CALSTRS

SUSTAINABILITY^2

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component of the State of California for the Fiscal Year Ended June 30, 2010

Mission Statement

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

4 main goals

No Surprises

CUSTOMER SERVICE

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

One and Done

QUALITY

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

Trusted Guide

INFORMED DECISIONS

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

Rock Solid

ORGANIZATIONAL AND FINANCIAL STRENGTH

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

CALSTRS

Introduction

CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component of the State of California for the Fiscal Year Ended June 30, 2010

PREPARED BY CALSTRS STAFF

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CALSTRS

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

December 20, 2010

The *Comprehensive Annual Financial Report of the California State Teachers' Retirement System* for the fiscal year ended June 30, 2010, details the performance of the system's funds.

The historic global economic crisis resonated throughout our society during the period covered in this report, fiscal year 2009–10. Those unprecedented financial events continue to force hard choices in legislative chambers, corporate board rooms and at our own kitchen tables. CalSTRS is not immune from the impact of the events of the past two years. At no other time in our 97-year history has CalSTRS faced a more daunting challenge, that of ensuring the long-term strength and viability of the Teachers' Retirement Fund.

SEEKING SUSTAINABILITY

The fund's sustainability is the top priority and a major initiative for CalSTRS as evidenced in the Financial and Actuarial sections of this report. The June 30, 2009 valuation of the Defined Benefit Program, starting on page 83 of the Actuarial section, puts the unfunded liability at $40.5 billion with sufficient assets in the program to fund 78 percent of the program's accrued liabilities.

Amortizing this unfunded liability over 30 years will require an increase in contributions equal to 14 percent of the total annual compensation paid to CalSTRS members. This projection was based on an assumption that CalSTRS would earn 8 percent in its investments each year and that inflation would equal 3.25 percent annually.

RAISING AWARENESS KEY TO SOLUTION

Recognizing the difficulty in projecting investment returns and inflation over an extremely long horizon, the valuation report contained here includes new information this year. On page 29 of the Management's Discussion and Analysis the impact to the funded ratio under alternative investment return assumption scenarios is discussed and presented in a chart to help demonstrate the scope of the funding challenge.

Based on the June 30, 2009 Actuarial valuation, the scenarios show what the funded ratio would be under investment assumptions ranging from 6 percent to 9 percent. Given the economic crisis, the call to lower the assumed rate of return is a persuasive trend across the country. The chart highlights the importance of the investment rate of return to the funded ratio.

CalSTRS initiated an extensive and ongoing educational effort several years ago to ensure members, policymakers, stakeholders and the media have a complete understanding of the financial status of the plan and the legal requirements for its funding. Widespread awareness of this issue and collaboration among key stakeholders and policymakers is essential to ensure the long-term financial soundness of the plan.

The Teachers' Retirement Board is committed to addressing these pressing financial issues in a transparent and public fashion, which is why:

- The board's regular meetings are broadcast on the Internet.
- Information is included in member printed and online communications.
- Speeches are arranged with the teacher constituent groups.

SUSTAINABILITY IS STATE'S OBLIGATION

The CalSTRS board does not have the authority to set contribution rates. It is the state, as the CalSTRS Defined Benefit plan sponsor, that must act to provide an actuarially sound retirement system to California's educators. Failure by the state to adopt a responsible funding strategy increases the costs and risks to the state General Fund. Without a plan of action, the CalSTRS fund will be depleted in 2044 and the state will be obligated to pay the difference between the benefits paid and the contributions received.

CalSTRS looks forward to working with the Administration, Legislature and stakeholders to develop a long-term solution to this projected shortfall. CalSTRS will be sustained through the cooperation and diligence of all those committed to fulfilling the state's promise to California's educators.

MEMBER PROFILE

Established 97 years ago, the California State Teachers' Retirement System, with a $130.0 billion portfolio as of June 30, 2010, is the second largest public pension fund in the United States. It administers retirement, disability and survivor benefits for California's 852,000 public school educators and their beneficiaries, from prekindergarten through community college. The Teachers' Retirement Law, part of the California Education Code, established these programs with CalSTRS as administrator. The law sets required state, member and employer contribution rates. CalSTRS members included employees of approximately 1,600 school districts, community college districts, county offices of education and regional occupational programs as of June 30, 2010. Our services bridge the new teacher just starting out with the retired educator enjoying the fruits of 30 years or more in the classroom.

