2	0	3
74	17	0	6	5	0	0	0	0	0	0	1	3	0	2
75	13	1	6	2	0	0	2	0	0	0	0	0	0	2
Over 75	39	0	7	4	1	5	4	0	0	0	1	9	0	8
Age Unknown	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**4,715**	**144**	**951**	**770**	**69**	**235**	**437**	**51**	**31**	**67**	**75**	**796**	**142**	**947**

[1] *Does not include formerly disabled members.*

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 4 | Characteristics 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
2002[1]			–	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
2007	13,299	158	6,379	61.4

[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
2002[1]	0	–	–	–
2003	0	–	–	–
2004	25	$82	$2,152	55.4
2005	52	94	2,765	55.2
2006	76	106	3,335	55.8
2007	125	121	4,367	55.6

[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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 6 | Retired Members by Type of Benefit and Option Elected

	MONTHLY MEMBER-ONLY BENEFIT					
Type of Benefit	**Less than $250**	**$250–500**	**$500–750**	**$750–1,000**	**$1,000 & Greater**	**Total**
Retirement	10,687	2,365	217	23	7	13,299
Disability	115	8	2	0	0	125
Survivors	108	23	5	0	1	137
Total	**10,910**	**2,396**	**224**	**23**	**8**	**13,561**
Type of Payment Regular Annuity [1]						
A	1,148	2	0	0	0	1,150
B	1,991	9	0	0	0	2,000
C	2,346	12	0	0	0	2,358
D	164	3	0	0	0	167
E	579	3	0	0	0	582
Period-Certain Annuity						
10 Year	1,261	45	5	0	0	1,311
9 Year	156	11	1	0	0	168
8 Year	114	9	0	0	0	123
7 Year	180	21	2	1	0	204
6 Year	209	23	3	0	0	235
5 Year	1,744	495	35	5	1	2,280
4 Year	298	175	13	2	0	488
3 Year	720	1,588	165	15	7	2,495
Total	**10,910**	**2,396**	**224**	**23**	**8**	**13,561**

[1] *Regular Annuity.*
A - Single Life Without Cash Refund.
B - Single Life With Cash Refund.
C - 100% Beneficiary Annuity (formerly 100% Joint and Survivor Annuity).
D - 75% Beneficiary Annuity (new annuity available for selection effective January 1, 2007).
E - 50% Beneficiary Annuity (formerly 50% Joint and Survivor Annuity).

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 7 | Largest Participating Employers for Current Year and Nine Years Ago

	2007			1998		
PARTICIPATING GOVERNMENT	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles USD	49,351	1	9.70%	43,969	1	10.25%
San Diego City USD	10,956	2	2.10	9,329	2	2.18
Long Beach USD	6,663	3	1.30	5,230	4	1.22
Fresno USD	5,848	4	1.10	5,647	3	1.32
Elk Grove USD	4,435	5	0.87			
San Bernardino City USD	4,263	6	0.83	2,863	10	0.67
San Francisco USD	4,254	7	0.83	4,679	5	1.09
Sacramento City USD	3,779	8	0.74	3,867	7	0.86
San Juan USD	3,617	9	0.71	3,707	8	1.03
Oakland USD	3,562	10	0.70	4,399	6	1.03
Santa Ana USD				3,267	9	0.76
All Other	414,273		81.08	341,992		79.72
Total (64 Counties)	**511,001**		**100.00%**	**428,949**		**100.00%**

CASH BALANCE BENEFIT PROGRAM

Table 1 | Change in Net Assets (dollars in thousands)

FISCAL YEAR ENDING JUNE 30	2007	2006	2005	2004	2003	2002	2001	2000 (3)	1999	1998
Additions										
Participant Contributions	$5,952.9	$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
Employer Contributions	5,930.5	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
Investment Income	14,093.1	6,111.4	4,540.2	5,384.4	1,381.9	(943.8)	(942.2)	812.0	(183.0)	105.0
Total Additions	$25,976.5	$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
Deductions										
Benefit Payments to Participant	$883.9 [1]	$1,329.7 [1]	$1,235.2 [1]	$580.3	$188.0	$105.5 [2]	$0.0	$0.0	$0.0	$0.0
Refunds of Participant Contributions	664.3	472.4	244.8	196.7	132.5	89.8 [2]	118.7	58.5	3.0	0.0
Administration Expense	44.1	36.0	34.0	27.7	16.8	10.8	8.2	4.8	387.0	397.0
Other Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.0	69.0
Total Deductions	$1,592.3	$1,838.1	$1,514.0	$804.7	$337.3	$206.1	$126.9	$63.3	$432.0	$466.0
Change in Net Assets	$24,384.2	$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

