CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

sustainability

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component of the State of California for the Fiscal Year Ended June 30, 2008

mission statement

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

4 main goals

Risk and Reward

FINANCIAL

Meet our members' unique financial goals that will provide long-term retirement benefits with the least amount of risk.

No Surprises

CUSTOMER SERVICE

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

One and Done

INTERNAL PROCESS

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

Rock Solid

LEARNING AND GROWTH

Provide a supportive organizational culture of accountability and achievement.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT · 2008

A Component of the State Of California for the

Fiscal Year Ended June 30, 2008

Prepared by CalSTRS Staff

CALSTRS

TABLE OF CONTENTS

INTRODUCTION

FINANCIAL

INVESTMENTS

ACTUARIAL

Defined Benefit Supplement Program

Cash Balance Benefit Program

Medicare Premium Payment Program

STATISTICAL

AWARD | GFOA CERTIFICATE

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

AWARD | PPCC AWARD

PPCC

Public Pension Coordinating Council

Recognition Award for Administration
2008

Presented to

California State Teachers' Retirement System

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
7667 Folsom Boulevard
Post Office Box 15275
Sacramento, CA 95851-0275

December 17, 2008

The Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the Fiscal Year Ended June 30, 2008, details the performance of our funds.

As one of the oldest and largest pension systems in the world, CalSTRS is committed to creating a sustainable retirement program to serve current and future generations. When we speak of sustainability, we take a holistic approach. We understand the interdependence between people, retirement fund services and world concerns.

Our goals encompass our commitment to CalSTRS members and their families, our employees, ethics and governance, and the environment. Our practices are visible in the construction of our new LEED gold certified headquarters, leadership on shareholder rights issues and excellence in customer service.

As a financial services organization, CalSTRS investments rise and fall with the global economy. It has been a tough several months for everyone, and our retirement fund is no exception. We have weathered turmoil before and we have recovered. The investment portfolio is built to ride out the shocks of a fluctuating marketplace, even in times as unprecedented as these.

RESPONSIBLE INVESTING

We strive to connect sustainable principles to CalSTRS responsible investment practices through diversification of our portfolio by:

- Maximizing returns and mitigating risk
- Recognizing societal and environmental risks, such as climate change, to the overall value of investments, and
- Leading in shareholder rights to protect the value of investments.

In addition to considering geopolitical risks in investment decisions throughout the portfolio, CalSTRS has invested more than $1.2 billion in its sustainable investments program spread across the global equities, private equity and real estate asset classes. For more than 20 years, CalSTRS has had a policy to help define the role of social issues in making investment decisions.

In 2006, CalSTRS adopted a geopolitical risk factor policy that was the first and most comprehensive of such policies of any U.S. public pension fund. Recently CalSTRS was invited to sit on the board of directors of Ceres, a coalition of investors, environmental groups and other stakeholders that encourages companies and capital markets to incorporate environmental and social factors into their day-to-day decision making. CalSTRS has also adopted Ceres' 14-point Climate Change Governance Checklist. This evaluation tool provides guidance on how to vote on proxy resolutions related to climate risks and disclosure.

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.

MEMBER PROFILE

Established 95 years ago, the California State Teachers' Retirement System, with a $161.5 billion portfolio as of June 30, 2008, is the second largest public pension fund in the United States. It administers retirement, disability and survivor benefits for California's 833,000 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, 2008, included employees of approximately 1,400 school districts, community college districts, county offices of education and regional occupational programs. Our services bridge the new teacher just starting out with the retired educator enjoying the fruits of 30 years in the classroom.

The median CalSTRS pension replaces only 62 percent of final salary for new and retired members. CalSTRS research indicates that an income replacement of 80 percent to 90 percent is necessary 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, 2007, the Defined Benefit Program had an estimated unfunded actuarial obligation of $18.7 billion, with an estimated 89 percent funded status.

The Teachers' Retirement Board developed 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 two-thirds 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 OVERVIEW

For fiscal year 2007-08, the investment portfolio declined $10.4 billion, or a negative 3.69 percent, in value. While previously the CalSTRS investment portfolio was ranked in the top 10 percent of all public pension funds in the U.S., that ranking was going to be difficult to maintain, due to the sheer size of the CalSTRS portfolio and smaller size of all but one other fund. As expected during a negative year, due to our higher allocation to equities, the overall ranking declined. It is important to note that it remained above the median for public funds and large public funds over the past year. The CalSTRS portfolio ranked in the 42nd percentile over one year, ending June 30, 2008, according to the TUCS Public Fund Universe.

Despite the recent turmoil of the markets, our investment professionals continue to adapt and effectively respond to the increasing size and complexity of the CalSTRS investment portfolio.

FINANCIAL REVIEW

The financial statements and notes along with the Management Discussion and Analysis in this report present and analyze the changes in CalSTRS fiduciary net assets for the fiscal year ended June 30, 2008. Subsequent to the June 30, 2008, fiscal year end, the financial markets experienced an unprecedented decline in value. The markets are so dynamic and fluid, any judgment of the financial statements must be based on current information rather than fiscal year end.

ACTUARIAL REPORTS

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.

STATISTICAL REPORTS

Past and current data is connected in this section. It includes tables that reflect the net assets and demographic characteristics of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, CalSTRS Pension2, 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, 2007. This is the 13th 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.

PPCC STANDARDS AWARD PROGRAM

The Public Pension Coordinating Council presented CalSTRS with its first Recognition Award for Administration for meeting professional standards for plan administration as set forth in the Public Pension Standards.

The Public Pension Coordinating Council is a coalition of three national associations that represent public retirement systems and administrators. The associations that form the PPCC are the National Association of State Retirement Administrators; the National Council on Teacher Retirement; and the National Conference on Public Employee Retirement Systems. Together, these associations represent more than 500 of the largest pension plans in the U.S.

ACKNOWLEDGEMENTS

This 2008 Comprehensive Annual Financial Report reflects the hard work of 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 like to thank all the staff, advisors and the many other stakeholder organizations who have demonstrated their commitment to ensuring that we meet the needs of our members. Our endeavor is to make sure the efforts of California educators are rewarded with a secure retirement now, and into perpetuity.

Respectfully submitted,

Jack Ehnes
Chief Executive Officer

TEACHERS' RETIREMENT BOARD | AS OF JUNE 30, 2008

Dana Dillon
Chair
K-12 Classroom Teacher
Term:
1/1/08 – 12/31/11

Jerilyn Harris
Vice Chair
Retiree Representative
Term:
1/11/08 – 12/31/11

Kathy Brugger
School Board Representative
Term:
1/11/08 – 12/31/11

John Chiang
State Controller
Ex-Officio Member

Michael C. Genest
State Finance Director
Ex-Officio Member

Harry M. Keiley
K-12 Classroom Teacher
Term:
1/1/08 – 12/31/11

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

Bill Lockyer
State Treasurer
Ex-Officio Member

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

Peter Reinke
Public Representative
Term:
02/14/07 - 12/31/10

Beth Rogers
Public Representative
Term:
1/11/08 – 12/31/11

Carolyn A. Widener
Community College Instructor
Term:
1/1/08 – 12/31/11

EXECUTIVE STAFF

Pictured from
left to right:
Ed Derman
Janice Hanson
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

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, 2008, there were a total of 461,378 active, 147,997 inactive and 195,960 retired members, and 28,008 disability and survivor benefit recipients. The combined total of members and benefit recipients equals 833,343, an increase of 20,469 from the previous fiscal year. (The financial statements, presented in the financial section, contain Defined Benefit Program membership data as of June 30, 2007, 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 2007–08, 12,777 members applied for retirement, which is an 8.7 percent increase from the previous year.

DISABILITY AND SURVIVOR BENEFITS

We strive to provide timely benefits to our members and their beneficiaries when they need it most.

In fiscal year 2007-08, CalSTRS received 740 applications for disability benefits, representing a 13 percent decrease over the previous fiscal year. The overall percentage of ineligible, disapproved and cancelled applications decreased by 5 percent. Of the applications completed during this fiscal year, 89 percent were processed within 180 days of receipt.

The work of the Continuing Qualifications and Vocational Rehabilitation programs resulted in 31 members returning to full-time employment, discontinuing their need to receive disability benefits.

In fiscal year 2007-08, CalSTRS received 6,786 survivor benefits applications, which is an increase of 9 percent over last fiscal year, and continues a trend of increased applications (a 35 percent increase from 10 years ago). Of the applications completed, 86 percent were processed within 30 days from the receipt of the last required document.

Services to Members and Beneficiaries

CUSTOMER SERVICE

Members may contact a CalSTRS customer service representative by phone, secured online message, written correspondence, or by walking into our Sacramento Member Service counter.

This year, customer service representatives in our Call and Correspondence Centers responded to 257,386 member inquiries with an additional 8,914 receiving information through the interactive voice response system self-service options. Members waited an average of 136 seconds to speak to a Call Center customer service representative, and 87% of members who sent a secured online message received a response within one day.

CalSTRS places great emphasis on customer satisfaction and regularly surveys members to ensure they receive accurate, timely and thorough answers to their questions. Satisfaction levels remained high in fiscal year 2007-08 with 84% reporting they were “highly satisfied” with their contact experience.

MEMBER COMMUNICATION

CalSTRS communicates with its active and retired members through a variety of channels, including newsletters, annual retirement progress reports and a series of member information publications.

NEWSLETTERS

Five times a year CalSTRS reaches out to members and beneficiaries through the *CalSTRS Connections*, *Retired Educator* and *Your Money Matters* newsletters.

CalSTRS Connections is mailed to active and inactive Defined Benefit members and Cash Balance participants in the spring and fall.

Retired Educator is mailed to retired members and benefit recipients in summer and winter and focuses on matters of special interest to retirees.

Your Money Matters, an annual newsletter introduced in fall 2008 for members in their forties, spotlights the importance of supplemental savings.

RETIREMENT PROGRESS REPORT

Every year Defined Benefit members and Cash Balance participants receive a personalized *Retirement Progress Report* that contains their annual statements and beneficiary information. For those closer to retirement, the report also includes retirement benefit estimates and a retirement planning guide. *Retirement Progress Reports* are usually mailed in mid-December and provide the statement of accounts as of June 30 of that school year. Retired members and benefit recipients do not receive a report.

MEMBER INFORMATION PUBLICATIONS

CalSTRS offers a number of publications for members at various stages in their careers.

The *CalSTRS Member Handbook* is a comprehensive resource of CalSTRS programs and benefits, including descriptions, eligibility requirements and worksheets. The handbook is updated annually.

Your Retirement Guide contains important information for members who are within a year of retirement. The booklet includes helpful checklists, the *Service Retirement Application* and other forms. The guide is updated annually.

In addition, CalSTRS publishes a host of publications covering specific topics. Current titles are:

- *Cash Balance: An Exceptional Plan for Your Future (for PreK-12 Part-Time Teachers*);
- *Cash Balance: An Exceptional Plan for Your Future (for Community College Part-Time Instructors)*;
- *Community Property Information*;
- *Home Loan Program Fact Sheet*;
- *Join CalSTRS? Join CalPERS?*;

- *Purchase Additional Service Credit*;
- *Refund: Consider the Consequences*;
- *Social Security, CalSTRS and You*;
- *Tax Considerations for Rollovers*; and
- *Disability Benefits.*

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. Benefits counseling and retirement planning workshops are available by signing up online. You can also view, print or order forms and publications.

When visiting the CalSTRS Web site, CalSTRS members can register for a secure, online service called *my*CalSTRS. With a *my*CalSTRS account you can view and update your personal account information, send and receive confidential materials, access forms and general retirement information and request to receive your newsletters and Retirement Progress Reports online.

CalSTRS also administers a Web site entitled 403bCompare.com, which is a state-of-the-art personal investment tool. 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 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 2007-08, personal retirement counseling was provided to 40,169 members at more than 27 locations throughout California. In addition, 3,209 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 at specific 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.

Another workshop assists members in managing their retirement income. CalSTRS will provide customized workshops by request.

CalSTRS presented 767 workshops to 18,617 members in fiscal year 2007-08. 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 data base 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 2007-08, staff and counselors attended 50 events and served more than 8,611 members.

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.

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

3000 S Street, Suite 3
Sacramento, CA 958

2175 N. California Boulevard, Suite 6
Walnut Creek, CA 945

515 S. Figueroa Street, Suite 3
Los Angeles, CA 900

402 West Broadway, Suite 4
San Diego, CA 921

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, 2008, 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 2007 financial statements on which our report dated October 1, 2007, 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 Standar*ds, 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, 2008, 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 2, effective July 1, 2007, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27.*

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2007, the System's independent actuaries determined that, at June 30, 2007, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by $18.7 billion.

Subsequent to June 30, 2008, the global financial markets have experienced significant volatility. As a result, as of September 30, 2008, the fair value of the System's investments has declined as described in Note 8.

In accordance with *Government Auditing Standards*, we have issued our report dated October 17, 2008, 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 21 through 25, the Schedule of Funding Progress on page 51 and the Schedule of Contributions from Employers and Other Contributing Entities on pages 52 through 54 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 17, 2008

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the California State Teachers' Retirement System's (System) financial performance provide an overview of the System's financial activities for the fiscal year ended June 30, 2008. 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 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 six fiduciary funds:

1. Teachers' Retirement Fund (TRF)
2. Pension2 Program (IRC 403(b) Plan)
3. Teachers' Health Benefits Fund (THBF)
4. Teachers' Replacement Benefits Program Fund (TRBPF)
5. Teachers' Deferred Compensation Fund (TDCF)
6. Teachers' Retirement Program Development Fund (TRPDF)

FINANCIAL HIGHLIGHTS

- Net assets decreased by $10.9 billion or 6% to $161.7 billion.
- Net investment loss totaled $9.7 billion, a decrease of $39.5 billion or 132%.
- As of June 30, 2007, the System's Defined Benefit Program was estimated to be funded at 89%, compared to an estimated funding level of 87% as of June 30, 2006.
- Total contributions increased by $893.5 million or 16% to $6.7 billion.
- Benefit payments increased by $656.2 million or 9% to $7.9 billion.
- Refund of members' contributions decreased by $4.4 million or 4% to $101.8 million.
- The TDCF was recently established and has net assets of $138 thousand.

OVERVIEW OF FINANCIAL STATEMENTS

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 shows how the System's net assets changed during the fiscal year.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2008

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 State Teachers' Retirement Plan and Medicare Premium Payment Program in accordance with GASB Statement No. 43 and 50.
- 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 new accounting and financial reporting pronouncements.
- Note 8 provides a summary of subsequent events that occur after June 30, 2008.

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.

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.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2008

The STRP net assets decreased 6% during the fiscal year, from $172.4 billion in fiscal year 2006-07 to $161.5 billion as of June 30, 2008. Investments, excluding securities lending collateral, decreased by $9.8 billion or 6% to $162.8 billion as of June 30, 2008. At June 30, 2008, the STRP held $31.7 billion in debt securities, a decrease of $3.7 billion or 11% from fiscal year 2006-07. At June 30, 2008, the STRP also held $92.3 billion in U.S. and international equity securities, a decrease of $13.5 billion or 13% from fiscal year 2006-07. Remaining holdings in short-term, alternative, and real estate investments totaled $38.9 billion at June 30, 2008, an increase of $7.5 billion or 24% from fiscal year 2006-07. Prior fiscal year asset allocation changes increased our weightings to alternative investments and real estate by 4% and decreased our weightings to public debt, U.S. equity and international securities by 4%. Additionally, real estate and alternative investments, which lag other markets, provided positive returns whereas equity and debt markets continued their decline as investors sought protection from the effects of the mortgage crisis. Net depreciation on investments of $14.5 billion in fiscal year 2007-2008 compared to a net appreciation of $25.3 billion in fiscal year 2006-07, totaled a decrease of $39.8 billion. The decrease of $39.8 billion can be attributed to the financial and credit crisis, initiated by the subprime mortgage meltdown approximately one year ago. In fiscal year 2007-08, the Real Estate Leverage Program obligations were paid off in the amount of $492 million. The System entered into reverse repurchase agreements totaling $1.5 billion for the fiscal year ended June 30, 2008.

NET ASSETS
(Dollars in Thousands)

ASSETS	2008	2007	Percent Change
Investments [1]	$189,912,781	$204,676,971	(7)%
Cash and Cash Equivalents	257,976	423,322	(39)%
Receivables	5,070,507	4,197,635	21%
Other	1,326	1,151	15%
TOTAL ASSETS	**195,242,590**	**209,299,079**	**(7)%**
LIABILITIES			
Benefits in Process of Payment	719,028	55,026	1207%
Investment Settlement	4,306,929	4,183,326	3%
Real Estate Leverage Program Obligation	0	491,850	(100)%
Obligation Under Reverse Repurchase	1,500,000	0	100%
Other Liabilities	141,804	124,345	(14)%
Securities Lending Obligation	27,076,636	32,066,614	(16)%
TOTAL LIABILITIES	**33,744,397**	**36,921,161**	**(9)%**
TOTAL NET ASSETS	**$161,498,193**	**$172,377,918**	**(6)%**

[1] Includes securities lending collateral.

The System funds STRP benefits from employer, member and State contributions, and investment earnings. Member contributions overall increased in fiscal year 2007-08 by $176.9 million or 8% from fiscal year 2006-07. Employer contributions increased by $167.5 million or 7%. The State contributions increased in fiscal year 2007-08 by $545.2 million or 50% from fiscal year 2006-07, which is attributable to the receipt of a $500 million legal settlement from the State. The STRP experienced a net investment loss of $9.4 billion in fiscal year 2007-08 compared with a gain of $29.8 billion in fiscal year 2006-07. The primary contributor to the loss in fiscal year 2007-08 was U.S. and international equity securities, which represented nearly 60% of STRP assets.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2008

CHANGES IN NET ASSETS
(Dollars in Thousands)

ADDITIONS	2008	2007	Percent Change
Member/Participant	$2,511,810	$2,334,954	8%
Employer	2,453,268	2,285,728	7%
State	1,629,635	1,084,387	50%
Investment/Other Income (Loss)	(9,442,002)	29,840,439	(132)%
TOTAL ADDITIONS	**(2,847,289)**	**35,545,508**	**(108)%**
DEDUCTIONS			
Benefit Payments	7,821,540	7,167,918	9%
Refund of Contributions	101,778	106,153	(4)%
Administrative Expenses	109,363	105,895	3%
TOTAL DEDUCTIONS	**8,032,681**	**7,379,966**	**9%**
TRANSFERS	**245**	**0**	**100%**
NET ASSET INCREASE (DECREASE)	(10,879,725)	28,165,542	(139)%
BEGINNING NET ASSETS	172,377,918	144,212,376	20%
ENDING NET ASSETS	**$161,498,193**	**$172,377,918**	**(6)%**

Deductions, which include benefit payments, refund of contributions and administrative expenses, totaled $8 billion for the year. Growth in the number of new retirees increased benefit payments to $7.8 billion, an increase of $653.6 million or 9% over the prior year. Refund of contributions in fiscal year 2007-08 decreased $4.4 million or 4% to $101.8 million.

The most recent actuarial valuation for the fiscal year ended June 30, 2007, indicates that the DB Program is underfunded, with 89% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2007. This is an increase from the 87% estimated funding status as of June 30, 2006. The amount by which the DB Program actuarial obligation exceeded actuarial assets was $18.7 billion as of June 30, 2007. 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.

After June 30, 2008, STRP investments continued to decline due to extreme market volatility around the globe. The investment portfolio is not immune to some of the specific issuer financial events. However, our strength comes from being well diversified. STRP continues to work as designed – by weathering the storm, maintaining long-term investment strategies, and pursuing opportunities to purchase undervalued investments.