The median CalSTRS pension replaced only 62 percent of final salary for recently retired members. CalSTRS recommends income replacement of 80 percent to 90 percent to maintain a similar lifestyle in retirement. Public school teachers do not receive Social Security benefits for their CalSTRS teaching service. Moreover, due to the federal Government Pension Offset and Windfall Elimination Provision, retirees often have their Social Security benefits reduced when receiving a CalSTRS benefit. Most retired educators also do not have employer-subsidized health insurance after age 65.

We continue to reach members in their communities—from Eureka to San Diego—with online services, counseling services and workshops that explain retirement options and stress the need for early savings. With over 40 publications and web-based information, we strive to be members' trusted guide to retirement.

INVESTMENTS OVERVIEW

For fiscal year 2009–10, the investment portfolio increased $11.1 billion, posting 12.2 percent positive return. With the Teachers' Retirement Board providing overall policy direction, our investment professionals continue to adapt and effectively respond to the increasing size and complexity of the CalSTRS investment portfolio. All work together to ensure the investment policies, internal investment management and internal procedures help the fund generate as much return as possible within acceptable risk parameters.

See the Investments section for more detailed information on the performance of the CalSTRS investment portfolio.

FINANCIAL STATEMENT

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, 2010. The markets are dynamic and fluid, any judgment of the financial statements should also consider current market conditions.

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 actuarial valuation that is generally performed annually. 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.

As mentioned previously, this year's valuation provides critical information for the future of the Teachers' Retirement Fund.

STATISTICAL REPORTS

Past and current data is connected in this section. The section 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 current 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, 2009. This is the 15th 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.

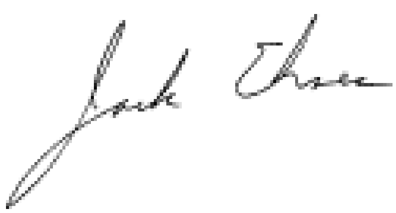
PPCC STANDARDS AWARD PROGRAM

The Public Pension Coordinating Council presented CalSTRS with its 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, National Council on Teacher Retirement and 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 *2010 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

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, 2009

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
2010

Presented to

California State Teachers Retirement System (CalSTRS)

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

Teachers' Retirement Board | AS OF JUNE 30, 2010

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

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

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

John Chiang
State Controller
Ex-Officio Member

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

Roger Kozberg
Public Representative
Term:
1/1/10 – 12/31/13

Bill Lockyer
State Treasurer
Ex-Officio Member

Ana Matosantos
Director of Finance
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, Ph.D
Public Representative
Term:
1/11/08 – 12/31/11

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

EXECUTIVE STAFF

JACK EHNES
Chief Executive Officer

CHRISTOPHER J. AILMAN
Chief Investment Officer

CHRISTINE FORD
Chief of Staff

BRIAN J.BARTOW
General Counsel

ED DERMAN
Deputy Chief Executive Officer
Plan Design and Communication

ROBIN MADSEN
Chief Financial Officer

JANICE HANSON
Deputy Chief Executive Officer
Enterprise Initiatives and Technology