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

[1] *The benefit payments for fiscal years 2003–04, 2004–05, 2005–06 and 2006–07 include member-elected administrative transfers to purchase service credit in the Defined Benefit Program. The amounts were $220,255, $603,499, $594,133 and $278,210, 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	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Type of Benefit **Age & Service Benefits**										
Retired Members	$829.6	$1,237.0 [1]	$1,143.2 [1]	$535.4 [1]	$132.2	$82.7	$0.0	$0.0	$0.0	$0.0
Death	48.0	91.4	92.0	44.9	48.3	22.8	0.0	0.0	0.0	0.0
Disability Benefits										
Retired Members	5.8	1.3	0.0	0.0	7.5	0.0	0.0	0.0	0.0	0.0
Total Benefits	$883.4	$1,329.7	$1,235.2	$580.3	$188.0	$105.5	$0.0	$0.0	$0.0	$0.0
Type of Refund										
Separation	$664.3	$472.4	$244.8	$196.7	$132.5	$89.8	$118.7	$58.5	$3.0	$0.0
Total Refunds	$664.3	$472.4	$244.8	$196.7	$132.5	$89.8	$118.7	$58.5	$3.0	$0.0

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

[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.*

CASH BALANCE BENEFIT PROGRAM

Table 3 | Members Retired for Service During Fiscal Year 2006–07[1] Classified by Age and Type of Annuity Selected

		REGULAR ANNUITY				PERIOD CERTAIN ANNUITY							
Age	Total	Participant Only[2]	100% Beneficiary[3]	75% Beneficiary[4]	50% Beneficiary[5]	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	1						1						
63													
64													
65													
66	1	1											
67													
68	1												1
69	1										1		
70													
71													
72													
73													
74													
75													
Over 75	1										1		
Age Unknown													
Total	**5**	**1**	**0**	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**2**	**0**	**1**

[1] *Does not include formerly disabled members.*
[2] *Formerly known as the Single Life Annuity with Cash Refund.*
[3] *Formerly known as the 100% Joint and Survivor Annuity.*
[4] *New annuity available for selection effective 1/1/2007.*
[5] *Formerly known as the 50% Joint and Survivor Annuity.*

CASH BALANCE BENEFIT PROGRAM

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
2002			
2003			
2004	67.8	$10,344	$134
2005	65.0	13,187	191
2006	67.5 [3]	11,596	185
2007	66.9	10,892	183

[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 Cash Balance Benefit Program and therefore are not included in this table.

[3] Revised 2007.

Table 5 | All Participants Receiving an Annuity During Fiscal Year 2006–07 by Type of Benefit and Type of Annuity Selected

	MONTHLY MEMBER-ONLY BENEFIT					
Type of Benefit	**Less than $250**	**$250–500**	**$500–750**	**$750–1,000**	**$1,000 & Greater**	**Total**
Retirement	12	4	0	0	0	16
Disability	0	0	0	0	0	0
Survivors	0	0	0	0	0	0
Total	**12**	**4**	**0**	**0**	**0**	**16**
Type of Payment						
Regular Annuity [1]						
A	2					2
B	3					3
C						0
D						0
E						0
Period-Certain Annuity						
10 Year	1					1
9 Year	1					1
8 Year						0
7 Year						0
6 Year						0
5 Year	4	2				6
4 Year		1				1
3 Year	1	1				2
Total	**12**	**4**	**0**	**0**	**0**	**16**

[1] Regular Annuity
A - Single Life Without Cash Refund (no longer available for selection as of January 1, 2007).
B - Participant Only (formerly known as Single Life With Cash Refund).
C - 100% Beneficiary Annuity (formerly known as 100% Joint and Survivor Annuity).
D - 75% Beneficiary Annuity (new annuity available for selection effective January 1, 2007).
E - 50% Beneficiary Annuity (formerly known as 50% Joint and Survivor Annuity).

CASH BALANCE BENEFIT PROGRAM

Table 6 | Principal Participating Employers for the Cash Balance Benefit Program, Current Year and Nine Years Ago

	2007			1998		
PARTICIPATING GOVERNMENT	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles CCD	2,962	1	11.04%			
Contra Costa CCD	1,965	2	7.33	612	1	16.55%
West Contra Costa Unified	1,846	3	6.88	342	5	9.25
Peralta CCD	1,781	4	6.64	459	4	12.42
City College of San Francisco	1,754	5	6.54	499	2	13.50
Chabot-Las Positas CCD	1,616	6	6.02	481	3	13.01
San Jose Evergreen CCD	1,377	7	5.13			
Sonoma Jr.College District	1,198	8	4.47	282	6	7.63
Glendale CCD	1,096	9	4.09			
Ventura CCD	1,037	10	3.87			
Ohlone CCD				282	7	7.63
El Camino CCD				265	8	7.17
Grossmont Union High				191	9	5.17
Solano CCD				164	10	4.44
All Other	10,192		37.99	120		3.23
Total (30 Districts)	**26,824**		**100.00%**	**3,697**		**100.00%**