Pension2 Program (Pension2). The Pension2 (formerly known as the Voluntary Investment Program), offers Internal Revenue Code (IRC), Section 403(b) and 457 plans which are tax–deferred defined contribution plans. TIAA-CREF has been retained to provide administration and trustee services over the Pension2. Through the Pension2, members have the opportunity to supplement their pension benefits. Pension2 is currently comprised of IRC 403(b) plan activities and as of June 30, 2008 investments increased by $3.9 million or 2% and net assets increased by $3.6 million or 2%.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2008

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 (MPP Program), 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 MPP Program from current employer contributions, which increased by $982 thousand or 3% to $33.2 million during fiscal year 2007-08. The THBF paid benefits of $32.7 million in fiscal year 2007-08 compared with $31.3 million the prior year. The System invests the assets of the THBF in the State of California's Surplus Money Investment Fund and earned $205 thousand in interest income for the fiscal year ended June 30, 2008.

The most recent actuarial valuation for the fiscal year ended June 30, 2006, indicates that the MPP Program is underfunded, with less than 1% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2006. The amount by which the MPP Program actuarial obligation exceeded actuarial assets was $794 million as of June 30, 2006. The most recent actuarial valuation indicates that the current assets are insufficient to fund the MPP Program's actuarial obligation over the remaining 29 years.

Teachers' Replacement Benefits Program Fund (TRBPF). The TRBPF is a replacement pension benefit plan established to pay the portion of annual benefits that exceeds 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 $1.7 million to pay benefits during fiscal year 2007-08 compared with $514 thousand from the prior year, resulting in an increase of $1.2 million due to a 136% growth in participants.

Teachers' Deferred Compensation Fund (TDCF). The TDCF is a trust fund established to track ancillary activities associated with various deferred compensation plans and programs offered by the System to enhance the tax-deferred financial options for the members and their beneficiaries. The TDCF received revenues, fees and interest of $630 thousand for the fiscal year ended June 30, 2008.

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 to enhance the financial security of member or beneficiaries for the System. The TRPDF was funded with $245 thousand of employer contributions during the fiscal year ended June 30, 2008 for the continued development of 403bComply, which will provide total 403(b) administration and compliance services to school districts that contract with the System for such services. Pursuant to Chapter 232, Statutes 2007 (AB 757) any assets in the TRPDF as of January 1, 2008 were transferred to the TDCF for the ongoing administration of the 403bComply.

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, 2008 (with Comparative Totals as of June 30, 2007)
(Dollars in Thousands)

	Teachers' Retirement Fund	Pension 2 IRC 403(b) Plan	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund
Assets				
Investments, at fair value:				
Short term	$ 1,881,611	$ 3,884	$ 2,381	$ -
Debt securities	31,657,373	-	-	-
Equities:				
Domestic	58,466,504	-	-	-
International	33,841,198	-	-	-
Mutual funds	-	133,853	-	-
Guaranteed annuity contracts	-	34,878	-	-
Alternative investments	16,577,341	-	-	-
Real estate investments	20,412,118	-	-	-
Securities lending collateral	27,076,636	-	-	-
Total investments	189,912,781	172,615	2,381	-
Cash and cash equivalents	257,976	-	1	-
Receivables:				
Investments sold	1,521,607	-	-	-
Foreign currency contracts	2,192,835	-	-	-
Interest and dividends	484,568	-	40	-
Member, employer and other	871,497	900	1,812	-
Total receivables	5,070,507	900	1,852	-
Other assets	1,326	-	-	-
Total assets	195,242,590	173,515	4,234	-
Liabilities				
Investments purchase payable	2,106,962	-	-	-
Foreign currency contracts payable	2,199,967	-	-	-
Benefits in process of payment	719,028	-	-	-
Real estate leverage program obligation	-	-	-	-
Obligation under reverse repurchase agreement	1,500,000	-	-	-
Other liabilities	141,804	-	50	-
Securities lending obligation	27,076,636	-	-	-
Total liabilities	33,744,397	-	50	-
Net assets held in trust for pension and other postemployment benefits (schedules of funding progress are presented in Schedule I)	$161,498,193	$ 173,515	$ 4,184	$ -

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

California State Teachers' Retirement System
Statement of Fiduciary Net Assets (Continued)
As of June 30, 2008 (with Comparative Totals as of June 30, 2007)
(Dollars in Thousands)

	Teachers' Deferred Compensation Fund	Teachers' Retirement Program Development Fund	Comparative Totals 2008	Comparative Totals 2007
Assets				
Investments, at fair value:				
Short term	$ 650	$ -	$ 1,888,526	$ 1,753,505
Debt securities	-	-	31,657,373	35,395,073
Equities:				
Domestic	-	-	58,466,504	68,306,223
International	-	-	33,841,198	37,507,109
Mutual funds	-	-	133,853	142,027
Guaranteed annuity contracts	-	-	34,878	-
Alternative investments	-	-	16,577,341	12,634,835
Real estate investments	-	-	20,412,118	17,042,478
Securities lending collateral	-	-	27,076,636	32,066,614
Total investments	650	-	190,088,427	204,847,864
Cash and cash equivalents	-	-	257,977	423,524
Receivables:				
Investments sold	-	-	1,521,607	1,073,288
Foreign currency contracts	-	-	2,192,835	2,060,407
Interest and dividends	6	-	484,614	529,288
Member, employer and other	-	-	874,209	537,421
Total receivables	6	-	5,073,265	4,200,404
Other assets	-	-	1,326	1,151
Total assets	656	-	195,420,995	209,472,943
Liabilities				
Investments purchase payable	-	-	2,106,962	2,121,719
Foreign currency contracts payable	-	-	2,199,967	2,061,607
Benefits in process of payment	1	-	719,029	55,026
Real estate leverage program obligation	-	-	-	491,850
Obligation under reverse repurchase agreement	-	-	1,500,000	-
Other liabilities	517	-	142,371	124,574
Securities lending obligation	-	-	27,076,636	32,066,614
Total liabilities	518	-	33,744,965	36,921,390
Net assets held in trust for pension and other postemployment benefits (schedules of funding progress are presented in Schedule I)	$ 138	$ -	$161,676,030	$172,551,553

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, 2008
(with Comparative Totals for the Fiscal Year Ended June 30, 2007)
(Dollars in Thousands)

	Teachers' Retirement Fund	Pension 2 IRC 403(b) Plan	Teachers' Health Benefits Fund	Teachers' Replacement Benefits Program Fund
Additions				
Contributions:				
Member contributions	$ 2,511,810	$ 24,925	$ -	$ -
Employer contributions	2,453,268	-	33,239	1,706
State of California	1,629,635	-	-	-
Total contributions	6,594,713	24,925	33,239	1,706
Investment Income/(Loss):				
Net appreciation/(depreciation) (realized & unrealized) in fair value of investments	(14,523,848)	(19,263)	-	-
Interest, dividends and other	4,882,026	6,694	205	-
Securities lending income	1,357,862	-	-	-
Less investment expenses:				
Cost of lending securities	(1,142,936)	-	-	-
Cost of reverse repurchase agreements	(20,154)	-	-	-
Other investment expenses	(208,068)	-	-	-
Net investment income/(loss)	(9,655,118)	(12,569)	205	-
Other income	213,116	17	-	-
Total additions	(2,847,289)	12,373	33,444	1,706
Deductions				
Retirement, disability, death and survivor benefits	7,591,680	-	32,689	1,701
Distributions and withdrawals	-	8,206	-	-
Purchasing power benefits	229,860	-	-	-
Refunds of member contributions	101,778	-	-	-
Administrative expenses	109,363	526	334	5
Total deductions	8,032,681	8,732	33,023	1,706-
Transfers in	245	-	-	-
Transfers out	-	-	-	-
Total transfers	245	-	-	
Net increase/(decrease)	(10,879,725)	3,641	421	-
Net assets/(deficit) held in trust for pension and other postemployment benefits				
Beginning of the year	172,377,918	169,874	3,763	-
End of the year	$161,498,193	$ 173,515	$ 4,184	$ -

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

California State Teachers' Retirement System
Statement of Changes in Fiduciary Net Assets (Continued)
For the Fiscal Year Ended June 30, 2008
(with Comparative Totals for the Fiscal Year Ended June 30, 2007)
(Dollars in Thousands)

	Teachers' Deferred Compensation Fund	Teachers' Retirement Program Development Fund	Comparative Totals 2008	Comparative Totals 2007
Additions				
Contributions:				
Member contributions	$ -	$ -	$ 2,536,735	$ 2,358,292
Employer contributions	-	245	2,488,458	2,318,699
State of California	-	-	1,629,635	1,084,387
Total contributions	-	245	6,654,828	5,761,378
Investment Income/(Loss):				
Net appreciation/(depreciation) (realized & unrealized) in fair value of investments	-	-	(14,543,111)	25,249,467
Interest, dividends and other	26	3	4,888,954	4,680,060
Securities lending income	-	-	1,357,862	1,573,052
Less investment expenses:				
Cost of lending securities	-	-	(1,142,936)	(1,493,236)
Cost of reverse repurchase agreements	-	-	(20,154)	-
Other investment expenses	-	-	(208,068)	(146,426)
Net investment income/(loss)	26	3	(9,667,453)	29,862,917
Other income	604	-	213,737	571
Total additions	630	248	(2,798,888)	35,624,866
Deductions				
Retirement, disability, death and survivor benefits	-	-	7,626,070	6,969,358
Distributions and withdrawals	-	-	8,206	8,451
Purchasing power benefits	-	-	229,860	230,337
Refunds of member contributions	-	-	101,778	106,153
Administrative expenses	404	89	110,721	107,076
Total deductions	404	89	8,076,635	7,421,375
Transfers in	157	-	402	-
Transfers out	(245)	(157)	(402)	-
Total transfers	(88)	(157)	-	-
Net increase/(decrease)	138	2	(10,875,523)	28,203,491
Net assets/(deficit) held in trust for pension and other postemployment benefits				
Beginning of the year	-	(2)	172,551,553	144,348,062
End of the year	$ 138	$ -	$161,676,030	$172,551,553

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

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

1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans, a tax-deferred defined contribution plan, the Medicare Premium Payment Program, the Replacement Benefits Program, the Deferred Compensation Fund and the Retirement Program Development Fund 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, 2008, there were 1,700 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State is also a contributor to the DB Program. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2007, membership consisted of:

Active members	
Vested	299,057
Nonvested	156,636
Inactive members	141,450
Retirees and benefit recipients	215,641
Total members, retirees and beneficiaries	812,784

Information as of June 30, 2008 will not be available prior to December 2008.

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 increase of 0.2% in the age factor. 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, 2008, the rate of interest credited to members' accounts is 5.25%.

- There is an automatic postretirement cost of living increase of 2% per year on a simple (rather than compound) basis.

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

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 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, which was comprised of $111.2 million in interest and $388.8 for contributions. Discussion is ongoing in regards to the payment of interest and the remaining withheld contributions.

In fiscal year 2007-08, the State statutory SBMA contribution is $621.5 million.

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. State contribution totaled $501.4 million in fiscal year 2007/2008.

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

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, 2007, 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, 2008.

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.

Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the Teacher's Retirement Board (Board) prior to each plan year, which was 5.25% for the fiscal year ended June 30, 2008. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in Board policy. On June 5, 2008, the Board granted additional earnings of 4.41% of active and inactive members' June 30, 2007 nominal accounts and additional annuity credits of 4.41% of retired members' nominal accounts as of their retirement date. The dollar value of these credits was $195.2 million based on the June 30, 2007 DBS Program actuarial valuation.

Contributions
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.

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. 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.

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

Interest is credited to the nominal CB Benefit Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 5.25% for the year ended June 30, 2008. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in Board policy. On June 5, 2008, the Board granted additional earnings credit of 4.69% of active and inactive members' June 30, 2007 nominal accounts and additional annuity credits of 4.69% of retired members' June 30, 2007 nominal accounts. The dollar value of these credits was $3.6 million based on the June 30, 2007 CB Benefit Program actuarial valuation.

Contributions
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, 2008, there were 33 contributing school districts and 28,857 contributing participants.

Pension2 Program (Pension2). Pursuant to Assembly Bill 3064 and 3075, the Pension2 was established to include two tax-deferred defined contribution plans under the Internal Revenue Code (IRC) Sections 403(b) and 457, respectively. The IRC 403(b) plan previously operated under the name of the Voluntary Investment Program. For the year ended June 30, 2008, the IRC 457 plan did not have any activity. CitiStreet L.L.C. acted as the plan administrator for the Voluntary Investment Program from July 2002 through October 2007. In November 2007, the Voluntary Investment Program was renamed to Pension2 and the System engaged TIAA-CREF as the new plan administrator of Pension2. TIAA-CREF is responsible for administrative services, including custody and record keeping services.

As of June 30, 2008, the IRC 403(b) plan had approximately, 4,196 plan participants and approximately 597 participating employers (school districts). Pension2 is open to any school or state employee who is eligible to participate. Contributions to the plan are voluntary and require no minimum limitations; however, the IRC imposes an annual maximum amount that can be contributed to the plan. Employer contributions are precluded.

The Pension2 investments are comprised of a selection of mutual funds with underlying investments that include stocks, bonds and real estate investments which are participant directed. The Pension2 benefits are the accumulation of contributions and investment earnings credited to the member's account.

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 (MPP Program), a cost-sharing multiple-employer other postemployment benefit plan, to retired members of the DB Program. At June 30, 2008, there were 6,290 retirees participating in the MPP Program. 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.

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

The MPP Program 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 MPP Program has been extended several times. The Board most recently extended the MPP Program on April 5, 2007 to members who retired or will retire prior to July 1, 2012. Extending the MPP Program to members who retired or will retire before July 1, 2012 will result in an increase in the costs for the MPP Program 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.

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.

Contributions
The MPP Program is funded on a pay as you go basis 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 MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total costs do not exceed the amount initially identified as the cost of the program.

Teachers' Replacement Benefits Program Fund (TRBPF)
IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The TRBPF was established pursuant to Chapter 465, Statutes of 1999 (AB 819) and initially funded during the year ended June 30, 2001, to provide benefits to the members of the System whose retirement benefit exceeds IRC limits.

The TRBPF is funded as needed. Monthly employer contributions are received by the TRBPF and paid to members in amounts "equivalent to" the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. During fiscal year 2007-08, there were 85 retirees participating in the TRBPF.

Teachers' Deferred Compensation Fund (TDCF)
The TDCF was established pursuant to Chapter 655, Statutes of 2006 (SB 1466) and used to track ancillary activities associated with various deferred compensation plans and programs offered by the System to enhance the tax-deferred financial options for the members and their beneficiaries.

The TDCF is funded by the premiums and fee revenues received by the System from deferred compensation plans and a vendor registration program. On January 1, 2008, any assets and all activities were transferred from the TRPDF to the TDCF.

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.

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

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 member or beneficiaries for the System. The TRPDF was funded with $245,000 of employer contributions during the fiscal year ended June 30, 2008 for the continued development of 403bComply, which will provide total 403(b) administration and compliance services to school districts that contract with the System for such services. Pursuant to Chapter 232, Statutes 2007 (AB 757) any assets in the TRPDF as of January 1, 2008 were transferred in to the TDCF for the ongoing administration of the 403bComply.

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, foreign currency, and deposits with the State Treasury.

Investments

The majority of the securities held in the investment portfolio at June 30, 2008 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, 2008 financial statements or the most recent financial information adjusted for cash flow activities through June 30, 2008.

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

The System presents, in the statement of changes in fiduciary net assets, the net appreciation (depreciation) 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 System is financed through contributions and investment earnings.

Income Taxes
The STRP, THBF, TRBPF and TRPDF are organized as tax-exempt retirement or benefit plans under the IRC. Pension2, which includes an IRC 403(b) and 457 plan, 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. Some indirect expenses have 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.

Reverse Repurchase Agreement Transactions
The System reports the liabilities resulting from the reverse repurchase agreements as obligations under reverse repurchase agreements and the underlying securities used as collateral are reported as investment on the statement of fiduciary net assets. Any interest cost associated with the reverse repurchase agreements is reported as investment expenses on the statement of changes in fiduciary net assets.

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

Interfund Transfers
The transfers in fiscal year 2007-08 were made in accordance with Education Code Sections 22307.5(e) and 24976(a)(6).

Reclassification
Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2007 to conform to the presentation as of June 30, 2008.

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, 2007, from which the summarized information was derived.

New Accounting Pronouncements
During fiscal year 2007-08, the System implemented the requirements of GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No.27*. This new pronouncement is intended to improve the transparency and decision usefulness of reported information about pensions.

3. Funded status

TRF
The funded status of each program within the STRP as of June 30, 2007, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
DB Program	$148,427	$167,129	$18,702	89%	$25,906	72%
CB Benefit Program	$93	$80	$(13)	117%	$145	(9)%
DBS Program	$5,382	$4,622	$(760)	116%	$25,906	(2.93)%

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

THBF

The funded status of the MPP Program, as of June 30, 2006, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
MPP Program	$3	$797	$794	0.3%	$7,452	10.70%

Methods and Assumptions

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 STRP and the MPP Program include techniques that are consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

	DB Program	CB Benefit Program
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll	Level dollar basis
Amortization Approach	Open	Open
Remaining Amortization Period	30 years	30 years
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%	7.75%
Interest on accounts	6.00%	7.75%
Wage growth	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	2.00% simple	Not applicable

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

	DBS Program	MPP Program
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level dollar basis	Level dollar basis
Amortization Approach	Open	Closed
Remaining Amortization Period	30 years	29 years
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	7.75%	4.00%
Interest on accounts	7.75%	Not applicable
Wage growth	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

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 212 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 28 days, and is reported at amortized cost which approximates fair value.

The repurchase agreement transactions as of June 30, 2008, have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yields were 1.25% with maturity dates through July 1, 2008.

State statutes and Board policy permits the System to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase the exact securities in the future at the same price plus a contract rate of interest. The System had $1.5 billion reverse repurchase agreements outstanding at June 30, 2008. The credit exposure at year end related to these agreements was $9.5 million. Since the proceeds from reverse repurchase agreements are used for short term financings and not for reinvestment purposes, the maturities of the purchases made with the proceeds of reverse repurchase agreements are not matched to the maturities of the agreements.

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

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, 2008, the weighted duration difference between the investments and these loans was 20 days. As of June 30, 2008, 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. At June 30, 2008, the market value of securities on loan totaled $28.6 billion.

Real Estate

Real estate investments are classified as investments in accordance with GASB Statement No. 25. Real estate deeds of trust are held in the name of Limited Liability Corporations and Partnerships. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from the System, other investors and through the acquisition of debt. The System engages several real estate advisors who are responsible for managing a portfolio's day to day activities, performance and reporting. At June 30, 2008, net estimated fair value of real estate equities totaled approximately $20.4 billion. The System's share of outstanding debt is $10.4 billion, excluding obligations of limited partnership interests in commingled funds. The debt payments are made by the real estate advisors.

The System's portion of real estate debt service requirements, excluding obligations of limited partnership interests in commingled funds as of June 30, 2008 are as follows:

Real Estate Debt Service Requirements

(Dollars in Millions)		Principal	Interest	Total
Year ended June 30,	2009	$ 1,476	$ 531	$ 2,007
	2010	2,195	435	2,630
	2011	1,214	358	1,572
	2012	1,027	293	1,320
	2013	862	249	1,111
2014 -	2018	3,033	659	3,692
2019 -	2023	402	97	499
2024 -	2028	75	69	144
2029 -	2033	30	54	84
2034 -	2038	73	47	120
	Total	$ 10,387	$ 2,792	$ 13,179

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

The real estate debts currently bear interest at variable rates ranging from LIBOR + 37.5 basis points (bps) to LIBOR + 550 bps as of June 30, 2008.