PEGGY PLETT
Deputy Chief Executive Officer
Benefits and Services

CASSANDRA LICHNOCK
Human Resources Executive Officer

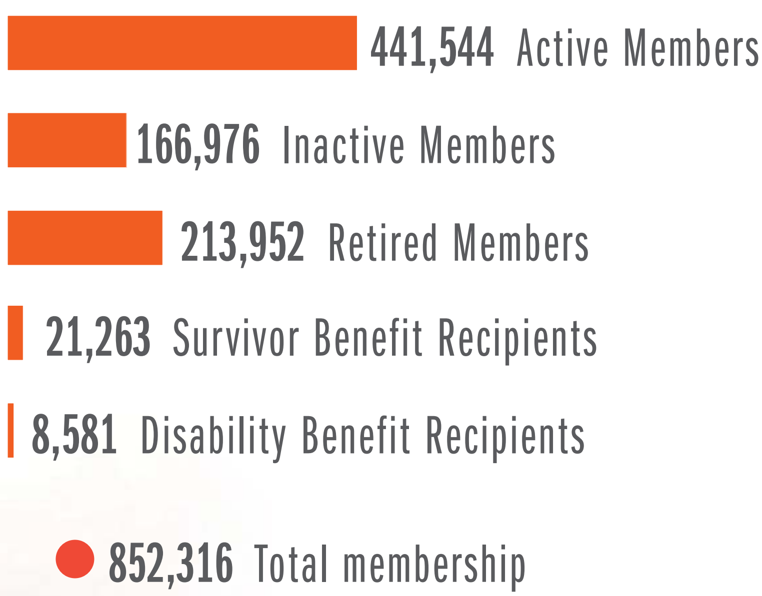
YEAR IN REVIEW

Membership

Membership in the CalSTRS Defined Benefit Program includes California public school employees, prekindergarten through community college, who teach, are involved in selecting and preparing instructional materials, or are supervising people engaged in those activities. Membership is in effect as long as contributions remain on deposit with CalSTRS. Members are employed in approximately 1,600 public school districts, community college districts, county offices of education and state reporting entities (Regional Occupational Programs) in California. The CalSTRS Defined Benefit Program includes retirement, disability and survivor benefits. Beneficiaries of a retired member who elected an option receive a continuing lifetime benefit upon the member's death. The financial statements, presented in the financial section, contain Defined Benefit Program membership data as of June 30, 2009, due to the timing of the issuance of the basic financial statements.

Membership by the Numbers

As of June 30, 2010



Benefits to Members and Benefit Recipients

SERVICE RETIREMENT

CalSTRS is committed to providing exceptional service to its retired members. Staff provides timely and accurate payments and information about application and benefit payment processes.

15,493	Members who retired in fiscal year 2009–10
21 percent	Increase from fiscal year 2008–09

DISABILITY BENEFITS

85 percent	Applications processed within 150 days
791	Applications received
532	Approved applications
3.53 percent	Increase in number of applications from fiscal year 2008-09

SURVIVOR BENEFITS

6,883	Notifications of death received
3.43 percent	Increase in number of notifications from fiscal year 2008-09
86 percent	Payments processed within 30 days of receiving all necessary information

Communicating With Our Members and Beneficiaries

CUSTOMER SERVICE

Members may contact a CalSTRS Contact Center agent by phone, secured online message, written correspondence or by walking into our Sacramento Member Service Center. Service delivery declined this year due to the state-mandated three furlough days a month.

7,153	Members using automated phone self-serve options
258,653	Member inquiries answered
329 seconds	Average wait time to talk with Contact Center agent
9 percent	Members who received a response to their secure online message within one business day

CalSTRS places great emphasis on customer satisfaction and regularly surveys members to ensure they receive accurate, timely and thorough answers to their questions.

- 79 percent of members were “highly satisfied” with their Contact Center experience.

MEMBER COMMUNICATIONS

CalSTRS communicates with its active and retired members through a variety of channels.

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 was launched in fall 2008. The annual newsletter targets members in their forties and 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 detailed account information. For members age 45 and older, the report also includes retirement benefit estimates and information for planning retirement.

The reports are usually mailed in mid-December and provide statement of accounts as of June 30 of that school year. Retired members and other benefit recipients do not receive a report.

MEMBER INFORMATIONAL PUBLICATIONS

CalSTRS offers a number of publications or 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 *Member Handbook* was produced on CD for the first time in 2008-09, allowing our members to choose a green option to learn about CalSTRS benefits and services. The handbook is updated annually.

Your Retirement Guide contains important information and forms 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.

CalSTRS Member Kits contain targeted retirement information and are mailed annually to three groups of CalSTRS members when they reach a career milestone. The three career milestones—vested, mid-career and eligible to retire—are based on the member's age and length of service.

In addition, CalSTRS publishes publications that cover specific topics, including:

- *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*
- *Introduction to Disability Benefits*
- *Join CalSTRS? Join CalPERS?*
- *Purchase Additional Service Credit*
- *Refund: Consider the Consequences*
- *Social Security, CalSTRS and You*
- *Survivor Benefits: Remember Your Loved Ones*
- *Tax Considerations for Rollovers*
- *Unlock Home Ownership*
- *Welcome to CalSTRS*
- *Your Disability Benefits Guide*

CALSTRS ONLINE COMMUNITY

The CalSTRS website, CalSTRS.com, provides information for members, employers and CalSTRS business partners. CalSTRS.com includes many useful features such as online calculators, which allow members to estimate their retirement benefit, calculate the cost to purchase service credit and redeposit funds. Benefits counseling and retirement planning workshops are available for signing up online. Members can also view, print or order forms and publications.