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	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Additions										
Participant Contributions	$23,338	$21,509	$20,379	$19,535	$17,481	$14,472	$14,732	$13,792	$8,675	$5,079
Interest, Dividends and Investment Income	22,793	10,245	6,143	9,754	1,054	(6,158)	(5,099)	3,116	4,121	2,911
Other Income	16	0	0	0	0	0	0	0	0	0
Total Additions	$46,147	$31,754	$26,522	$29,289	$18,535	$8,314	$9,633	$16,908	$12,796	$7,990
Deductions										
Distributions and Withdrawals	$8,451 [1]	–	–	–	–	–	–	–	–	–
Benefit Payments to Participant	0	$2,286	$2,645	$1,617	$1,965	$453	$250	$250	$237	$165
Refunds of Participant Contributions	0	7,481	6,131	6,440	3,478	2,553	2,288	2,201	1,610	1,662
Administration Expenses	782	935	917	807	504	372	344	275	205	155
Total Deductions	$9,233	$10,702	$9,693	$8,864	$5,947	$3,378	$2,882	$2,726	$2,052	$1,982
Change in Net Assets	$36,914	$21,052	$16,829	$20,425	$12,588	$4,936	$6,751	$14,182	$10,744	$6,008

[1] *Distributions and Withdrawals reflects the Benefit Payments to Participant and Refunds of Participant Contributions combined for fiscal year 2006–07.*

VOLUNTARY INVESTMENT PROGRAM

Table 2 | Largest Participating Employers for CalSTRS Voluntary Investment Program, Current Year and Nine Years Ago

	2007			1998		
PARTRICIPATING GOVERNMENT	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles Unified (61)	772	1	19.94%	178	1	11.9%
San Diego City Unified	88	2	2.3	44	4	2.9
Long Beach Unified	69	3	1.8	4	12	0.27
San Juan Unified	65	4	1.7	28	6	1.9
Mt. Diablo Unified	58	5	1.5	26	7	1.8
San Francisco Unified	57	6	1.5	48	2	3.2
Sacramento City Unified	56	7	1.4	45	3	3
Los Angeles County (19)	42	8	1.1	21	9	1.4
Capistrano	39	9	1	4	12	0.27
Elk Grove Unified	39	9	1			
Fresno Unified	39	9	1	3	13	0.2
City College of SF	33	10	0.8	1	14	0.06
Las Lomitas Elementary				30	5	2
Oceanside Unified				25	8	1.7
Westminster Elementary				14	10	0.9
Burbank Unified				12	11	0.8
All Other	2,515		64.96	1,015		67.7
Total (615 Districts)	**3,872**		**100%**	**1,498**		**100%**

MEDICARE PREMIUM PAYMENT PROGRAM

Table 1 | Changes in Net Assets (dollars in thousands)

FISCAL YEAR ENDING JUNE 30	2007	2006	2005	2004	2003	2002	2001
Additions							
Employer Contributions	$32,257	$29,602	$28,483	$26,496	$22,221	$19,060	$4,800
Interest, Dividends and Investment Income	240	143	87	41	53	118	26
Other Income			(158)	8		31	0
Total Additions	$32,497	$29,745	$28,412	$26,545	$22,274	$19,209	$4,826
Deductions							
Benefit Payments to Participants	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536	$0
Administration Expenses	190	359	429	373	355	377	453
Total Deductions	$31,460	$29,672	$27,845	$26,021	$22,381	$21,913	$453
Change in Net Assets	$1,037	$73	$567	$524	-$107	-$2,704	$4,373

Medicare Premium Payment Program began in 2001.

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

FISCAL YEAR ENDING JUNE 30	2007	2006	2005	2004	2003	2002	2001
Type of Benefit **Age & Service Benefits**							
Retired Members	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536	$0
Total Benefits	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536	$0

Medicare Premium Payment Program began in 2001.

Table 3 | Retired Members Enrolled in Medicare Premium Payment Program During Fiscal Year 2006–07, Classified by Age at Retirement

AGE	TOTAL
Under 55	3
55	25
56	30
57	16
58	17
59	36
60	66
61	53
62	61
63	30
64	20
65	15

AGE	TOTAL
66	5
67	7
68	2
69	1
70	2
71	2
72	0
73	0
74	0
75	0
Over 75	0
Age Unknown	0
Total	**391**

Table 4 | Characteristics of All Retired Members Enrolled in Medicare Premium Payment Program

FISCAL YEAR ENDING JUNE 30 [1]	AVERAGE AGE AT RETIREMENT	AVERAGE MONTHLY MEDICARE PREMIUM
2002	60.4	$301
2003	60.4	301
2004	60.4	339
2005	60.4	354
2006	60.4	368
2007	60.4	394

[1] The Medicare Premium Payment Program was established July 1, 2001.

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