The following investment risk schedules disclose the System's investments subject to certain types of risk, pursuant to GASB Statement No. 40. Each schedule discloses investments of all funds, except for the interest rate risk for Pension2, managed by the System subject to each type of risk. Some securities are held in internally-managed investment pools shared by all funds.

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, at the time of purchase, at least 95% of the corporate securities comprising the credit portion of the internally managed fixed income portfolio be rated Baa3/BBB-/BBB- or better by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc, Standard and Poor's Rating Service, or Fitch Ratings. The rating used to determine the quality of the individual securities will be the highest of the ratings supplied by two NRSROs. Furthermore, the total position of the outstanding debt of any one private mortgage-backed and asset-backed securities issuer shall be limited to ten-percent (10%) of the market value of the portfolio. Obligations of other issuers are held to a five-percent (5%) per issuer limit (at the time of purchase) of the market value of any individual portfolio. The Investment Guidelines also include an allocation to high yield and core plus 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, 2008:

Fixed Income & Short Term
(Dollars in Thousands)

Ratings	Securitized Obligations	Credit Obligations	International Government	Money Market Securities	PMIA	US Govt & Agency Obligations	Mutual Fund	Annuity Contracts	Total
AAA	$11,618,901	$ 514,730	$ 12,642	$ -	$ -	$2,986,374	$ -	$ -	$15,132,647
A-1+	-	-	-	310,390	-	-	-	-	310,390
AA	49,616	1,372,050	97,721	20,000	-	42,913	12,411	-	1,594,711
A	29,267	2,943,447	280,976	-	-	12,301	-	-	3,265,991
BBB	17,588	2,316,350	10,653	-	-	3,532	-	-	2,348,123
BB	19,085	676,982	6,414	-	-	-	-	-	702,481
B	59,573	1,405,084	2,664	-	-	-	-	-	1,467,321
CCC	3,558	493,636	-	-	-	-	-	-	497,194
CC	-	2,111	-	-	-	-	-	-	2,111
D	-	9,358	-	-	-	-	-	-	9,358
NR	951,262	419,494	27,350	746,185	278,863	80	3,109	34,878	2,461,221
NA	1,037,586	-	-	-	-	4,767,163	-	-	5,804,749
Total	$13,786,436	$10,153,242	$ 438,420	$ 1,076,575	$278,863	$7,812,363	$15,520	$ 34,878	$33,596,297

The PMIA $278.8 million is comprised of the following funds; TRF $275.8 million, THBF $2.4 million and TDCF $650 thousand.
The above table includes $15.5 million in Mutual Funds and $34.9 million in Annuity Contracts which are reflected within the Pension2 Program on the Statement of Fiduciary Net Assets.

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

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. The System is 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	Asset Backed Securities	Total
AAA	$ 3,465,814	$ 537,000	$ -	$ 518,385	$ 737,547	$ 290,012	$9,444,770	$14,993,528
A-1	340,378	-	-	-	-	-	1,173	341,551
AA	2,038,270	-	-	-	3,608,960	-	80,315	5,727,545
A	1,102,285	-	-	232,299	2,779,236	-	143,356	4,257,176
BBB	-	-	-	-	690,684	-	22,865	713,549
BB	-	-	-	-	-	-	2,830	2,830
NR	72,004	349,456	499,472	-	99,904	-	51,779	1,072,615
Total	$ 7,018,751	$ 886,456	$ 499,472	$ 750,684	$ 7,916,331	$ 290,012	$9,747,088	$27,108,794

The above amount excludes cash and accruals in the total of negative $32,158 (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 a range of +/- 20% (.80 to 1.20) of the average effective duration of the relevant Lehman Brothers benchmark. The permissible range of deviation for the average effective duration within the high yield and core plus portfolios is negotiated with each of the high yield and core plus managers and detailed within the Investment Guidelines.

Investments may contain terms that increase the sensitivity of their fair values to increasing and decreasing interest rates. Although 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 amortized. As of June 30, 2008, the System's internally managed interest only Agency Hybrid ARMS held equates to approximately 1% of the long term fixed income investments.

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

Below is a table which depicts the duration of the portfolio vs. the benchmark in years on June 30, 2008:

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	$ 6,671,318	4.53	4.53	0.00
Credit Obligations				
Corporate	6,313,843	5.92	5.96	-0.04
High Yield	2,415,903	3.66	4.40	-0.74
Debt Core Plus	4,178,269	5.21	4.67	0.54
Securitized Obligations				
Asset Backed Securities	89,670	4.16	3.17	0.99
Commercial Mortgage Backed Securities	1,692,192	4.57	4.61	-0.04
Mortgage Backed Securities	9,472,130	4.03	4.01	0.02
Total Market Value with Weighted Avg Duration	**$ 30,833,325**	**4.63**	**4.65**	**-0.02**

The above amount excludes debt opportunistic investments with a Net Asset Value of $365,535 (in thousands) as of June 30, 2008.

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, 2008:

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	$1,015,846	$ 48,030	$ -	$ -	$ -	$ -	$ 1,063,876
PMIA	278,863	-	-	-	-	-	278,863
Credit Obligations							
Corporate Bonds	-	-	-	-	2,340	-	2,340
Corporate Floating Rate Notes	112,584	245,687	17,000	-	-	-	375,271
US Government and Agency Obligations							
Bullets (Non-Callables)	19,995	84,927	14,539	50,424	25,075	44,951	239,911
Discounted Notes	99,907	74,671	-	24,695	-	-	199,273
Callable	37,000	126,997	13,997	34,029	11,998	-	224,021
Municipals	-	12,747	-	-	-	-	12,747
US Treasury	95,778	74,824	-	-	48,874	14,951	234,427
Asset Backed Securities	138,357	20,845	19,000	-	14,499	-	192,701
Totals	$1,798,330	$ 688,728	$ 64,536	$109,148	$102,786	$ 59,902	$ 2,823,430
Weightings	63.69%	24.39%	2.29%	3.87%	3.64%	2.12%	100.00%

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

The Investment Objective for the Short-Term Fixed Income Portfolio is to seek the preservation of capital and liquidity, and to generate the highest possible current income consistent with a prudent level of risk available from investing in a diversified portfolio of short-term fixed income securities. The Investment Guidelines state that the average maturity of the portfolio shall be managed such that it will not exceed 180 days. 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.

Below is a table that depicts the weighted average maturity of investments classified for the Pension2 IRC 403(b) plan on the statement of net assets as of June 30, 2008:

Pension2
IRC 403(b) Plan Investments
Weighted Average Maturity
(Dollars in Thousands)

Investment Type	Fair Value	Maturity
Money Market Securities	$ 3,884	55 days
Vanguard Inflation Protected Securities Fund	3,109	9.5 years
Vanguard Short-Term Bond Index Fund	12,411	2.8 years
Totals	$ 19,404	

The Pension2 IRC 403(b) TIAA Traditional Annuity's primary objective is the guarantee of principal and a specified interest rate. A guaranteed annuity backed by TIAA's claims-paying ability, TIAA Traditional guarantees the principal and a 3% minimum annual interest rate.

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, 2008:

Securities Lending Collateral
Segmented Time Distribution
(Dollars in Thousands)

Investment Type	0-1 days	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	Total
Money Market Securities	$2,014,684	$ 119,949	$ 1,122,506	$ 2,054,120	$ 1,328,864	$ 378,628	$ 7,018,751
Repurchase Agreements	886,456	-	-	-	-	-	886,456
Short Term Investment Fund	499,472	-	-	-	-	-	499,472
Corporate Bonds	-	-	446,894	303,790	-	-	750,684
Corporate Floating Rate Notes	1,612,356	115,001	1,679,903	2,132,307	2,034,293	342,471	7,916,331
Agency Callable Obligatons	-	-	48,000	39,997	68,000	134,015	290,012
Asset Backed Securities	291	13,363	7,012,066	1,023,442	1,494,302	203,624	9,747,088
Total	$5,013,259	$ 248,313	$10,309,369	$5,553,656	$4,925,459	$1,058,738	$ 27,108,794
Weightings	**18.49%**	**0.92%**	**38.03%**	**20.49%**	**18.17%**	**3.90%**	**100.00%**

The above amount excludes cash and accruals in the total of negative $32,158 (in thousands) which is included from the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

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

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, 2008, 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. IRC 403(b) plan investments have no single issuer that exceeds 5% of total investments.

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, 2008, all of the System's investments are held in the System's name and/or are not exposed to custodial credit risk. There are no general policies relating to the custodial credit risk. As of June 30, 2008, one hundred percent (100%) of the IRC 403(b) plan investments are held in the name of TIAA-CREF.

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, 2008, as shown in the table on the next page, were distributed among the following:

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

Foreign Currency Risk
(Dollars in Thousands)
(In U.S. Dollar Equivalents)

Currency Name	Cash	Equity	Debt	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	$ 9,539	$ 1,586,827	$ 11,905	$ 38,854	$ 1,647,125
Brazilian Real	5,335	584,455	30,929	(1,950)	618,769
Canadian Dollar	9,549	1,664,836	931	46,217	1,721,533
Chilean Peso	289	3,492	-	-	3,781
Colombian Peso	45	-	1,384	-	1,429
Czech Koruna	-	9,537	-	-	9,537
Danish Krone	68	221,468	-	(2,738)	218,798
Egyptian Pound	5,159	108,863	-	-	114,022
Euro Currency	44,910	11,930,908	170,773	(11,464)	12,135,127
Hong Kong Dollar	4,545	1,274,847	-	16,736	1,296,128
Hungarian Forint	-	25,628	-	18,288	43,916
Indian Rupee	100	223,328	-	-	223,428
Indonesian Rupiah	36	102,539	-	358	102,933
Israeli Shekel	2,942	105,043	1	1,317	109,303
Japanese Yen	37,448	4,755,527	-	97,005	4,889,980
Malaysian Ringgit	93	120,870	-	(2,453)	118,510
Mexican Peso	182	197,863	-	(233)	197,812
Moroccan Dirham	-	-	-	-	-
New Russian Ruble	-	-	-	27,068	27,068
New Taiwan Dollar	14,809	578,156	-	-	592,965
New Turkish Lira	146	174,022	-	1,866	176,034
New Zealand Dollar	435	32,666	-	(224)	32,877
Norwegian Krone	19,607	349,286	-	31,954	400,847
Pakistan Rupee	27	7,506	-	-	7,533
Peruvian Nouveau Sol	-	-	-	7,122	7,122
Philippine Peso	15	2,209	-	(25)	2,199
Polish Zloty	845	35,525	-	-	36,370
Pound Sterling	14,409	5,060,141	7,249	62,653	5,144,452
Singapore Dollar	1,976	396,848	-	-	398,824
South African Rand	3,039	434,274	-	5,107	442,420
South Korean Won	462	693,108	-	-	693,570
Swedish Krona	9,117	451,670	-	(84)	460,703
Swiss Franc	4,785	1,684,187	-	356	1,689,328
Thailand Baht	413	100,781	-	(5,349)	95,845
Uae Dirham	-	-	-	14,129	14,129
Total	$ 190,325	$ 32,916,410	$ 223,172	$ 344,510	$ 33,674,417

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.

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

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. As of June 30, 2008, the IRC 403(b) plan is not exposed to foreign currency risk.

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 partnership interests under various investment portfolios, the STRP has remaining unfunded commitments of approximately $29.5 billion at June 30, 2008. The following table depicts the unfunded commitments by asset class:

Asset Class	**Unfunded Commitments** *(Dollars in Thousands)*
Fixed Income	$ 100,000
Corporate Governance	470,500
Alternative Investments	14,385,668
Real Estate	14,580,608
Total	**$29,536,776**

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, 2008, the STRP had commitments of approximately $2.7 billion expiring through January 2015. The STRP is paid a fee over the term of such agreements and earned approximately $4.7 million for the year ended June 30, 2008.

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

7. New Accounting Pronouncements

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.

GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governmental entities. The statement defines a derivative instrument as an agreement that transfers risk from one party to another and is typically used for risk management or investment purposes. The requirements of this statement will be implemented in the financial statements for fiscal year 2009-10.

8. Subsequent Events

Subsequent to the June 30 fiscal year end, the financial markets experienced an unprecedented decline in value. The markets are so dynamic and fluid any judgment of the financial statements must be based on current information rather than fiscal year end. The reader is encouraged to check the CalSTRS web site for the latest information. To pick a point in time, as of September 30, the investment portfolio had declined $15 billion in value to $147 billion, excluding securities lending collateral. The most significant decline was experienced in the international equity portfolio which declined $8.4 billion or 26%. STRP also experienced a decline in the U.S. equity portfolio of $6.4 billion or 10%.

As the financial and credit crisis initiated by the subprime mortgage meltdown approached its one-year anniversary, the financial crisis of 2008 worsened. STRP had exposure to financial institutions that were either acquired by another institution, the U.S. Government or filed for bankruptcy. Assessment to determine permanent impairment is ongoing; however, the final value is not certain until the bankruptcy process has been completed. After June 30, the more noteworthy equity and debt holdings that declined in value were American International Group (AIG), Lehman Brothers, and Washington Mutual totaling approximately $776 million.

The overall risk profile of the STRP investment portfolio has not changed since June 30, 2008. Since the global capital markets are highly dynamic and change in value daily, the value of the STRP investment portfolio changes everyday. As the globe experiences historic volatility due to the financial crisis, the STRP portfolio will change in value. The overriding investment philosophy followed at CalSTRS continues to center on long held principles of diversification and the search for long-term value. The broad diversification helps protect the investment portfolio and dampens the day to day vagaries of the global financial markets.

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, 2007 except where noted.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Teachers' Retirement Fund						
Defined Benefit Program						
2008	(2)	(2)	(2)	(2)	(2)	(2)
2007	$148,427	$167,129	$18,702	89 %	$25,906	72 %
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 %
Cash Balance Benefit Program						
2008	(1)	(1)	(1)	(1)	(1)	(1)
2007	$93	$80	$(13)	117 %	$145	(9) %
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 %
Defined Benefit Supplement Program						
2008	(1)	(1)	(1)	(1)	(1) (4)	(1)
2007	$5,382	$4,622	$(760)	116 %	$25,906	(2.93) %
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 %
Teachers' Health Benefits Fund						
Medicare Premium Payment Program (5)						
2008	(1)	(1)	(1)	(1)	(1)	(1)
2007	(6)	(6)	(6)	(6)	(5)(6)	(6)
2006	$3	$797	$794	0.3 %	$7,452	10.70 %

(1) Actuarial valuations as of June 30, 2008, are expected to be available by Summer of 2009.

(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.

(5) At the April 5, 2007 meeting of the Board, the MPP Program was extended to members who retire or will retire before July 2012. Extending the MPP Program to members who retire or will retire before July 1, 2012, will result in an increase in the costs for the MPP Program 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.

(6) An actuarial valuation for the Teachers' Health Benefit Fund is performed on a biennial basis.

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)
Teachers' Retirement Fund					
Defined Benefit Program [3][6]					
2008	$ 4,362	$ 2,363	$ 501	$ 2,864	66%
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%
Cash Balance Benefit Program [3]					
2008	$ 6.80	$ 7.50	$ 0	$ 7.50	110%
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%
Defined Benefit Supplement Program [3]					
2008	$ 78	$ 118	$ 0	$ 118	151%
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]					
2008	$ 629	$ 1	$1,128	$1,129	179%
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]					
2008 [8]	$48	$33	$0	$33	69%
2007	48	32	0	32	67%
2006	47	30	0	30	64%

(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.

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

(3) For the determination of the Annual Required Contribution, an open amortization period of 30 years 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.

(5) An ARC has not been determined for the Purchasing Power Protection Program. The figure shown is the contractual amount adjusted for proceeds from School Lands Income, the sale of Elk Hills Petroleum Reserve, and employer contributions for 2-year additions.

(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 MPP Program.

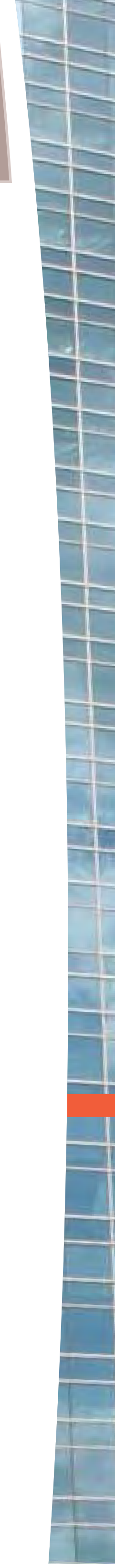
(8) The ARC for 2008 was based on a roll-forward of figures from the June 30, 2006 valuation.