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

CalSTRS expanded its use of the Internet with the creation of CalSTRSbenefits.us, a website to provide important news, commentary, expert analysis and interactive tools specifically designed for members interested in knowing and understanding the value of their Defined Benefit pension.

Additionally, CalSTRS extended its online community to include a presence on Facebook, Twitter, LinkedIn and YouTube to provide members and stakeholders with real-time information about the pension fund.

403BCOMPARE WEB TOOL

CalSTRS also administers 403bCompare.com, which is an online personal investment tool. With 403bCompare.com, members can easily compare tax-deferred 403(b) retirement investment products such as annuities and mutual funds. The tool features an option that lets members search 403(b) products, place three of them side-by-side and compare features, including fund descriptions, fees and returns.

BENEFITS COUNSELING

CalSTRS provides members with personalized assistance in retirement planning. CalSTRS benefits counselors are available to meet with members individually or in a group. Counseling sessions are most beneficial when nearing retirement or considering a disability benefit but can be scheduled at any stage in a member's career. Members may choose to meet with a CalSTRS benefits counselor face-to-face or over the telephone.

- Personal benefits counseling was provided to 44,295 members at more than 27 locations throughout California.
- 2,163 members chose a telephone counseling session.

Each member receives a complete, personalized retirement package of information before or during their counseling session. This service receives consistent high scores on member satisfaction surveys.

MEMBER WORKSHOPS

CalSTRS offers a number of workshops designed to meet the needs of members at different career stages. The workshops provide customized content reflecting their needs at each stage:

- The early career workshop provides information on the plan and supplemental benefits.
- The mid-career workshop covers basic details of CalSTRS benefits and personal financial planning.
- The late-career workshop focuses on the CalSTRS retirement formula, retirement decisions, potential income gaps, postretirement employment and the retirement timeline.
- Another workshop, designed for both late career members and retirees, presents a unique roadmap for members to manage their sources of retirement income, identify retirement risks and strategize ways to close income gaps.

- CalSTRS presented 737 workshops to 15,276 members.

MEMBER OUTREACH

Contact with members at educator conferences and events increases member awareness of CalSTRS benefits and services. In 2009–10, CalSTRS used several channels of communications for communicating with members throughout the state on retirement-related issues.

- CalSTRS continued using the Speakers Bureau to provide information on funding and retirement issues at more than 50 events throughout the state.
- CalSTRS hosted an audio town hall with more than 250 participants at which CalSTRS executive managers addressed funding and retirement issues. The audio town hall was posted to CalSTRS.com.

- CalSTRS Pension2 created an internal Awareness Campaign. The campaign focused on educating CalSTRS employees about the Pension2 supplemental savings plan so they in turn would reach out to their friends and family members.

FORMS DROP-OFF

This year all counseling offices offered convenient, secure forms drop-off service for members to submit forms directly to CalSTRS. Members who took advantage of the convenience of submitting forms at a local counseling office also had the opportunity to have their forms checked for completeness before submission to CalSTRS.

- More than 28,800 forms were submitted to CalSTRS from 27 different locations throughout the state.
- Of the members who took advantage of submitting their forms at a local counseling office, 99 percent say they would use the service again.

SERVICES TO EMPLOYERS, MEMBER AND CLIENT ORGANIZATIONS

Two committees meet regularly to provide a forum for active participation in shaping CalSTRS policies and procedures in areas of information dissemination, benefit plan administration and services 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 staff schedule special meetings with both committees to work closely on plan design and other crucial member and employer issues.

CalSTRS staff also conduct field visits to individual counties and school districts. These visits provide specific information to employers about CalSTRS data reporting processes and the Secure Employer Website. SEW is a web-based portal for employers to manage and submit secure data to CalSTRS. It effectively allows employers to submit their monthly reports and update member records by way of a secure website.

In addition, CalSTRS outreach staff and benefits counselors are invited to conduct workshops or present information on CalSTRS benefits at meetings held by school districts, academic associations and other constituent groups. Outreach venues include annual conferences of academic organizations and meetings of union councils and school administrators.

- CalSTRS outreach staff and counselors attended 41 events and made contact with more than 1,545 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.

MGO **Certified Public Accountants.**

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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, 2010, and the related statement of changes in fiduciary net assets for the fiscal 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 2009 financial statements on which our report dated October 14, 2009, expressed an unqualified opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the California State Teachers' Retirement System as of June 30, 2010, and the changes in fiduciary net assets for the fiscal year then ended in conformity with the accounting principles generally accepted in the United States of America.