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 latest actuarial valuation follows:

	DB Program	**CB Benefit Program**
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll	Level dollar basis
Amortization Approach	Open	Open
Remaining Amortization Period	30 years	30 years
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%	7.75%
Interest on accounts	6.00%	7.75%
Wage growth	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post-retirement benefit increases	2.00% simple	Not applicable

	DBS Program	**MPP Program**
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level dollar basis	Level dollar basis
Amortization Approach	Open	Closed
Remaining Amortization Period	30 years	29 years
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment rate of return	7.75%	4.00%
Interest on accounts	7.75%	Not applicable
Wage growth	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
Schedule of Administrative Expenses
(Dollars in Thousands) **Schedule III**

	Teachers' Retirement Fund	Pension2 IRC 403(b) Plan	Teachers' Health Benefit Fund	Teachers' Replacement Benefit Program Fund	Teachers' Deferred Compensation Fund	Teachers' Retirement Program Development Fund	Totals
Personnel services:							
Salaries and wages	$ 38,879	$ -	$ 155	$ -	$ 161	$ 51	$ 39,246
Staff benefits	12,879	-	55	-	57	17	13,008
Accrued vacation	1,065	-	3	-	26	-	1,094
Accrued personal leave	(60)	-	-	-	3	-	(57)
Accrued OPEB	6,465	-	15	-	-	-	6,480
Total personnel services	59,228	-	228	-	247	68	59,771
Operating expenses and equipment:							
General	2,263	-	87	5	45	-	2,400
Depreciation	517	-	-	-	-	-	517
Printing	1,405	-	-	-	-	-	1,405
Communications	827	-	-	-	1	-	828
Postage	1,258	-	-	-	-	-	1,258
Insurance	37	-	-	-	-	-	37
Travel	634	-	2	-	21	6	663
Training	912	-	-	-	12	-	924
Facilities operations	6,158	-	-	-	-	-	6,158
Consultants and professional services	23,374	471	-	-	60	-	23,905
Data Processing	5,353	-	-	-	-	-	5,353
Information technology	2,027	-	-	-	-	-	2,027
Indirect State central services	4,989	-	17	-	-	-	5,006
Equipment	367	-	-	-	-	-	367
Other	14	55	-	-	18	15	102
Total operating expenses and equipment	50,135	526	106	5	157	21	50,950
Total	$ 109,363	$ 526	$ 334	$ 5	$ 404	$ 89	$ 110,721

California State Teachers' Retirement System
Schedule of Investment Expenses
(Dollars in Thousands) **Schedule IV**

External Equity Managers:	
Domestic:	
Ariel Capital Management	$ 1,222
Barclays Global Investors	1,440
Batterymarch Financial Management, Inc.	1,262
Bivium Capital Partners, LLC	19
Blackrock Financial Management, Inc.	710
Brown Capital Management, Inc.	409
Chicago Equity Partners	892
Delaware Investment Advisors	375
Delphi Management, Inc.	3,080
Denver Investment Advisor, LLC	1,987
DSI International Management, Inc.	537
First Quadrant, LP	3,282
FIS Funds Management, Inc.	2,040
Frank Russell Trust Co.	1,956
Goldman Sachs Asset Management	1,195
Leading Edge Investment Advisors, LLC	51
Light Green Advisors	196
Mellon Capital Management Corp.	1,523
NCM Capital Management Group, Inc.	894
New Amsterdam Partners, LLC	269
Northern Trust Global Advisors, Inc.	1,653
Sasco Capital, Inc.	8,791
State Street Global Advisors	1,619
Sterling Capital Management, LLC	367
TCW Asset Management Co.	3,245
UBS Global Asset Management (Americas), Inc.	1,751
Total Domestic:	40,765
International:	
Acuity Investment Management	258
Baillie Gifford Overseas Ltd.	6,591
Bank of Ireland	1,373
Barclays Global Investors	1,087
Batterymarch Financial Management, Inc.	2,528
Blackrock International Ltd.	2,301
Capital Guardian Trust Co.	4,394
Generation Investment Management US, LLP	230
Goldman Sachs Asset Management	2,786
Lazard Asset Management, LLC	11,387
Mondrian Investment Partners Ltd.	13,762
Morgan Stanley Investment Management	2,262
Nicholas Applegate Capital Management	3,004
Oechsle International Advisors, LLC	3,590
Pyramis Global Advisors Trust Co.	3,899
Schroder Management Investment North America, Inc.	1,667
State Street Global Advisors	1,301
T. Rowe Price International, Inc.	14,679
Templeton Asset Management, Ltd.	11,033
UBS Global Asset Management (Americas), Inc.	3,186
Total International:	91,318
Total External Equity Managers:	132,083

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

External Fixed Income Managers:	
Aberdeen Asset Management	$ 1,711
Blackrock Financial Management, Inc.	2,652
EH Williams Capital Management, LLC	733
Goldman Sachs Asset Management	2,045
Julius Baer Investment Management, LLC	2,457
LM Capital Group, LLC	610
Post Advisory Group, LLC	1,847
Pyramis Global Advisors Trust Co.	1,447
Seix Investment Advisors	29
Shenkman Capital Management, Inc.	157
Western Asset Management Co.	2,065
Total External Fixed Income Managers:	15,753
Real Estate Managers/Advisors:	
Blackrock Realty Advisors	3,250
CB Richard Ellis Investors, LLC	11,039
Heitman Capital Management, LLC	2,527
ING Clarion Partners	885
Lowe Enterprises Investment Mgmt, LLC	344
Principal Global Investors	4,422
Thomas Properties	649
Total Real Estate Managers/Advisors:	23,116
Research and Rating Services:	
BCA Publications	31
Capital IQ	34
CEM Benchmarking, Inc.	20
Credit Sights	18
Dow Jones & Co., Inc.	16
Factiva, Inc.	22
Fitch Information, Inc.	72
Gimme Credit	13
Institutional Investor Journal	21
Intex Solutions, Inc.	288
Market Axess	18
Moodys Investors Service	215
Oxford Analytica, Ltd.	83
Property & Portfolio Research, Inc.	150
Realpoint	42
Reuters America, LLC	108
Standard & Poor's	365
Strategic Economic Decisions, Inc.	15
The Yield Book	77
Thomson Financial, LLC	128
Thomson Tradeweb, LLC	29
Trans-Lux	82
Trepp, LLC	35
Zephyr Associates, Inc.	18
Total Research and Rating Services:	1,900
Risk Management Systems:	
Barra, Inc.	138
Blackrock Financial Management, Inc.	3,289
Bloomberg, LP	571
Total Risk Management Systems:	3,998

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

Advisers and Consultants:		
Altius Associates	$	465
Altura Capital		25
Angeles Investment Advisors		63
Bard Consulting		687
Bonuccelli & Associates, Inc.		1,087
Callan Associates		50
Cambridge Associates		3,539
Capital Hotel Management, LLC		31
Courtland Partners, Ltd.		114
Ennis Knupp & Associates		235
KPMG, LLP		770
McKinsey & Co., Inc. United States		86
Org Portfolio Management		32
PCA Real Estate Advisors		645
Pension Consulting Alliance		822
Terra Search Partner, LLC		90
Valuation Research Corporation		77
Westwood Consulting Group		32
Total Advisers and Consultants:		8,850
Attorneys, Master Custodian and Insurers:		
Aon Risk Services		680
Cox Castle Nicholson		113
Groom Law Group		156
Sheppard Mullin Richter & Hampton		118
State Street Bank (Master Custodian)		5,574
Total Attorneys, Master Custodian and Insurers:		6,641
Corporate Goverance:		
Administrative Costs		2,756
Altman Group, Inc.		18
Asset4 AG		213
Audit Integrity		46
Broadridge ICS		31
Council of Institutional Investors		30
Egan-Jones Proxy Services		30
Elkins Mcsherry, LLC		40
Factset		296
Glass Lewis & Co., LLC		164
Governance Metics International		50
Institutional Shareholder Services		63
KLD		13
Korn / Ferry International		191
Morgan, Lewis & Bockius, LLP		325
Morgan Stanley Capital International, Inc.		32
Proxy Governance, Inc.		25
Riskmetrics Group		269
Russell Investment Group		30
The Conference Board		23
The Corporate Library		24
Total Corporate Goverance:		4,669
Other Expenses:		
Administrative Costs	$	10,656
Bayard Advertising Agency, Inc.		16
Miscellaneous		386
Total Other Expenses:		11,058
Total	$	208,068

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

Teachers' Retirement Fund

Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
Activestrategy, Inc.	$ 41	Consulting Services
Agreeya Solutions	141	Consulting Services
Alameda County Office Of Education	124	Regional Counseling Services
Ann Escott Bancroft	11	Consulting Services
Anne Staines Marketing Consulting	23	Consulting Services
Applied Network Security	28	Consulting Services
Benchmark Consulting Services	332	Consulting Services
Blackstone Technology Group	48	Consulting Services
Bridge Micro	21	Consulting Services
Business Advantage	179	Consulting Services
Cal Gov Technology	427	Consulting Services
California Department Of General Services	118	Consulting Services
Capital Network Solutions	12	Consulting Services
COMSYS Services LLC	224	Consulting Services
Contra Costa County Office Of Education	138	Regional Counseling Services
Cooperative Personnel Services	55	Consulting Services
Coretechs, Inc.	59	Consulting Services
Crusade	134	Consulting Services
Deferred Compensation Fund	165	Consulting Services
Department Of Justice	291	Consulting Services
DSG Group, Inc.	145	Consulting Services
Dublin Unified School District	141	Regional Counseling Services
Eclipse Solutions, Inc.	517	Consulting Services
Employee Relation, Inc.	13	Consulting Services
Employment Development Department	52	Consulting Services
Folsom Cordova Unified School	255	Regional Counseling Services
Forward Solutions	150	Consulting Services
Fresno County Office Of Education	214	Regional Counseling Services
Graphic-Focus	80	Consulting Services
Hareline Graphics	78	Consulting Services
Helm Technical Services	153	Consulting Services
Hogan & Hartson	180	Legal Services
Humboldt County Office Of Education	61	Regional Counseling Services

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

Teachers' Retirement Fund *(continued)*

Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
Huron Consulting Services LLC	18	Consulting Services
iAnywhere Solutions, Inc.	10	Consulting Services
Image Access West	14	Consulting Services
Infiniti Consulting Group, Inc	310	Consulting Services
Inforce, Inc.	43	Consulting Services
Informatix Inc.	41	Consulting Services
Insight Technologies, Inc.	228	Consulting Services
Integrative Project Solutions	100	Consulting Services
Intergalactic Placements	430	Consulting Services
International Network	704	Consulting Services
Investment Training & Consulting Insititute, Inc.	15	Consulting Services
Jaykumar Maistry	1,557	Consulting Services
Jeve Consulting, Inc.	179	Consulting Services
Jubilee Technologies	11	Consulting Services
Katz & Associates Inc.	31	Consulting Services
Kearnford Application Systems	159	Consulting Services
Kern County Superintendent Of Schools	213	Regional Counseling Services
Kiefer Consulting, Inc.	153	Consulting Services
KPMG, LLP	76	Audit Services
Linda Rogers & Associates	48	Consulting Services
Link One Professionals, LLC	157	Consulting Services
Los Angeles Community Colleges	65	Regional Counseling Services
Los Angeles County Superintendent Of Schools	840	Regional Counseling Services
M Corporation	374	Consulting Services
Macias, Gini & O'Connell LLP	231	Audit Services
Mara Consulting, Inc.	213	Consulting Services
Matthew Bender & Company, Inc.	39	Consulting Services
Mayer Hoffman McCann, P.C.	365	Consulting Services
McLagan Partners, Inc.	32	Consulting Services
Mega Na, Inc.	47	Consulting Services
Milliman, Inc.	281	Consulting Services
Monterey County Office Of Education	55	Regional Counseling Services
Montridge Consulting	552	Consulting Services
MSLA, A Medical Corporation	17	Consulting Services
Nanran, Inc.	842	Consulting Services

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

Teachers' Retirement Fund *(continued)*

Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
nfpAccounting Technologies	11	Consulting Services
Office Of Emergency Services	10	Regional Counseling Services
Olson,Hagel & Fishburn, LLP	77	Legal Services
Onset Solutions	13	Consulting Services
Orange County Department Of Education	410	Regional Counseling Services
Performance Technology	94	Consulting Services
Personal Enterprises, Inc.	335	Consulting Services
Pinnacle Consulting	356	Consulting Services
Placer County Office Of Education	102	Regional Counseling Services
Pleasanton Unified School District	28	Regional Counseling Services
Princeton Solutions Group	240	Consulting Services
ProProse	15	Consulting Services
Public Sector Consultants, Inc.	78	Consulting Services
Q Data Consulting	193	Consulting Services
Quest Media & Supplies	355	Consulting Services
Rapidigm	55	Consulting Services
Renee Taylor Consulting, Inc.	56	Consulting Services
Robert Yetman	33	Consulting Services
Russbo, Incorporated	225	Consulting Services
Sacramento IT Consulting, LLC	123	Consulting Services
San Bernardino County Office Of Education	313	Regional Counseling Services
San Diego County Office Of Education	261	Regional Counseling Services
San Francisco County Office Education	75	Regional Counseling Services
San Joaquin County Office Of Education	115	Regional Counseling Services
San Jose Unified School District	220	Regional Counseling Services
San Mateo-Foster City School District	45	Regional Counseling Services
Santa Barbara County Office Of Education	94	Regional Counseling Services
Santa Cruz County Of Education	94	Regional Counseling Services
SAP Consulting, Inc.	216	Consulting Services
Segula Technologies, Inc.	114	Consulting Services
Senate Rules Committee	104	Consulting Services
Shasta County Office Of Education	133	Regional Counseling Services
Shaw Valenza LLP	20	Consulting Services
Shiva Systems	18	Consulting Services
Sierra Metrics, Inc.	617	Consulting Services

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

Teachers' Retirement Fund *(continued)*

Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
Solano County Office Of Education	36	Regional Counseling Services
Sonoma County Superintendent Of Schools	178	Regional Counseling Services
Staff Tech, Incorporated	87	Consulting Services
Stanfield Systems, Inc	39	Consulting Services
Stanislaus County Office Of Education	81	Regional Counseling Services
State Controller's Office	1,120	Consulting Services
Systems Technology Associates	83	Consulting Services
Systems West Computer	63	Consulting Services
The Ballard Group	165	Consulting Services
The Highlands Consulting	220	Consulting Services
The StateStore, Incorporated	18	Consulting Services
ThirdWave Corporation	239	Consulting Services
Thomas V. Ennis Consulting	332	Consulting Services
Thomas/Ferrous	280	Consulting Services
TranSystems Corporation	18	Consulting Services
Tulare County Superintendent Of Schools	82	Regional Counseling Services
University Enterprises, Inc.	1,094	Consulting Services
US Bank	13	Consulting Services
Ventura County Superintendent Of Schools	80	Regional Counseling Services
Visionary Integration	233	Consulting Services
Visual Communication	40	Consulting Services
Volt Services Group	115	Consulting Services
VR Election Services	241	Consulting Services
Wright On-Line Systems	51	Consulting Services
Yuba County Office Of Education	76	Regional Counseling Services
Other	82	Various Services under $10K.
	23,374	
Data Processing:		
Department Of Technology Services	5,351	Data Processing
Visara International Inc.	2	Data Processing
	5,353	
Total consultant and professional services expenses	$ 28,727	

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

Teachers' Deferred Compensation Fund

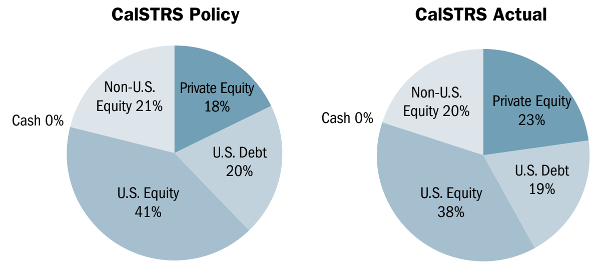
Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
Meridian Wealth Management	$ 57	Consulting Services
Citistreet	3	Administrative Services
Total consultant and professional services expenses	$ 60	

IRC 403(b) Plan

Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
Citistreet	$ 352	Administrative Services
TIAA-CREF	119	Administrative Services
Total consultant and professional services expenses	$ 471	

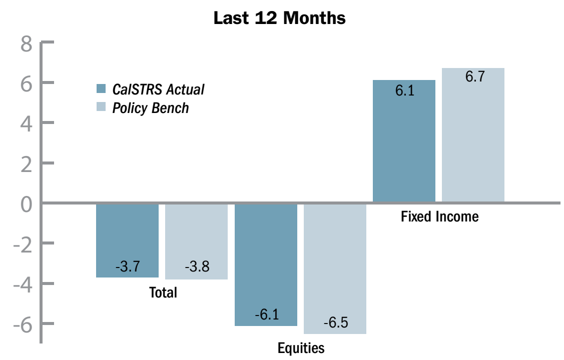
Pension Consulting Alliance, Inc.
Los Angeles · Portland · New York

The CalSTRS investment portfolio decreased by $10.4 billion over the past twelve months ending with a value of $161.5 billion on June 30, 2008. 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 members.



Investment Allocation

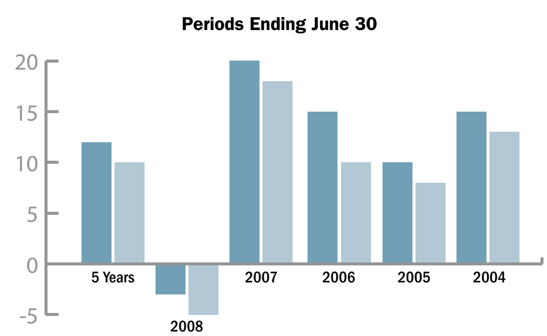
The most critical factor influencing overall investment performance is the allocation of the CalSTRS portfolio across major strategic investment classes. The fiscal year-end report reflects strategic allocation guidelines for fiscal year 2007–08 as a step towards long-term targets adopted in July 2006 (see left pie chart). The portfolio's actual allocation is different from policy. Private Equity is overweighted, while U.S. Equity, Non-U.S. Equity and U.S. 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 an absolute return of -3.7 percent, ranking in the 42nd percentile among its large public pension fund peers [1] (top bar chart). During this period, portfolio results exceeded the policy benchmark return by 0.1 percent. [2] Relative outperformance by the Private Equity asset class contributed to this result.

During the last three years, CalSTRS' portfolio generated a 9.7 percent average annual return outperforming the policy benchmark by 1.9 percent 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 11.5 percent, exceeding its policy benchmark by 1.6 percent 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 all of the last five single-year 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.*

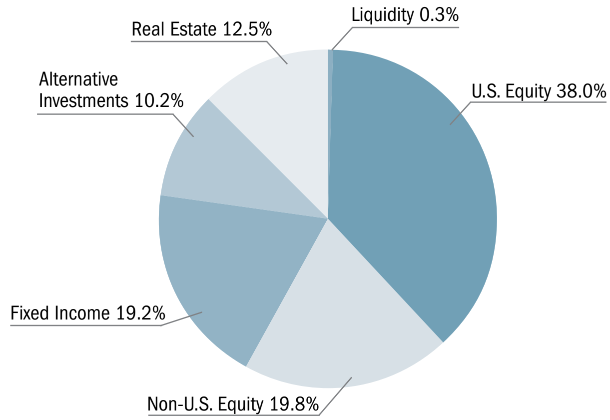
[3] *CalSTRS' investment performance is calculated using a monthly internal rate of return and day-weighted cash flows. Periods longer than one month are geometrically linked to calculate annualized "time-weighted" rates of return.*

After four years of double-digit growth and five consecutive years of positive returns, the CalSTRS investment portfolio declined due to the financial weakness started by the sub-prime mortgage defaults. Over the past 12 months, the investment portfolio declined $10.4 billion in value, or a negative 3.69 percent return. After completion of the audit for this report, the sub-prime mortgage defaults coupled with the downturn in credit and fluctuating solvency, led to a full crisis of confidence in October 2008. While these financial statements provide great detail of the portfolio at June 30, 2008, more current information is available in the footnote on "Subsequent Events" or directly from www.CalSTRS.com.

The CalSTRS investment portfolio had ranked in the top 10 percent of all public pension funds in the U.S. That ranking was going to be difficult to maintain, due to the sheer size of the CalSTRS portfolio and smaller size of all but one other fund. As expected during a negative year, due to our higher allocation to equities, the overall ranking declined. It is important to note that it remained above the median for public funds and large public funds over the past year. The CalSTRS portfolio ranked in the 42nd percentile over one year, ending June 30, 2008, according to the TUCS Public Fund Universe.

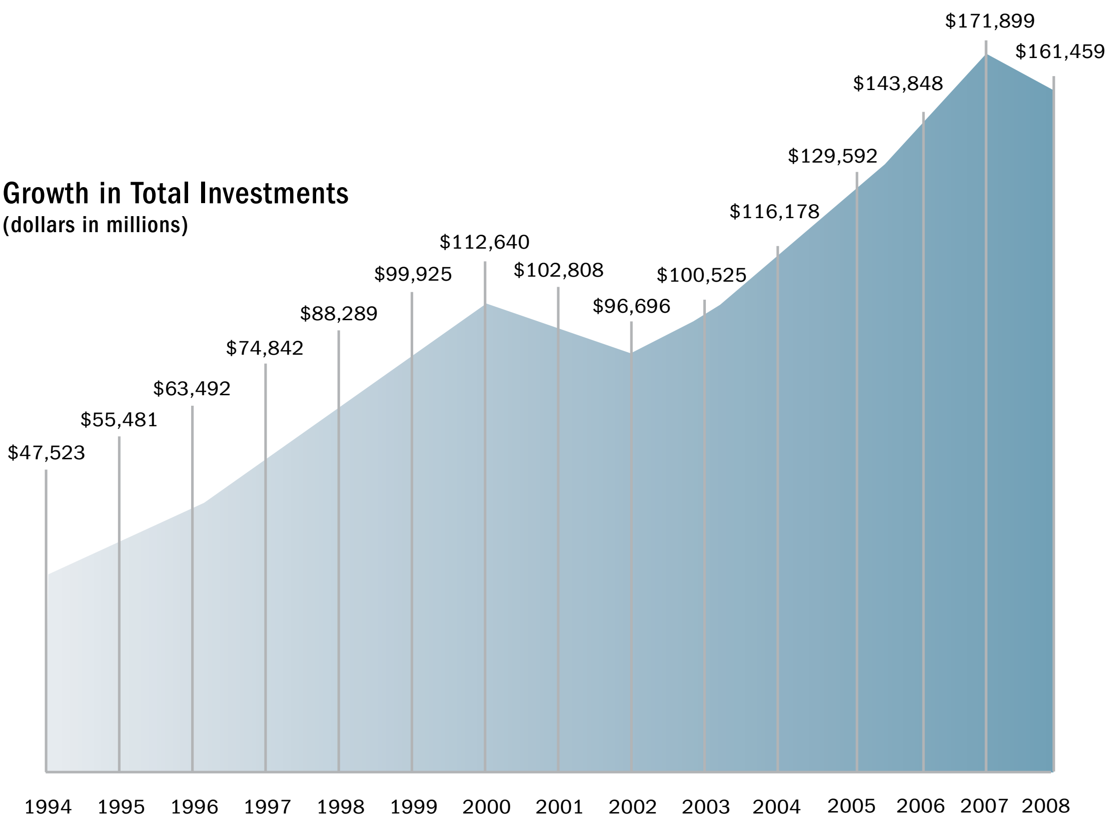
Asset Allocation as of June 30, 2008

Total investment portfolio of $161.5 billion



The above asset allocation percentages excludes Cash Financing

Table 1 | **Growth in Total Investments** (dollars in millions)



Over longer time periods, the investment portfolio benefited from the positive return over the last four years. As of June 30, 2008, the three-year return was 9.72 percent and ranked in the 21st percentile of public funds. Over five years ending June 30, 2008, the portfolio earned 11.49 percent, besting 74 percent of the other public pension funds. As a long-term investor, sustained performance over five and even 10 years is far more meaningful to CalSTRS.

Table 2 | Growth in CalSTRS Returns (percent)

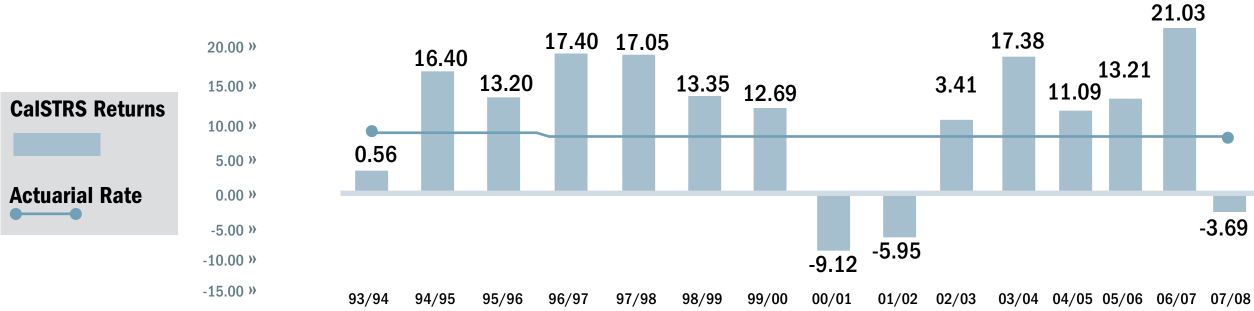


Table 3 | Time-Weighted Performance Returns for Major Asset Categories

PORTFOLIO TYPE / ASSOCIATED INDICIES	1 YR	3 YR	5 YR	10 YR
Total Fund	(3.69%)	9.72%	11.49%	6.87%
U.S. Equity	(13.39)	4.67	8.47	3.59
U.S. Equity Custom [1]	(12.84)	4.57	8.23	3.28
Russell 3000 [2]	(12.84)	4.57	8.23	3.36
Non-U.S. Equity	(5.76)	16.07	18.95	7.94
MSCI All Country Free ex U.S. (G) [2]	(6.71)	15.92	19.22	7.56
MSCI Europe, Australia, Far East & Canada [2]	(8.90)	13.57	17.07	6.00
MSCI Emerging Market Free [2]	4.61	27.45	30.09	15.42
Fixed Income	6.13	4.09	3.99	5.81
US Debt Custom [3]	6.70	3.96	3.95	5.87
Lehman Brothers U.S. Aggregate	7.13	4.09	3.86	5.68
Lehman Brothers High Yield Cash Pay	(1.65)	4.62	6.92	5.12
Real Estate	11.82	27.06	22.51	17.02
Real Estate Custom [4]	13.62	16.81	15.16	12.51
Alternative Investments	11.65	23.44	24.94	16.97
Alternative Investments Custom [5]	4.88	6.73	8.73	7.64
Liquidity	3.95	6.47	8.25	6.72
Citigroup 3-Month Treasury Bill	3.79	4.33	3.18	3.54

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

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

[2] CalSTRS adopted tobacco free indicies beginning 9/1/00.

[3] 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.

[4] NCRIEF after 7/1/97 and Institutional Property Consultants prior to 7/1/97; lagged 1 quarter.

[5] 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.

Within the individual asset classes, the two public equity asset classes posted significant negative absolute returns, while three—Fixed Income, Real Estate and Private Equity— posted positive results. Relative to their benchmarks (this measures the investment opportunity set), two outperformed, while three others struggled during the period of financial difficulty. U.S. Equity posted a negative 13.4 percent return and underperformed its benchmark, due to an overweight to value stocks that were correlated to financial firms. Non-U.S. stocks also posted a negative return, albeit less negative compared to U.S. stocks, of 5.8 percent. It outperformed the respective investment opportunity set, due to superior stock selection and from an overweight to emerging markets at the start of the fiscal year.

The Fixed Income asset class posted a modest positive return, but underperformed its benchmark, due to the immense pressure on residential mortgage bonds and corporate bonds. Over longer periods, Fixed Income has provided the solid stable return needed by the Fund from that segment of the portfolio. Over both three- and five-year periods, the fixed income strategy outperformed its policy benchmark.

The high-performance sectors of the CalSTRS portfolio are Real Estate and Private Equity. Each asset class generated double-digit returns over the past year and in excess of 20 percent, over the three- and five-year periods. While Real Estate reflected the sag in commercial real estate values and underperformed its base benchmark, over longer periods, it has outperformed significantly. Private Equity has generated double digit out-performance for two reasons: first, the high quality and selective investment decision of CalSTRS and, second, the weakness of the policy benchmark. Looking forward, as the financial markets continued to show stress into fall 2008, these two asset classes are expected to reflect that weakness. It is reasonable to expect both will drop to single-digit, if not negative returns, over the near term. However, as long-term investments, CalSTRS continues to believe that these will generate superior returns over the long haul.

Fixed Income

The fixed income assets within the CalSTRS investment portfolio are comprised of both internally and externally managed portfolios, amounting to $31.2 billion at fiscal year-end. A majority of the fixed income assets, 78 percent, are managed internally and follow a Core Strategy with the 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 trailed its benchmark by 57 basis points for the 12 months ending June 30, 2008. The underperformance this past year can be attributed to the persistent and extreme “flight to quality” within the market, whereby anything that was not a U.S. Government security underperformed and it is CalSTRS’ approach to be strategically overweight spread product (i.e., non-Government securities).

Breaking this performance down by strategy, the internally managed Core assets underperformed the benchmark by 26 basis points, primarily due to underweighting Government securities. Within the Opportunistic Strategy, given that these managers concentrate in spread product, as a group they underperformed the benchmark by approximately 300 basis points. However, over the longer term, the portfolio is still tracking the benchmark within a narrow band. The risk of a continued flight to quality is expected to be closer to an end. Risk taking and liquidity have begun to slowly improve, thus making spread product a more valuable alpha source going forward.

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

Table 4 | Largest Fixed Income Holdings as of June 30, 2008
(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	MATURITY DATE	INTEREST RATE	PAR	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN (LOSS)
United States Treas NTS	2/29/12	4.625%	540,000,000	$568,042,162	$559,722,754	$8,319,408
United States Treas NTS	2/15/10	4.750	435,000,000	450,616,483	438,227,449	12,389,034
United States Treas NTS	2/15/15	4.000	386,200,000	397,002,002	392,430,721	4,571,281
Fannie Mae Pool 888344	10/1/35	5.000	266,713,482	256,482,689	253,148,601	3,334,088
United States Treas NTS	6/30/12	4.875	230,000,000	244,432,505	239,174,331	5,258,174
United States Treas NTS	11/15/17	4.250	235,000,000	239,984,374	248,526,729	(8,542,355)
United States Tres Bd Strp Prn	11/15/16	0.000	335,000,000	237,397,750	226,112,259	11,285,491
United States Treas NTS	5/31/11	4.875	210,000,000	221,636,100	218,177,071	3,459,029
Federal Home Ln Mtg Corp	9/2/11	5.450	210,000,000	211,001,637	210,000,000	1,001,637
Federal Home Loan Bank	6/4/09	5.125	200,000,000	204,107,300	199,827,347	4,279,953

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 fund'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 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. 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 benefit from the weakening U.S. dollar. For the past one- and three-year periods, the program has tracked its un-hedged benchmark. Over the five-year and "since inception" periods, the program has exceeded the benchmark by 34 basis points and 93 basis points respectively, with a lower risk profile.

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. The performance objective for the program is to earn lending income commensurate with the market demand for the securities made available for lending and the return earned on the investment of cash collateral within the guidelines set forth by CalSTRS.

For the fiscal year ending June 30, 2008, the Securities Lending Program contributed a record $215 million in additional income for the fund. This dramatic increase in earnings growth from the previous year(s) can be attributed to several factors, which included the large increase in volatility in the market, which promoted a flight to quality securities and made our U.S. Government securities extremely attractive to borrowers. This helped to make lending more attractive in general overall. Additionally, decreases in short term rates also helped make cash collateral spreads more attractive as well.

Home Loan Program

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

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

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 through a passively-managed indexed fund and a cash equitization program. The indexed portfolio is benchmarked to the Russell 1000 ex-Tobacco Index. As of June 30, 2008, the portfolio was valued at $21.68 billion with annualized returns of -12.41 percent and 4.78 percent for the one- and three-year periods, respectively. The portfolio outperformed the benchmark by 12 basis points in the fiscal year ending June 30, 2008.

Table 5 **Largest Equity Holdings as of June 30, 2008**
(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	SHARES	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN/(LOSS)
Exxon Mobil Corp	20,980,662	$1,849,025,742	$788,515,167	$1,060,510,575
General Elec Co	38,248,155	1,020,843,257	848,223,050	172,620,207
Microsoft Corp	34,238,712	941,906,967	673,038,869	268,868,098
Chevron Corp	8,744,793	866,871,330	425,883,551	440,987,779
AT+T INC	24,475,594	824,582,762	683,416,326	141,166,436
Johnson + Johnson	12,048,458	775,197,788	511,938,864	263,258,924
Procter and Gamble Co	11,746,168	714,284,476	431,288,692	282,995,784
International Business Machs	5,683,543	673,670,352	396,148,419	277,521,933
Conocophillips	6,370,308	601,293,372	266,372,499	334,920,873
Apple Inc	3,567,056	597,267,857	191,369,479	405,898,378

The cash equitization program pools the excess cash in CalSTRS' actively managed accounts so these monies can be invested to gain exposure to the equity market. This program is benchmarked to the S&P 500 Index and managed in partnership with the CalSTRS Fixed Income unit. The U.S. portfolio achieved annualized returns of -12.97 percent and 4.45 percent for the one- and three-year periods, respectively. For the period ending June 30, 2008, the U.S. portfolio beat the benchmark by five basis points. The program expanded in April 2008 and included a non-U.S. portfolio with a benchmark of the MSCI EAFE Index.

Alternative Investments

During fiscal year 2007–08, CalSTRS made additional commitments of approximately $6.2 billion in this segment of the portfolio. The market value plus unfunded commitments now amount to approximately $31.2 billion. The Alternative Investments group invests in the private equity market. The 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 233 partnerships, 40 co-investments, and five secondaries in the Alternative Investments portfolio. At the end of the fiscal year, the total market value was $16.6 billion, representing approximately 10.2 percent of the total CalSTRS portfolio.

CalSTRS continues to increase its commitments in this area. The Alternative Investments asset class has achieved annualized returns of 11.7, 23.4, and 24.9 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 nonpayment and/or market support in the capital markets. In return, CalSTRS earns fee income for these commitments. As of June 30, 2008, the Credit Enhancement Program had commitments of approximately $2.7 billion and fee income earned during the fiscal year was approximately $4.7 million.

Real Estate

CalSTRS portfolio of real estate assets is valued at $20.4 billion. Real estate assets are 12.5 percent of the total fund with an 11 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 37 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 63 percent of the real estate portfolio. The CalSTRS real estate portfolio has achieved gross annualized returns of 11.8, 27.1, and 22.5 percent for the one-, three-, and five-year periods, respectively. CalSTRS returns exceeded the

NCREIF benchmark by 10.3 and 7.3 percent for the three- and five-year periods.

Global Equities – External Management

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 2007–08, this segment of the portfolio accounted for 57.8 percent (or $94.0 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 30 external U.S. managers and 20 external non-U.S. managers. Reversing a four-year trend, global equity markets experienced a drop in performance during fiscal year 2007–08 with a rate of return for the MSCI All Country World Index ("ACWI") ex-U.S. ex-Tobacco of -6.71 percent. The relative returns of the U.S. and non-U.S. active composites took divergent paths during the fiscal year, with U.S. active managers lagging the Russell 3000 ex-Tobacco Index by 55 basis points (-13.39 percent vs. -12.84 percent) and non-U.S. active managers outperforming the MSCI EAFE + Canada ex-Tobacco Index by 314 basis points (-5.76 percent vs. -8.90 percent).

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

During fiscal year 2007–08, the Global Equities group implemented the following key initiatives:

- Completed the Developing Manager RFP process to expand the existing fund-of-funds manager roster. CalSTRS awarded contracts to four additional Developing Managers and placed four others in a manager pool that may be funded at a future date.
- Increased CalSTRS commitment to the environmentally focused sustainable investment strategy with additional funding taking place during the first half of fiscal year 2008–09.
- Continued to thoroughly evaluate the recently funded U.S. enhanced index equity strategies to assure that these managers add incremental alpha over their respective benchmarks.

CORPORATE GOVERNANCE

During the 2007–08 season, CalSTRS staff voted on 47,481 proxy proposals submitted by 3,813 corporations that were held in the portfolio. Some companies had multiple meetings and the fund ended up voting at 4,114 meetings for portfolio companies. The 47,481 proposals represented a 9 percent increase from the 43,726 proposals voted on in 2006–07. Nearly half (23,129) of the proposals were on domestic companies. The primary reasons for the increase in the number of proposals were the addition of markets in which staff votes and the changes in benchmarks, which increased the number of companies we voted.

Importantly, the fund now accounts for each individual director as a separate proposal instead of as a slate as in previous years. This will allow CalSTRS to take full advantage of the majority voting standard that many companies have adopted. In addition to the U.S. market, staff voted in the Canadian, Australian and U.K. markets. Despite the increase in voting volume and complexity, staff was able to increase our voting efficiency. On average, staff voted 9.51 days in advance of the due date, which represents a 116% improvement from the 2006-07 proxy season when voting was an average of 4.4 days in advance of a meeting. These gains were achieved without any increased staffing (actually a reduction) and came from targeted management of the services used to execute the corporate actions in the Corporate Governance unit.

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: 16,629
   » Voted For: 9,366 (56%)
   » Voted Against: 7,263 (44%)

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: 2,617
   » Voted For: 2,298 (88%)
   » Voted Against: 319 (12%)

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: 1,380
   » Voted For: 506 (37%)
   » Voted Against: 874 (63%)

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

   » Number Voted: 194
   » Voted For: 165 (85%)
   » Voted Against: 29 (15%)

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: 1,237
   » Voted For: 769 (62%)
   » Voted Against: 468 (38%)

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: 419
   » Voted For: 89 (21%)
   » Voted Against: 330 (79%)

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

   » Number Voted: 619
   » Voted For: 452 (73%)
   » Voted Against: 167 (27%)

The Corporate Governance unit continues to manage four governance funds, accounting for a combined $2 billion in assets under management. All funds invest in governance-poor companies and engage management in securing governance and shareholder value improvement. For the year ending June 30, 2008, the Corporate Governance funds returned a negative 26 percent.

CASH BALANCE BENEFIT PROGRAM

The Cash Balance Benefit Program contributions were invested into pooled funds from inception on 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, 2008, is $98 million.

The rate of return for the Cash Balance Benefit Program for the fiscal year was a negative 6.8 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, 2008, is $5.4 billion. Since the inception of the Defined Benefit Supplement Program, the annualized rate of return is 5.2 percent. The rate of return for the Defined Benefit Supplement Program for fiscal year 2007–08 is a negative 6.8 percent.

Table 6 | Investment Summary for the Current and Previous Fiscal Year
(dollars in millions)

	June 30, 2007		June 30, 2008			
PORTFOLIO TYPE	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	% OF MARKET VALUE	NET MARKET CHANGE
U.S. Equity	$44,803	$70,263	$49,931	$61,899	38.04%	($8,364)
Non-U.S. Equity	24,424	36,569	26,790	32,139	19.75	(4,430)
Fixed Income	36,421	35,254	31,898	31,199	19.17	(4,055)
Alternative Investments	9,959	12,742	15,292	16,590	10.20	3,848
Real Estate	13,192	16,899	18,687	20,380	12.53	3,481
Liquidity	169	172	502	503	0.31	331
ASSET ALLOCATION	**$128,968**	**$171,899**	**$143,100**	**$162,710**	**100.00%**	**($9,189)**
Cash Financing	–	–	(1,500)	(1,251)	(0.77%)	(1,251)
TOTAL PORTFOLIO			**$141,600**	**$161,459**		
Adjustments:						
Securities Lending Collateral		$32,067		$27,077		
Real Estate Accruals		1,177		–		
SSB Accruals		816		127		
Obligation under reverse repo		–		1,500		
Cash & Cash Equiv		(311)		(250)		
PLAN NET ASSETS-INVESTMENTS		**$205,648**		**$189,913**		

Table 7 | Schedule of Investment Fees from Continuous Appropriation July 1, 2007, Through June 30, 2008 (dollars in thousands)

	ASSETS UNDER MANAGEMENT	FEES	BASIS POINTS
Investment Managers' Fees			
U.S. Equity	$38,742,079	$40,765	10.5
Non-U.S. Equity	31,728,553	91,318	28.8
Fixed Income	6,594,172	15,753	23.9
Alternative Investments	16,872,518	4,390	2.6
Real Estate	20,835,132	23,436	11.2
TOTAL INVESTMENT MANAGERS' FEES	**$114,772,454**	**$175,662**	**15.3**

Table 8 | Broker Commissions July 1, 2007, Through June 30, 2008

BROKER NAME	COMMISSION	SHARES	COMMISSION PER SHARE
U.S. EQUITY TRANSACTIONS			
Instinet	$1,306,938	61,095,137	$0.021
Bear, Stearns Securities Corp	1,158,705	45,996,708	0.025
J.P. Morgan Securities Ltd	1,086,255	76,635,116	0.014
Merrill Lynch Pierce Fenner + Smith Inc.	1,019,836	69,552,507	0.015
Lehman Bros Inc.	927,251	61,600,276	0.015
BNY Brokerage Inc	892,010	30,150,992	0.030
Investment Technology Group Inc.	813,612	72,771,653	0.011
Citigroupglobal Markets Inc	798,589	36,237,862	0.022
Cantor Fitzgerald + Co., Inc.	626,625	36,676,518	0.017
CS First Boston Corporation	603,432	25,581,976	0.024
Other U.S. Brokers	11,818,152	485,584,821	0.024
TOTAL U.S. COMMISSIONS	**$21,051,405**	**1,001,883,566**	**$0.021**
NON-US EQUITY TRANSACTIONS			
Goldman Sachs	$5,048,024	436,978,527	$0.012
Credit Suisse Bank	3,967,672	673,628,660	0.006
Merrill Lynch	3,661,957	451,159,316	0.008
UBS Ag	2,961,956	412,226,387	0.007
Citigroup	2,434,100	291,101,939	0.008
State Street Bank And Trust Company	2,069,535	249,727,901	0.008
J.P. Morgan Securities Ltd	1,978,108	223,801,650	0.009
Lehman Brothers Securities	1,770,887	113,631,824	0.016
Morgan Stanley + Co	1,741,451	207,080,464	0.008
Deutsche Bank Securities Corp	1,425,779	156,798,916	0.009
Other US Brokers	12,221,075	1,478,570,667	0.008
TOTAL NON-U.S. COMMISSIONS	**$39,280,544**	**4,694,706,251**	**$0.008**

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November 24, 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, 2007. 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 2007 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 2008 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, 2007 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 2007 valuation.

The findings have been determined according to actuarial assumptions and methods that were chosen on the basis of recent experience of the DB Program and of current expectations concerning future economic conditions. In our opinion, the assumptions used in the actuarial valuation are appropriate for purposes of the valuation, are internally consistent, and reflect

Milliman

Teachers' Retirement Board
November 24, 2008
Page 2

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. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

We certify that the information included in this report is complete and accurate to the best of our 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. We are members of the American Academy of Actuaries and have experience in performing valuations for large public employee retirement systems.

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

Respectfully submitted,

Mark O. Johnson, FSA, EA, MAAA
Principal and Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
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 2003–2007 was completed as of June 30, 2007.

The study was adopted by the Teachers' Retirement Board on April 3, 2008. The most recent actuarial valuation was completed as of June 30, 2007, and adopted by the Teachers' Retirement Board on September 5, 2008. The following summary and tables were prepared by 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 April 3, 2008. All information is considered in the June 30, 2007, 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, 2007, program amendments have been made that have affected the June 30, 2007 actuarial valuation.

Funding

- The General Fund contribution to the Supplemental Benefit Maintenance Account was reduced by $500 million effective for fiscal year 2003–04.
- 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 in interest plus a portion of the withheld contributions. Paying the remaining withheld contributions plus any accrued interest 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 as of June 30, 2007.

Demographic assumptions:
Tables 1–4 and 6–9 provide demographic assumption information for this program as reflected in the most recent actuarial valuation as of June 30, 2007.

Actuarial Methods

Actuarial Cost Method
    Entry Age Normal

Asset Valuation Method
    Expected Value with one-third adjustment to Market Value (3-Year Asset Smoothing)

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

VALUATION RESULTS

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

Tables 10–13 provide summaries of the valuation results. The data displayed in Table 10 is as of June 30 of the specified year. Other information, specifically annual payroll amounts, reported in the financial section of this report will generally not be consistent 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.

- The General Fund contribution was reduced in 2000 from 3.102 percent to 2.53 percent.

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.
- The General Fund contribution was reduced from 2.53 percent to 1.975 percent.

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.

Effective January 1, 2003

- A temporary reduction in the member contribution rates of specified state members of the Defined Benefit Program.
- A change to the basis for calculation of the post-retirement earnings limitation from the increase in the All Urban California Consumer Price Index to the increase in the average earnable salary of active members of the Defined Benefit Program.
- The General Fund contributions were increased from 1.975 percent to 2.017 percent.

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 fiscal year 2003–04.

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, 2007, determined there is an unfunded actuarial obligation for this program. The prior actuarial valuation as of June 30, 2006, also indicated there was an unfunded actuarial obligation.

With one exception, actuarial valuations have been performed every year since June 30, 1997, to analyze the sufficiency of the statutory contributions to meet the current and future obligations of the program. By using the actuarial methods and assumptions adopted by the Teachers' Retirement Board, the actuarial valuation provides the best estimate of the program's long-term financing.

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

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

Independent Actuarial Review

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

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

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

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

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

Summary of Defined Benefit Program Provisions

(The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2007, 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.

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.

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

Benefit, 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 benefit 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 benefit.

Lump-Sum Payment

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

Allowance

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

If there is no surviving spouse or registered domestic partner, a benefit 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 benefit 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 benefit, 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 benefit, 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 elected.

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 program.

Re-entry After Refund

Former members who re-enter the program 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 program 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.

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.

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, 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 April 3, 2008. 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	2007 CalSTRS Retired–M	2007 CalSTRS Retired–F
50	0.151%	0.112%
55	0.214	0.168
60	0.362	0.272
65	0.675	0.506
70	1.274	0.971
75	2.384	1.674
80	4.355	3.257
85	7.958	6.164
90	14.262	11.915
95	23.366	18.280

Table 2 Probabilities of Retirement for Sample Ages [1]

	UNDER 30 YEARS		30 OR MORE YEARS	
Age	Male	Female	Male	Female
55	2.7%	4.5%	8.0%	9.0%
60	6.3	9.0	27.0	31.0
65	13.5	14.4	30.0	32.0
70	100.0	100.0	100.0	100.0

[1] *Probabilities of retirement are adjusted for members with service between 25 and 30 years.*

Table 3 Probabilities of Withdrawal from Active Service Before Age and Service Retirement for Sample Age [1]

	ENTRY AGES					
Duration	**Under 25**	**25-29**	**30-34**	**35-39**	**40-44**	**45+**
Male						
1	13.0%	12.5%	13.0%	13.0%	13.0%	14.0%
2	9.0	7.7	9.0	9.0	9.0	10.0
3	6.0	6.0	6.5	6.5	6.5	7.0
4	4.4	4.8	5.0	5.0	5.0	4.0
5	3.9	3.6	3.0	3.0	3.0	3.0
10	2.0	2.0	2.0	2.0	2.0	–
15	1.1	1.1	1.1	1.1	–	–
20	0.6	0.6	0.6	–	–	–
25	0.4	0.5	–	–	–	–
Female						
1	10.0%	11.0%	11.0%	11.0%	10.5%	10.5%
2	7.2	8.5	8.5	7.5	7.0	7.0
3	6.3	7.0	6.5	6.0	5.5	5.5
4	5.8	6.0	5.5	4.5	4.0	3.0
5	5.5	5.3	4.5	3.8	3.3	2.5
10	2.3	1.8	1.6	1.3	1.3	–
15	1.0	0.9	0.9	0.9	–	–
20	0.5	0.5	0.5	–	–	–
25	0.3	0.4	–	–	–	–

[1] *Probabilities of retirement are adjusted for members with service between 25 and 30 years.*

Table 3 cont. Probabilities of Refund by Sample Duration of Members and Sample Entry Ages [1]

	ENTRY AGES				
Duration	**Under 25**	**25-29**	**30-34**	**35-39**	**40+**
Male					
Under 5	100%	100%	100%	100%	100%
10	46	46	38	36	36
15	38	38	31	21	–
20	28	31	15	–	–
25	15	15	–	–	–
Female					
Under 5	100%	100%	100%	100%	100%
10	34	32	32	29	29
15	27	24	24	24	–
20	19	14	14	–	–
25	10	10	–	–	–

[1] *Probabilities of retirement are adjusted for members with service between 25 and 30 years.*

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 [1]

[1] *Provided by gross investment return.*

Table 6 Mortality Assumptions

	RETIRED MEMBERS [1]
Male	2007 CalSTRS Retired-M
Female	2007 CalSTRS Retired-F
	ACTIVE MEMBERS
Male	2007 CalSTRS Retired-M (-2 years)
Female	2007 CalSTRS Retired-F (-2 years)
	BENEFICIARIES [1]
Male	2007 CalSTRS Beneficiary-M
Female	2007 CalSTRS Beneficiary-F

[1] *Future retirees and beneficiaries are valued with a two-year age setback.*

Table 7 Termination from Disability Due to Death

Male	RP 2000 -M (Min. 2.5% with select rates in first 3 years)
Female	RP 2000 -F (Min. 2.0% 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%	2.7%	8.0%
	60	25.0	6.3	27.0
	65	20.0	13.5	30.0
	70	100.0	100.0	100.0
Female	55	7.0%	4.5%	9.0%
	60	22.0	9.0	31.0
	65	18.0	14.4	32.0
	70	100.0	100.0	100.0

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	0.018%	–
35	0.036	–
40	0.090	–
45	0.123	0.118%
50	0.171	0.202
55	0.252	0.312
Female		
30	0.021%	–
35	0.042	–
40	0.078	–
45	0.126	0.139%
50	0.219	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
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
2007	455,693	25,905,691,360	56,849	6.3

[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.*

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 Benefit	Number	Annual Benefit	Number	Annual Benefit	% Increase	Average Annual Benefit
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
2008	13,246	626,567	6,419	147,966	223,968	7,711,132	8.9	34,430

Table 12 | Solvency Test

AGGREGATE ACCRUED LIABILITIES FOR (in millions)					FUNDING OF LIABILITIES		
	(1)	(2)	(3)				
Valuation Date [1] (as of June 30)	Active Member Contributions on Deposit	Future Benefits to Benefit Recipients	Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2001 [2]	22,661	41,513	45,707	107,654	100.0	100.0	95.1
2003 [3,4]	24,313	52,128	51,663	108,667	100.0	100.0	62.4
2004 [4]	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
2007	25,895	75,612	65,622	148,427	100.0	100.0	71.5

[1] *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.*

[2] *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.*

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

[4] *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	
	2007 (2006)	**2006** (2005)
Actuarial Obligation at June 30:	$150,872	$142,193
Normal Cost	4,375	4,202
Benefit Payments	(6,927)	(6,417)
Expected Interest	11,970	11,289
Expected Actuarial Obligation at June 30:	160,290	151,267
Expected Actuarial Value of Assets at June 30:	138,890	129,149
Expected UAO at June 30	21,400	22,118
Actuarial (Gains) or Losses		
Change in Assumptions	5,097	–
Investment Return Assumptions	(8,184)	(2,857)
Demographic Assumptions	1,742	(365)
Net Change Other Sources	(1,353)	739
Total Actuarial (Gains) & Losses	(2,698)	(2,483)
Unfunded Actuarial Obligation at June 30, 2007	$18,702	$19,635
Funded Ratio	89%	87%

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November 24, 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, 2007. 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 $954,762,000 as of June 30, 2007. The Board allocated $195,223,000 for Additional Earnings Credits and Additional Annuity Credits and the remaining $759,539,000 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 2007 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 2008 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, 2007 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 2007 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
November 24, 2008
Page 2

from those presented in this report to the extent that actual experience differs from that projected by the assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

We certify that the information included in this report is complete and accurate to the best of our 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. We are members of the American Academy of Actuaries and have experience 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, FSA, EA, MAAA
Principal and Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
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, 2007, and adopted by the Teachers' Retirement Board June 5, 2008. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2007, 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 April 3, 2008, 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 April 3, 2008. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.75 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.

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

ACTUARIAL METHODS

Actuarial Cost Method
Traditional Unit Credit

Asset Valuation Method
Fair Market Value

The actuarial methods used for the program's actuarial valuation as of June 30, 2007, result in an actuarial surplus of $759,539,000.

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been CalSTRS' actuary from the program's inception.

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 Defined Benefit Supplement Program Provisions

(The following tables and summary were prepared by CalSTRS staff. All information is considered in the June 30, 2007, actuarial valuation.)

MEMBERSHIP

Eligibility Requirement

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

Member

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

ACCOUNT BALANCE

Account Balance

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

Contributions

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

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

Minimum Interest Rate

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

Additional Earnings Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the board. The board adopted an Additional Earnings Credit of 2.49 percent for the fiscal year ending June 30, 2006, and an Additional Earnings Credit of 4.41 percent for the fiscal year ending June 30, 2007.

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. The board adopted an Additional Annuity Credit of 2.49 percent for the fiscal year ending June 30, 2006, and an Additional Annuity Credit of 4.41 percent for the fiscal year ending June 30, 2007.

NORMAL RETIREMENT

Eligibility Requirement

Receipt of a corresponding benefit under the Defined Benefit Program.

Benefit

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

Form of Payment

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

EARLY RETIREMENT

Eligibility Requirement

Same as Normal Retirement.

Benefit and Form of Payment

Same as Normal Retirement.

LATE RETIREMENT

Benefit and Form of Payment

Same as Normal Retirement.

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

DEFERRED RETIREMENT

Benefit

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

DISABILITY BENEFIT

Eligibility Requirement

Receipt of a corresponding benefit under the DB Program.

Benefit

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

Form of Payment

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

DEATH BEFORE RETIREMENT

Eligibility Requirement

Deceased member has an account balance.

Benefit

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

Form of Payment

Similar to Normal Retirement.

DEATH AFTER RETIREMENT

Eligibility Requirement

The deceased member was receiving an annuity.

Benefit

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

TERMINATION FROM THE PROGRAM

Eligibility Requirement

Termination of all CalSTRS-covered employment.

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

Benefit and Form of Payment

Lump-sum distribution of the account balance as of the date of distribution.

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, 2007, 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 April 3, 2008. 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	2007 CalSTRS Retired–M	2007 CalSTRS Retired–F
50	0.151%	0.112%
55	0.214	0.168
60	0.362	0.272
65	0.675	0.506
70	1.274	0.971
75	2.384	1.674
80	4.355	3.257
85	7.958	6.164
90	14.262	11.915
95	23.366	18.280

Table 2 | Probabilities of Retirement for Sample Ages

	UNDER 30 YEARS		30 OR MORE YEARS	
Age	Male	Female	Male	Female
55	2.7%	4.5%	8.0%	9.0%
60	6.3	9.0	27.0	31.0
65	13.5	14.4	30.0	32.0
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	13.0%	12.5%	13.0%	13.0%	13.0%	14.0%
2	9.0	7.7	9.0	9.0	9.0	10.0
3	6.0	6.0	6.5	6.5	6.5	7.0
4	4.4	4.8	5.0	5.0	5.0	4.0
5	3.9	3.6	3.0	3.0	3.0	3.0
10	2.0	2.0	2.0	2.0	2.0	–
15	1.1	1.1	1.1	1.1	–	–
20	0.6	0.6	0.6	–	–	–
25	0.4	0.5	–	–	–	–
30	0.3	–	–	–	–	–
Female						
1	10.0%	11.0%	11.0%	11.0%	10.5%	10.5%
2	7.2	8.5	8.5	7.5%	7.0%	7.0%
3	6.3	7.0	6.5	6.0	5.5	5.5
4	5.8	6.0	5.5	4.5	4.0	3.0
5	5.5	5.3	4.5	3.8	3.3	2.5
10	2.3	1.8	1.6	1.3	1.3	–
15	1.0	0.9	0.9	0.9	–	–
20	0.5	0.5	0.5	–	–	–
25	0.3	0.4	–	–	–	–
30	0.3	–	–	–	–	–

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	7.75
Wage Inflation	4.25
Interest on Member Accounts	7.75

Table 6 Mortality Assumptions

RETIRED MEMBERS [1]	
Male	2007 CalSTRS Retired-M
Female	2007 CalSTRS Retired-F
ACTIVE MEMBERS	
Male	2007 CalSTRS Retired-M (-2 years)
Female	2007 CalSTRS Retired-F (-2 years)
BENEFICIARIES [1]	
Male	2007 CalSTRS Beneficiary-M
Female	2007 CalSTRS Beneficiary-F

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

Table 7 Termination from Disability Due to Death

Male	RP 2000 -M (Min. 2.5% with select rates in first 3 years)
Female	RP 2000 -F (Min. 2.0% with select rates in first 3 years)

Table 8 Service Retirement (sample ages)

		DB PROGRAM BENEFITS	
	Age	**Under 30 years**	**30 or More Years**
Male	55	2.7%	8.0%
	60	6.3	27.0
	65	13.5	30.0
	70	100.0	100.0
Female	55	4.5%	9.0%
	60	9.0	31.0
	65	14.4	32.0
	70	100.0	100.0

Table 9 Disability Rates (sample ages)

	Age	Entry Age Under 40	Entry Age 40 and Up
Male	25	0.012%	–
	30	0.018	–
	35	0.036	–
	40	0.090	–
	45	0.123	0.118%
	50	0.171	0.202
	55	0.252	0.312
	60	0.204	0.477
	65	0.144	0.853
Female	25	0.021%	–
	30	0.021	–
	35	0.042	–
	40	0.078	–
	45	0.126	0.139%
	50	0.219	0.252
	55	0.318	0.367
	60	0.243	0.529
	65	0.168	0.916

Table 10 | Schedule of Active Member Valuation Data

DATE (AS OF JUNE 30)	NUMBER	ANNUAL PAYROLL [2]	ANNUAL AVERAGE PAY	% INCREASE IN AVERAGE PAY
2002 [1]	442,208	$21,731,775,000	$49,144	2.810%
2003	447,620	23,867,428,000	53,321	8.499
2004	444,316	23,764,350,000	53,485	0.309
2005	449,773	24,481,444,000	54,431	1.768
2006	453,131	25,524,878,188	56,330	3.489
2007	455,453	27,076,457,044	59,450	5.539

[1] *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.*

[2] *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 Benefits	Number	Annual Benefits	Number	Annual Benefits	% Increase	Average Annual Benefits
2003 [1]	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 [2]	4,765,404 [2]	18 [2]	29,192 [2]	5,477	7,624,364	256	1,392
2006	4,067 [2]	7,984,912 [2]	363 [2]	588,458 [2]	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
2008	5,404	14,810,571	1,113	3,006,699	17,900	37,308,946	47	2,084

[1] *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.*

[2] *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 [1]	$213,169,000	$0	$0	$206,916,000	97.0%	–	–
2002	711,440,000	0	0	660,148,000	93.0	–	–
2003	1,358,635,000	0	0	1,311,269,000	97.0	–	–
2004	2,025,400,000	9,652,000	0	2,203,682,000	100.0	100.0%	–
2005	2,722,432,000	33,767,000	0	3,023,177,000	100.0	100.0	–
2006	3,546,575,000	69,684,000	0	3,951,327,000	100.0	100.0	–
2007	4,498,170,000	123,876,000	0	5,381,585,000	100.0	100.0	–

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

Table 13 | Analysis of Financial Experience

	ACTUARIAL VALUATION AS OF JUNE 30	
	2007 (2006)	2006 (2005)
Actuarial Obligation at June 30	$3,616,259,000	$2,756,199,000
Expected Changes:		
Contributions	749,844,000	703,104,000
Benefits Paid	(115,247,000)	(112,029,000)
Expected Earnings/Credits	314,685,000	244,139,000
Expected Actuarial Obligation at June 30	4,565,541,000	3,591,413,000
Expected Actuarial Value of Assets at June 30	4,927,414,000	3,879,749,000
Expected UAO at June 30	(361,873,000)	(288,336,000)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(138,718,000)	(63,355,000)
(Gain) on Assets	(454,171,000)	(71,578,000)
Total Actuarial Gains & Losses	(592,889,000)	(134,933,000)
Additional Earnings and Annuity Credits		
Additional Earnings Credit	189,991,000	86,284,000
Additional Annuity Credit	5,232,000	1,917,000
Total Additional Earnings and Annuity Credits	195,223,000	88,201,000
Unfunded Actuarial Obligation (Surplus) at June 30, 2007	($759,539,000)	($335,068,000)
Funded Ratio	116%	109%

CASH BALANCE BENEFIT PROGRAM | ACTUARY'S CERTIFICATION LETTER

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November 24, 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, 2007. 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 $16,879,000 as of June 30, 2007. The Board allocated $3,579,000 for Additional Earnings Credits and Additional Annuity Credits and the remaining $13,300,000 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 2007 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 2008 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, 2007 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 2007 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

Milliman

Teachers' Retirement Board
November 24, 2008
Page 2

affecting the CBB Program. Nevertheless, the emerging costs of the CBB Program will vary from those presented in this report to the extent that actual experience differs from that projected by the assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

We certify that the information included in this report is complete and accurate to the best of our 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. We are members of the American Academy of Actuaries and have experience 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, FSA, EA, MAAA
Principal and Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
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, 2007, and adopted by the Teachers' Retirement Board June 5, 2008. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2007, actuarial valuation.

The Cash Balance Benefit Program was established July 1, 1996. The most recent experience study of the program was completed June 30, 2007. The experience study was adopted by the Teachers' Retirement Board on April 3, 2008, 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 April 3, 2008. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.75 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 was established July 1, 1996.

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, 2007, 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, 2007, result in an actuarial surplus of $13.3 million.

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, 2007, 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 4 percent of salary and employer contributions are 4 percent of salary.

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

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

Minimum Interest Rate

Annual rate determined for the plan year by the Teachers' Retirement Board in accordance with federal laws and regulations. The minimum interest rate is equal to the average of the yields on 30-year Treasury Notes for the 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. The board adopted an Additional Earnings Credit of 1.18 percent for the fiscal year ending June 30, 2006, and an Additional Earnings Credit of 4.69 percent for the fiscal year ending June 30, 2007.

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. The board adopted an Additional Annuity Credit of 1.18 percent for the fiscal year ending June 30, 2006, and an Additional Annuity Credit of 4.69 percent for the fiscal year ending June 30, 2007.

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. Contributions and interest continue to be credited to the account balances until distributed.

DEFERRED RETIREMENT

Benefit

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

DISABILITY BENEFIT

Eligibility Requirement

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

Benefit

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

Form of Payment

Same as Normal Retirement.

DEATH BEFORE RETIREMENT

Eligibility Requirement

Deceased participant has an account balance.

Benefit

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

Form of Payment

Normal distribution is a lump-sum benefit. A participant's beneficiary may elect to receive the benefit in the form of 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, 2007, 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 April 3, 2008. 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	2007 CalSTRS Retired–M	2007 CalSTRS Retired–F
50	0.151%	0.112%
55	0.214	0.168
60	0.362	0.272
65	0.675	0.506
70	1.274	0.971
75	2.384	1.674
80	4.355	3.257
85	7.958	6.164
90	14.262	11.915
95	23.366	18.280

Table 2 | Probabilities of Retirement for Sample Ages

	UNDER 30 YEARS		30 OR MORE YEARS	
Age	Male	Female	Male	Female
55	2.7%	4.5%	8.0%	9.0%
60	6.3	9.0	27.0	31.0
65	13.5	14.4	30.0	32.0
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	13.0%	12.5%	13.0%	13.0%	13.0%	14.0%
2	9.0	7.7	9.0	9.0	9.0	10.0
3	6.0	6.0	6.5	6.5	6.5	7.0
4	4.4	4.8	5.0	5.0	5.0	4.0
5	3.9	3.6	3.0	3.0	3.0	3.0
10	2.0	2.0	2.0	2.0	2.0	–
15	1.1	1.1	1.1	1.1	–	–
20	0.6	0.6	0.6	–	–	–
25	0.4	0.5	–	–	–	–
30	0.3	–	–	–	–	–
35	–	–	–	–	–	–
40	–	–	–	–	–	–
Female						
1	10.0%	11.0%	11.0%	11.0%	10.5%	10.5%
2	7.2	8.5	8.5	7.5	7.0	7.0
3	6.3	7.0	6.5	6.0	5.5	5.5
4	5.8	6.0	5.5	4.5	4.0	3.0
5	5.5	5.3	4.5	3.8	3.3	2.5
10	2.3	1.8	1.6	1.3	1.3	–
15	1.0	0.9	0.9	0.9	–	–
20	0.5	0.5	0.5	–	–	–
25	0.3	0.4	–	–	–	–
30	0.3	–	–	–	–	–
35	–	–	–	–	–	–
40	–	–	–	–	–	–

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	7.75
Wage Inflation	4.25
Interest on Member Accounts	7.75

Table 6 Mortality Assumptions

RETIRED MEMBERS [1]	
Male	2007 CalSTRS Retired-M
Female	2007 CalSTRS Retired-F
ACTIVE MEMBERS	
Male	2007 CalSTRS Retired-M (-2 years)
Female	2007 CalSTRS Retired-F (-2 years)
BENEFICIARIES [1]	
Male	2007 CalSTRS Beneficiary-M
Female	2007 CalSTRS Beneficiary-F

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

Table 7 Termination from Disability Due to Death

Male	RP 2000 -M (Min. 2.5% with select rates in first 3 years)
Female	RP 2000 -F (Min. 2.0% with select rates in first 3 years)

Table 8 Service Retirement (sample ages)

		CB PROGRAM BENEFITS	
	AGE	UNDER 30 YEARS	30 OR MORE YEARS
Male	55	2.7%	8.0%
	60	6.3	27.0
	65	13.5	30.0
	70	100.0	100.0
Female	55	4.5%	9.0%
	60	9.0	31.0
	65	14.4	32.0
	70	100.0	100.0

Table 9 Disability Rates (sample ages)

	AGE	ENTRY AGE UNDER 40	ENTRY AGE 40 AND UP
Male	25	0.012%	–
	30	0.018	–
	35	0.036	–
	40	0.090	–
	45	0.123	0.118%
	50	0.171	0.202
	55	0.252	0.312
Female	25	0.021%	–
	30	0.021	–
	35	0.042	–
	40	0.078	–
	45	0.126	0.139%
	50	0.219	0.252
	55	0.318	0.367

Table 10 | Schedule of Active Participant Valuation Data

Date (as of June 30)	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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
2007	10,579	144,516,000	13,661	10.2

Table 11 | Schedule of Retired Participants and Beneficiaries Added to and Removed from Annuity Rolls

	ADDED TO ROLLS [1]		REMOVED FROM ROLLS		ROLLS–END OF YEAR			
Date (as of June 30)	Number	Annual Benefits	Number	Annual Benefits	Number	Annual Benefits	% Increase in Annual Benefits	Average Annual Benefits
2002	0	$0	0	$0	0	$0	–	–
2003	0	0	0	0	0	0	–	–
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
2008	7	21,650	0	0	23	56,788	61.6	2,469

[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.*

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)
2002	$25,080,056	$0	0	$21,748,000	87.0%	–	–
2003	33,836,853	0	0	29,963,000	89.0	–	–
2004	41,972,042	31,000	0	42,003,000	100.0	100.0%	–
2005	51,728,731	52,000	0	53,918,000	100.0	100.0	–
2006	62,749,487	140,000	0	68,797,000	100.0	100.0	–
2007	79,691,000	191,000	0	93,182,000	100.0	100.0	–

Table 13 | Analysis of Financial Experience

	ACTUARIAL VALUATION AS OF JUNE 30	
	2007 (2006)	2006 (2005)
Actuarial Obligation at June 30:	$62,889,000	$51,781,000
Expected Changes:		
Contributions	11,884,000	10,605,000
Benefits Paid	(1,548,000)	(1,802,000)
Expected Earnings/Credits	5,445,000	4,495,000
Expected Actuarial Obligation at June 30:	78,670,000	65,079,000
Expected Actuarial Value of Assets at June 30:	85,050,000	67,387,000
Expected UAO at June 30	(6,380,000)	(2,308,000)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(2,367,000)	(2,923,000)
(Gain) on Assets	(8,132,000)	(1,410,000)
Total Actuarial Gains & Losses	(10,499,000)	(4,333,000)
Additional Earnings and Annuity Credits		
Additional Earnings Credit	3,571,000	731,000
Additional Annuity Credit	8,000	2,000
Total Additional Earnings and Annuity Credits	3,579,000	733,000
Unfunded Actuarial Obligation (Surplus) at June 30, 2007	($13,300,000)	($5,908,000)
Funded Ratio	117%	109%

MEDICARE PREMIUM PAYMENT PROGRAM | ACTUARY'S CERTIFICATION LETTER

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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

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

The actuarial methods used for GASB 43 reporting purposes as of June 30, 2006, result in an unfunded actuarial accrued liability of $793.8 million.

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

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.

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.

MEDICARE PREMIUM PAYMENT PROGRAM

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

Table 3 Probabilities of Withdrawal from Active Service Before Age and Service Retirement for Sample Ages

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

Table 4 | 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	
Higher Cost	7.00%
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 [1]
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 [1]
Male	1999 CalSTRS Beneficiary-M
Female	1999 CalSTRS Beneficiary-F

[1] *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

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 [1]		REMOVED FROM ROLLS		ROLLS-END OF YEAR			
Date (as of June 30)	Number	Annual Benefits [2]	Number	Annual Benefits [2]	Number	Annual Benefits [2]	% Increase in Annual Benefits	Average Annual Benefits
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
2008	389	1,296	213	608	6,300	31,328	5.8	4,973

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

[2] *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	–
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.*

Notes: Supplemental statistical tables are available upon request to CalSTRS at 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, Teachers' Health Benefit Fund, and Pension2, as the remaining Funds are deemed immaterial.

The assets of the Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit Programs 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	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Additions										
Member Contributions	$1,820.1	$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
Employer Contributions	2,328.2	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
State of California/ Federal Government [1]	1,629.6	1,084.4	1,018.7	1,218.6	548.7	1,015.0	915.8	946.2	939.2	350.1
Investment Income	(9,260.3)	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
Other Income	213.1	0.5	0.1	1.4	(0.3)	0.0	0.7	0.4	0.2	0.1
Total Additions	**($3,269.3)**	**$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**
Deductions										
Benefit Payments to Members	$7,451.2	$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
Refunds of Member Contributions	83.5	87.5	82.9	79.1	79.2	78.7	73.9	77.4	80.0	74.6
Purchasing Power Benefits	229.8	230.3	215.3	221.3	223.5	233.8	257.0	189.4	190.5	197.9
Administration Expenses	106.4	103.4	93.6	92.9	93.5	72.1	63.5	54.5	50.5	45.0
Other Expenses and Transfers	(0.2)	0.0	0.0	10.1	1.7	0.1	2.3	0.0	0.0	0.0
Total Deductions	**$7,870.7**	**$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**
Change in Net Assets	**($11,140.0)**	**$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**

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.*

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

FISCAL YEAR ENDING JUNE 30	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Type of Benefit										
Age & Service Benefits										
Retired Members	$7,064.3	$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
Survivors	426.2	376.7	351.9	329.8	233.8	247.6	233.5	36.7	33.7	31.8
Death	35.0	26.5	27.6	34.2	74.0	78.1	69.6	42.1	53.2	56.4
Disability Benefits										
Retired Members	155.6	145.6	137.2	125.1	115.0	105.4	94.7	88.4	79.0	73.2
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.1	1.2
Total Benefits	**$7,681.1**	**$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**
Type of Refund										
Separation	$83.5	$87.5	$82.9	$79.1	$79.2	$78.7	$73.9	$77.4	$80.0	$74.6
Total Refunds	**$83.5**	**$87.5**	**$82.9**	**$79.1**	**$79.2**	**$78.7**	**$73.9**	**$77.4**	**$80.0**	**$74.6**

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
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	54,065	44.3	10.5	26.2
2004	444,680	54,978	44.5	10.7	26.2
2005	450,282	55,900	44.5	10.7	26.2
2006	453,365	57,698	44.6	10.8	26.1
2007	455,693	61,097	44.7	10.8	26.1
2008	461,378	63,281	44.7	10.8	26.2

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

Table 4 Members Retired for Service During Fiscal Year 2007–08, 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	553	61.6	6.037	$3,171	$315
500 - 1,000	839	61.4	9.449	4,289	713
1,000 - 1,500	768	60.6	13.373	5,100	1,187
1,500 - 2,000	754	60.8	16.707	5,564	1,672
2,000 - 2,500	830	60.9	19.606	5,963	2,158
2,500 - 3,000	768	61.9	21.694	6,165	2,624
3,000 - 3,500	747	62.0	23.951	6,445	3,092
3,500 - 4,000	677	61.9	26.601	6,660	3,593
4,000 - 4,500	656	61.3	29.110	6,746	4,075
4,500 - 5,000	829	61.3	30.921	6,860	4,526
5,000 - 6,000	1,876	61.5	33.257	7,055	5,228
6,000 & Greater	3,271	62.3	36.761	8,339	6,952
Total	**12,568**	**61.6** [3]	**26.284** [3]	**$6,612** [3]	**$4,015**

[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.*

Table 5 Members Retired for Service During Fiscal Year 2007–08 [1], Classifed by Age and Option Elected

			OPTIONS [2]							
Age	Total	Member-Only	2	3	4	5	6	7	8	9
Under 55	26	15	0	0	0	0	1	5	0	5
55	241	163	0	0	0	0	43	27	2	6
56	641	411	2	0	0	0	132	57	6	33
57	497	281	8	1	0	0	97	77	6	27
58	642	327	18	0	2	0	143	100	6	46
59	896	455	27	3	0	0	196	129	5	81
60	1,310	625	39	2	0	1	294	235	13	101
61	1,676	802	66	10	1	1	347	288	22	139
62	2,054	941	92	5	1	0	492	352	27	144
63	1,195	615	39	10	0	1	249	191	15	75
64	831	458	21	1	1	0	148	145	16	41
65	691	403	28	1	1	1	103	104	8	42
66	575	331	13	4	0	1	104	83	7	32
67	331	196	7	2	1	0	63	50	4	8
68	237	142	7	0	0	0	45	34	3	6
69	170	110	4	1	1	0	21	18	6	9
70	134	79	7	1	0	0	27	14	2	4
71	108	64	3	0	0	0	22	12	3	4
72	72	50	0	0	0	0	6	10	2	4
73	65	45	1	0	0	0	6	12	0	1
74	41	27	0	0	0	0	5	6	0	3
75	39	21	1	1	0	0	10	4	2	0
Over 75	96	68	2	0	0	0	17	6	3	0
Age Unknown	0	0	0	0	0	0	0	0	0	0
Total	**12,568**	**6,629**	**385**	**42**	**8**	**5**	**2,571**	**1,959**	**158**	**811**

[1] Does not include formerly disabled members.

[2] Option Elected:

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 receive 50% of member's reduced benefit, upon death of either member or beneficiary.

Option 6 (known as 100% Beneficiary Option) – Beneficiary receives 100% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only Benefit amount.

Option 7 (known as 50% Beneficiary Option) – Beneficiary receives 50% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only Benefit amount.

Option 8 (known as Compound Option) – Compound option that allows the member to provide for more than one beneficiary.

Option 9 (known as 75% Beneficiary Option) – Beneficiary receives 75% of member's reduced benefit. If beneficiary predeceases the member, the benefit pops up to the Member-Only amount.

Table 6 | Characteristics of Members Going on Disability

FISCAL YEAR ENDING JUNE 30	COUNT	AVERAGE DISABILITY BENEFIT PAYABLE	AVERAGE SERVICE CREDIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT DISABILITY
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	53.5
2006	402	2,522	14.061	5,134	54.5
2007	501	2,579	13.959	5,281	54.7
2008	510	2,660	14.074	5,478	54.5

Table 7 | Number of Benefit Recipients by Type of Benefit

FISCAL YEAR ENDING JUNE 30	SERVICE RETIREMENT	DISABILITY BENEFITS	BENEFITS FOR SURVIVORS	TOTAL BENEFIT RECIPIENTS
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
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
2008	195,960	8,170	19,838	223,968

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

Table 8 Members Retired for Service Characteristics by Year of Retirement (Does not include formerly disabled members)

EFFECTIVE DATE OF RETIREMENT BY SERVICE CREDIT	NUMBER OF RETIREMENTS	AVERAGE SERVICE CREDIT	AVERAGE MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
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**
7/1/2000 thru 6/30/2001 [1]					
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**

Table 8 Members Retired for Service Characteristics by Year of Retirement (Does not include formerly disabled members) (Continued)

EFFECTIVE DATE OF RETIREMENT BY SERVICE CREDIT	NUMBER OF RETIREMENTS	AVERAGE SERVICE CREDIT	AVERAGE MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
7/1/2001 thru 6/30/2002 [1]					
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 [1]					
0 - 5	103	2.4	$206	–	–
5 - 10	674	7.2	525	–	–
10 - 15	749	12.6	1,149	–	–
15 - 20	1,074	17.5	1,821	–	–
20 - 25	1,063	22.6	2,494	–	–
25 - 30	1,212	27.1	3,372	–	–
30 - 35	3,384	32.7	4,640	–	–
35 - 40	2,444	37.2	5,855	–	–
40 & over	486	42.3	7,114	–	–
Total	**11,189**	**27.9**	**$3,879**	**$5,807**	**61.2**
7/1/2003 thru 6/30/2004 [1]					
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**

Table 8 Members Retired for Service Characteristics by Year of Retirement (Does not include formerly disabled members) (Continued)

EFFECTIVE DATE OF RETIREMENT BY SERVICE CREDIT	NUMBER OF RETIREMENTS	AVERAGE SERVICE CREDIT	AVERAGE MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
7/1/2004 thru 6/30/2005 [1]					
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 [1]					
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**
7/1/2006 thru 6/30/2007 [1]					
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**	**$6,371**	**61.5**

Table 8 Members Retired for Service Characteristics by Year of Retirement (Does not include formerly disabled members) (Continued)

EFFECTIVE DATE OF RETIREMENT BY SERVICE CREDIT	NUMBER OF RETIREMENTS	AVERAGE SERVICE CREDIT	AVERAGE MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
7/1/2007 thru 6/30/2008 [1]					
0 - 5	129	2.6	$286	$5,393	61.5
5 - 10	1,038	7.3	643	4,213	62.2
10 - 15	1,093	12.4	1,307	5,090	61.6
15 - 20	1,324	17.7	2,148	5,822	61.6
20 - 25	1,463	22.2	2,902	6,203	61.7
25 - 30	1,408	27.0	4,000	6,921	62.1
30 - 35	3,203	32.5	5,526	7,315	60.9
35 - 40	2,443	37.3	6,908	7,685	61.4
40 & over	467	42.0	8,242	7,990	64.6
Total	**12,568**	**26.3**	**$4,239**	**$6,612**	**61.6**

[1] *The Average Member-Only Benefit for this fiscal year includes the Longevity Bonus.*

Table 9 | 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
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
2008	60.8	26.3	4,620	3,021

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

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

		TYPE OF BENEFIT [1]			OPTION ELECTED [2]								
Monthly Member-Only Benefit [3]	Total	1 [4]	2	3	Member-Only Amount	2	3	4	5	6	7	8	9
Less than $500	19,726	16,645	229	2,852	14,704	2,163	753	80	98	1,198	532	64	134
500 - 1000	27,950	23,424	974	3,552	18,816	3,141	1,918	138	125	2,093	1,376	58	285
1000 - 1500	28,017	23,284	1,132	3,601	16,578	3,595	2,186	255	178	2,547	2,205	54	419
1500 - 2000	27,409	22,825	1,697	2,887	15,344	3,143	1,552	508	204	2,927	3,164	72	495
2000 - 2500	25,572	21,051	2,142	2,379	13,237	2,797	1,213	440	234	3,355	3,631	104	561
2500 - 3000	20,016	17,084	1,336	1,596	9,684	2,046	723	333	136	3,333	3,166	91	504
3000 - 3500	14,605	13,053	475	1,077	6,681	1,393	445	265	78	2,785	2,404	95	459
3500 - 4000	10,696	9,964	119	613	4,792	921	303	179	58	2,111	1,898	72	362
4000 - 4500	9,414	8,970	42	402	4,061	750	233	104	41	1,923	1,870	101	331
4500 - 5000	9,069	8,780	14	275	3,871	668	219	74	32	2,043	1,729	88	345
5000 - 6000	15,881	15,523	3	355	6,682	1,116	309	124	38	3,685	3,003	203	721
6000 & Greater	15,613	15,357	7	249	5,793	1,370	283	122	37	4,195	2,740	294	779
Total	**223,968**	**195,960**	**8,170**	**19,838**	**120,243**	**23,103**	**10,137**	**2,622**	**1,259**	**32,195**	**27,718**	**1,296**	**5,395**

[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 (known as 100% Beneficiary Option) – Beneficiary receives 100% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only Benefit amount.
Option 7 (known as 50% Beneficiary Option) – Beneficiary receives 50% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only Benefit amount.
Option 8 (known as Compound Option) – Compound option that allows the member to provide for more than one beneficiary.
Option 9 (known as 75% Beneficiary Option) – Beneficiary receives 75% of member's reduced benefit. If beneficiary pre-deceases the member, the benefit pops up to the Member-Only Benefit amount.

[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) [1]

FISCAL YEAR ENDING JUNE 30	2008	2007	2006	2005	2004	2003	2002	2001
Additions								
Member Contributions	$684.8	$638.5	$599.1	$574.1	$565.8	$532.6	$487.2	$210.2
Employer Contributions	117.6	111.4	104.0	95.6	125.3	72.2	0.0	0.0
Investment Income	(387.8)	798.1	339.0	235.5	247.6	63.9	(27.7)	(0.2)
Total Additions	**$414.6**	**$1,548.0**	**$1,042.1**	**$905.2**	**$938.7**	**$668.7**	**$459.5**	**$210.0**
Deductions								
Benefit Payments to Members	$139.4	$97.2	$98.0	$75.4	$42.0	$0.6	$0.1	$0.0
Refunds of Member Contributions	17.7	18.0	14.0	8.6	3.1	0.7	0.0	0.0
Administration Expenses	2.9	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	0.0	3.9	0.0
Total Deductions	**$160.0**	**$117.7**	**$114.0**	**$85.7**	**$46.3**	**$1.9**	**$4.3**	**$0.1**
Change in Net Assets	**$254.6**	**$1,430.3**	**$928.1**	**$819.5**	**$892.4**	**$666.8**	**$455.2**	**$209.9**

[1] *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.*

Table 2 | Benefit and Refund Deductions from Net Assets by Type (dollars in millions) [1]

FISCAL YEAR ENDING JUNE 30	2008	2007	2006	2005	2004	2003	2002	2001
Type of Benefit								
Age & Service Benefits								
Retired Members	$129.6	$91.3	$94.0	$71.4	$39.0	$0.5	$0.0	$0.0
Survivors	0.4	0.2	0.1	0.0	0.2	0.0	0.0	0.0
Death	4.2	2.6	1.9	2.0	1.1	0.1	0.1	0.0
Disability Benefits								
Retired Members	5.1	3.1	2.0	2.0	1.6	0.0	0.0	0.0
Total Benefits	$139.4	$97.2	$98.0	$75.4	$42.0	$0.6	$0.1	$0.0
Type of Refund								
Separation	$17.7	$18.0	$14.0	$8.6	$3.1	$0.7	$0.0	$0.0
Total Refunds	**$17.7**	**$18.0**	**$14.0**	**$8.6**	**$3.1**	**$0.7**	**$0.0**	**$0.0**

[1] *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.*

Table 3 Members Retired for Service During Fiscal Year 2007–08 [1], Classified by Age and Option Elected [2]

						Period Certain							
Age	Total	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	15	2	4	1	4	1	0	0	0	1	0	0	2
55	222	83	33	1	8	20	3	1	3	0	27	6	37
56	235	71	28	3	13	27	1	1	0	3	26	11	51
57	209	56	25	4	11	18	3	3	1	3	23	6	56
58	311	76	57	7	11	27	5	3	8	7	43	15	52
59	429	84	70	6	24	42	3	0	11	23	72	18	76
60	676	148	117	17	29	74	3	2	5	12	140	20	109
61	739	169	118	12	43	84	8	6	11	15	128	31	114
62	718	162	130	13	41	84	5	8	5	13	114	30	113
63	439	115	63	8	27	44	3	2	10	3	55	14	95
64	300	91	35	7	20	26	1	2	2	7	48	8	53
65	278	76	36	6	16	38	3	1	2	5	43	3	49
66	208	64	27	5	14	22	2	1	0	4	37	2	30
67	121	37	18	2	9	20	2	0	1	0	16	1	15
68	81	26	11	2	4	13	2	0	2	0	11	2	8
69	67	21	11	0	1	7	0	1	0	1	12	2	11
70	50	12	10	1	2	9	1	0	0	0	10	1	4
71	34	9	1	0	2	5	0	0	0	0	3	1	13
72	34	13	1	1	3	3	1	0	0	1	4	0	7
73	21	9	0	0	3	2	0	0	0	0	4	0	3
74	20	5	4	0	1	2	0	0	0	0	3	1	4
75	10	2	2	0	0	0	0	0	0	0	3	0	3
Over 75	32	11	4	0	2	1	0	0	0	0	5	1	8
Age Unknown	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**5,249**	**1,342**	**805**	**96**	**288**	**569**	**46**	**31**	**61**	**98**	**827**	**173**	**913**

[1] *Does not include formerly disabled members.*
[2] *See Plan Summary for description of Options.*

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

FISCAL YEAR ENDING JUNE 30	COUNT	AVERAGE RETIREMENT ANNUITY PAYABLE	AVERAGE ACCUMULATED BALANCE [2]	AVERAGE AGE AT RETIREMENT
2002 [1]	–	–	–	–
2003	–	–	–	–
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
2008	17,517	176	7,636	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

FISCAL YEAR ENDING JUNE 30	COUNT	AVERAGE DISABILITY ANNUITY PAYABLE	AVERAGE ACCUMULATED CREDITS [2]	AVERAGE AGE AT DISABILITY
2002 [1]	–	–	–	–
2003	–	–	–	–
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
2008	175	129	5,332	55.2

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

[2] *Neither service credit nor final compensation are factors in determining a benefit from the Defined Benefit Supplement Program and therefore are not included in this table.*

Table 6 | 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	13,350	3,562	539	43	23	17,517
Disability	161	11	3	0	0	175
Survivors	151	45	7	1	1	205
Total	**13,662**	**3,618**	**549**	**44**	**24**	**17,897**
Type of Payment Regular Annuity						
Single Life Without Cash Refund	1150	1	0	0	0	1,151
Single Life With Cash Refund	3328	35	0	0	0	3,363
100% Beneficiary Annuity	3128	36	1	0	0	3,165
75% Beneficiary Annuity	257	5	0	0	0	262
50% Beneficiary Annuity	854	15	1	0	0	870
Period-Certain Annuity						
10 Year	1,737	139	14	0	0	1,890
9 Year	193	19	2	1	0	215
8 Year	136	18	1	0	0	155
7 Year	215	42	7	2	0	266
6 Year	254	77	5	0	0	336
5 Year	1,835	1,067	104	7	3	3,016
4 Year	235	302	33	3	0	573
3 Year	340	1,862	381	31	21	2,635
Total	**13,662**	**3,618**	**549**	**44**	**24**	**17,897**

Table 7 | Largest Participating Employers for Current Year and Nine Years Ago [1]

	2008			1999		
PARTICIPATING GOVERNMENT	**COVERED EMPLOYEES**	**RANK**	**PERCENTAGE OF TOTAL SYSTEM**	**COVERED EMPLOYEES**	**RANK**	**PERCENTAGE OF TOTAL SYSTEM**
Los Angeles Unified	52,521	1	9.76%	45,485	1	10.21%
San Diego City Unified	11,390	2	2.12	10,503	2	2.36
Long Beach Unified	7,608	3	1.41	5,851	3	1.31
Fresno Unified	6,013	4	1.12	5,734	4	1.29
Elk Grove Unified	4,445	5	0.83	–	–	–
San Francisco Unified	4,330	6	0.80	4,671	5	1.05
San Bernardino City Unified	4,319	7	0.80	3,026	10	0.68
Santa Ana Unified	3,755	8	0.70	3,265	9	0.73
Sacramento City Unified	3,674	9	0.68	3,959	7	0.89
Oakland Unified	3,652	10	0.68	4,416	6	0.99
San Juan Unified	–	–	–	3,794	8	0.85
All Other	436,198	–	81.10	354,936	–	79.64
Total (1,699 Districts)	**537,905**		**100.00%**	**445,640**		**100.00%**

[1] *The Defined Benefit Supplement Program was established January 1, 2001. The 1999 information is for the Defined Benefit Program.*

CASH BALANCE BENEFIT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2008	2007	2006	2005	2004	2003	2002	2001	2000 (3)	1999
Additions										
Participant Contributions	$6,921.4	$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
Employer Contributions	7,497.2	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
Investment Income	(6,994.7)	14,093.1	6,111.4	4,540.2	5,384.4	1,381.9	(943.8)	(942.2)	812.0	(183.0)
Total Additions	**$7,423.9**	**$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**
Deductions										
Benefit Payments to Participant	$1,053.3 [1]	$883.9 [1]	$1,329.7 [1]	$1,235.2 [1]	$580.3 [1]	$188.0	$105.5 [2]	$0.0	$0.0	$0.0
Refunds of Participant Contributions	608.1	664.3	472.4	244.8	196.7	132.5	89.8 [2]	118.7	58.5	3.0
Administration Expense	52.1	44.1	36.0	34.0	27.7	16.8	10.8	8.2	4.8	387.0
Other Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.0
Total Deductions	**$1,713.5**	**$1,592.3**	**$1,838.1**	**$1,514.0**	**$804.7**	**$337.3**	**$206.1**	**$126.9**	**$63.3**	**$432.0**
Change in Net Assets	**$5,710.4**	**$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**

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, 2006-07 and 2007-08 include member-elected Administrative Transfers to purchase service credit in the Defined Benefit program. The amounts were $220,255, $603,499, $594,133, $278,210 and $354,751 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	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Type of Benefit										
Age & Service Benefits										
Retired Members	$993.5 [1]	$829.6 [1]	$1,237.0 [1]	$1,143.2 [1]	$535.4 [1]	$132.2	$82.7	$0.0	$0.0	$0.0
Death	59.8	48.0	91.4	92.0	44.9	48.3	22.8	0.0	0.0	0.0
Disability Benefits										
Retired Members	0.0	5.8	1.3	0.0	0.0	7.5	0.0	0.0	0.0	0.0
Total Benefits	$1,053.3	$883.4	$1,329.7	$1,235.2	$580.3	$188.0	$105.5	$0.0	$0.0	$0.0
Type of Refund										
Separation	$608.1	$664.3	$472.4	$244.8	$196.7	$132.5	$89.8	$118.7	$58.5	$3.0
Total Refunds	**$608.1**	**$664.3**	**$472.4**	**$244.8**	**$196.7**	**$132.5**	**$89.8**	**$118.7**	**$58.5**	**$3.0**

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, 2006-07 and 2007-08 include member-elected Administrative Transfers to purchase service credit in the Defined Benefit program. The amounts were $220,255, $603,499, $594,133, $278,210 and $354,751 respectively.*

Table 3 Members Retired for Service During Fiscal Year 2007–08 [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													1
55	1												
56													1
57													
58	1												
59													
60													
61													
62													
63													
64													
65	1		1										
66													
67													
68													
69													
70													
71	2	1									1		
72													
73													
74	1	1											
75													
Over 75	1				1								
Age Unknown													
Total	7	2	1	0	1	0	0	0	0	0	1	0	2

[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 option 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	AVERAGE AGE AT RETIREMENT	AVERAGE ANNUITANT RESERVE	AVERAGE MONTHLY ANNUITY
2002	–	–	–
2003	–	–	–
2004	67.8	$10,344	$134
2005	65.0	13,187	191
2006	67.5 [1]	11,596	185
2007	66.9	10,892	183
2008	67.2	12,400	206

[1] *Revised 2007.*

Table 5 | All Participants Receiving an Annuity 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	17	5	1	0	0	23
Disability	0	0	0	0	0	0
Survivors	0	0	0	0	0	0
Total	**17**	**5**	**1**	**0**	**0**	**23**
Type of Payment						
Regular Annuity						
Single Life Without Cash Refund [1]	2					2
Participant Only [2]	5					5
100% Beneficiary Annuity [3]	1					1
75% Beneficiary Annuity [4]						0
50% Beneficiary Annuity [5]	1					1
Period-Certain Annuity						
10 Year	1					1
9 Year	1					1
8 Year						0
7 Year						0
6 Year						0
5 Year	5	2				7
4 Year		1				1
3 Year	1	2	1			4
Total	**17**	**5**	**1**	**0**	**0**	**23**

[1] *No longer available for selection as of January 1, 2007*
[2] *Formerly known as Single Life With Cash Refund.*
[3] *Formerly known as 100% Survivor and Joint Annuity.*
[4] *Available for selection effective January 1, 2007.*
[5] *Formerly known as 50% Joint and Survivor Annuity.*

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

	2008			1999		
PARTICIPATING GOVERNMENT	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles CCD	3,449	1	11.62%	–	–	–
Contra Costa CCD	2,071	2	6.98	791	1	11.62%
Peralta CCD	1,960	3	6.60	698	3	10.25
West Contra Costa Unified	1,910	4	6.43	538	5	7.90
City College of San Francisco	1,840	5	6.20	727	2	10.68
Chabot-Las Positas CCD	1,678	6	5.65	689	4	10.12
San Jose Evergreen CCD	1,506	7	5.07	437	6	6.42
Sonoma Jr.College District	1,286	8	4.33	418	7	6.14
Glendale CCD	1,173	9	3.95	–	–	–
Ohlone CCD	–	–	–	401	8	5.89
Yuba CCD	–	–	–	380	9	5.58
Grossmont Union High	1,124	10	3.79	–	–	–
El Camino CCD	–	–	–	350	10	5.14
All Other	11,693	–	39.38	1,378	–	20.26
Total (33 Districts)	**29,690**	**–**	**100.00%**	**6,807**	**–**	**100.00%**

PROGRAMS ADMINISTERED OR OVERSEEN BY THE RETIREMENT SYSTEM

PENSION2

Table 1 | Change in Net Assets for Pension2 IRC 403(B) Plan (dollars in thousands) [1]

FISCAL YEAR ENDING JUNE 30	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Additions										
Participant Contributions	$24,925	$23,338	$21,509	$20,379	$19,535	$17,481	$14,472	$14,732	$13,792	$8,675
Interest, Dividends and Investment Income	(12,569)	22,793	10,245	6,143	9,754	1,054	(6,158)	(5,099)	3,116	4,121
Other Income	17	16	0	0	0	0	0	0	0	0
Total Additions	**$12,373**	**$46,147**	**$31,754**	**$26,522**	**$29,289**	**$18,535**	**$8,314**	**$9,633**	**$16,908**	**$12,796**
Deductions										
Distributions and Withdrawals [2]	$8,206	$8,451	–	–	–	–	–	–	–	–
Benefit Payments to Participant	0	0	$2,286	$2,645	$1,617	$1,965	$453	$250	$250	$237
Refunds of Participant Contributions	0	0	7,481	6,131	6,440	3,478	2,553	2,288	2,201	1,610
Administration Expenses	526	782	935	917	807	504	372	344	275	205
Total Deductions	**$8,732**	**$9,233**	**$10,702**	**$9,693**	**$8,864**	**$5,947**	**$3,378**	**$2,882**	**$2,726**	**$2,052**
Change in Net Assets	**$3,641**	**$36,914**	**$21,052**	**$16,829**	**$20,425**	**$12,588**	**$4,936**	**$6,751**	**$14,182**	**$10,744**

[1] *Formerly known as the CalSTRS Voluntary Investment Program.*

[2] *Distributions and Withdrawals reflects the Benefit Payments to Participant and Refunds of Participant Contributions combined effective fiscal year 2006-07.*

PROGRAMS ADMINISTERED OR OVERSEEN BY THE RETIREMENT SYSTEM

PENSION2 [1]

Table 2 | Largest Participating Employers for CalSTRS Pension2 [1],Current Year and Nine Years Ago

	2008			1999		
PARTRICIPATING GOVERNMENT	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles Unified (61)	787	1	18.19%	178	1	11.9%
San Diego City Unified	92	2	2.12	44	4	2.9
Long Beach Unified	72	3	1.6	4	12	0.27
San Francisco Unified	68	4	1.5	28	6	1.9
San Juan Unified	63	5	1.4	26	7	1.8
Mt. Diablo Unified	60	6	1.4	48	2	3.2
Sacramento City Unified	56	7	1.3	45	3	3
Los Angeles County (19)	56	7	1.3	21	9	1.4
Capistrano	48	8	1.1	4	12	0.27
Elk Grove Unified	44	9	1	–	–	–
Fresno Unified	39	10	1	3	13	0.2
City College of SF	35	11	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	2,905	–	67.39	1,015	–	67.7
Total (640 Districts)	**4,325**	**–**	**100%**	**1,498**	**–**	**100%**

[1] *Formerly known as the CalSTRS Voluntary Investment Program.*

MEDICARE PREMIUM PAYMENT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2008	2007	2006	2005	2004	2003	2002	2001
Additions								
Employer Contributions	$33,239	$32,257	$29,602	$28,483	$26,496	$22,221	$19,060	$4,800
Interest, Dividends and Investment Income	205	240	143	87	41	53	118	26
Other Income				(158)	8		31	0
Total Additions	**$33,444**	**$32,497**	**$29,745**	**$28,412**	**$26,545**	**$22,274**	**$19,209**	**$4,826**
Deductions								
Benefit Payments to Participants	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536	$0
Administration Expenses	334	190	359	429	373	355	377	453
Total Deductions	**$33,023**	**$31,460**	**$29,672**	**$27,845**	**$26,021**	**$22,381**	**$21,913**	**$453**
Change in Net Assets	**$421**	**$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	2008	2007	2006	2005	2004	2003	2002	2001
Type of Benefit								
Age & Service Benefits								
Retired Members	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536	$0
Total Benefits	**$32,689**	**$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 2007–08 Classified by Age at Retirement

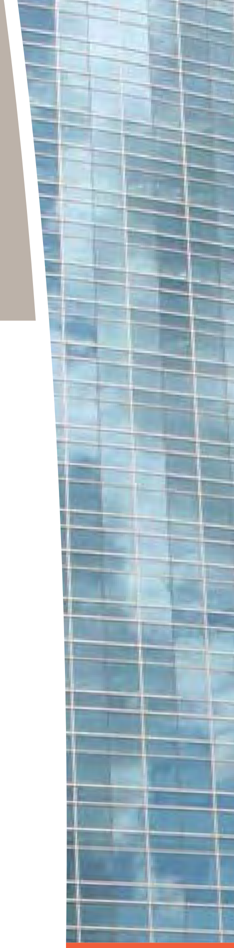
AGE	TOTAL
Under 55	4
55	21
56	23
57	26
58	32
59	38
60	59
61	57
62	54
63	30
64	21
65	9
66	5
67	1
68	2
69	1
70	1
71	0
72	2
73	2
74	0
75	0
Over 75	1
Total	**389**

Table 4 Characteristics of All Retired Members Enrolled in Medicare Premium Payment Program [1]

FISCAL YEAR ENDING JUNE 30	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
2008	60.4	414

[1] *Medicare Premium Payment Program began in 2001.*

annual report credits



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