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2009, the System's independent actuaries determined that, at June 30, 2009, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by $40.5 billion. The most recent actuarial value of assets as of June 30, 2009 does not include deferred investment losses that will be recognized in the future.

As described in Note 4, effective July 1, 2009, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have issued our report dated October 15, 2010, 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, the Schedule of Funding Progress, and the Schedule of Contributions from Employers and Other Contributing Entities as listed in the table of contents 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 15, 2010

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the California State Teachers' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2010. 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 the following:

1. State Teachers' Retirement Plan (STRP)
2. Pension2 Program (IRC 403(b) and 457 Plans)
3. Teachers' Health Benefits Fund (THBF)
4. Teachers' Deferred Compensation Fund (TDCF)

FINANCIAL HIGHLIGHTS

- Total net assets increased for the STRP by $11.3 billion or 9.6% to $129.8 billion.
- Net investment income for the STRP totaled $15.1 billion, an increase of $55.4 billion or 137.4%.
- Benefit payments increased by $753.7 million or 8.8% to $9.4 billion.
- In the most recent actuarial valuation as of June 30, 2009, the System's Defined Benefit Program was estimated to be funded at 78% compared to an estimated funding level of 87% as of June 30, 2008 (see Note 3 and Required Supplementary Information for additional information).

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.

Basic 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.

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 plans and funds administered by the System.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2010

- 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, including the capitalization policy for land, building, equipment and intangible assets.

- Note 3 provides a summary of the System's funded status for the State Teachers' Retirement Plan and Medicare Premium Payment Program in accordance with GASB Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)* and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

- Note 4 describes deposits and investments, including disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which include information about the System's investment risks 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.

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

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 four programs: Defined Benefit (DB) Program, Defined Benefit Supplement (DBS) Program, Cash Balance Benefit Program (CB), and the Replacement Benefit Program (RBP), (see Note 1, page 14 for detailed information).

The STRP net assets increased 9.6% from $118.4 billion in fiscal year 2008-09 to $129.8 billion as of June 30, 2010. Investments, excluding securities lending collateral, increased by $11.1 billion or 9.4% to $130 billion as of June 30, 2010. At June 30, 2010, the STRP held $29.6 billion in debt securities, an increase of $3.6 billion or 13.7% from fiscal year 2008-09. At June 30, 2010, the STRP also held $65.9 billion in global equity securities, an increase of $3.5 billion or 5.7% from fiscal year 2008-09. Remaining holdings in short-term, private equity, and real estate investments totaled $34.5 billion at June 30, 2010, an increase of $4.0 billion or 13.1% from fiscal year 2008-09. Net appreciation on investments of $11.3 billion in fiscal year 2009-10 compared to a net depreciation of $42.8 billion in fiscal year 2008-09, totaled an increase of $54.1 billion. In general, global economic conditions improved in fiscal year 2009-10, supporting the achievement of positive returns in most asset classes.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Securities lending collateral and obligations increased during fiscal year 2009-10 by $4.1 billion and $3.6 billion, respectively. The Security Lending Program is designed to use its existing asset base and investment expertise to generate a steady source of risk-controlled incremental income. In 2010 there have been positive developments in the security lending markets and hence additional diversification and income opportunities opened up.

In July 2009, the System began participating in the Term-Asset-Back Loan Facilities Program (TALF), a program created by the Federal Reserve to provide non-recourse loans collateralized by newly or recently originated securities that meet program requirements (see Note 4 for detailed information on the program).

Other liabilities decreased by $156.9 million between fiscal years, due primarily to a decrease in futures contracts. At June 30, 2009, there was $158.7 million in outstanding liability for futures contracts, which are used to minimize exposure to unfavorable fluctuations in the domestic equity markets. The outstanding liability for futures at June 30, 2010 was $17.7 million.

NET ASSETS
(Dollars in Thousands)

ASSETS	2010	2009	Percent Change
Investments [1]	$ 157,072,884	$ 141,835,839	11%
Cash and Cash Equivalents	211,688	173,115	22%
Receivables	2,279,482	2,531,577	(10%)
Capital Assets	246,909	251,551	(2%)
TOTAL ASSETS	159,810,963	144,792,082	10%
LIABILITIES			
Benefits in Process of Payment	843,821	793,735	6%
Investments Pending Settlement	1,701,950	1,741,285	(2%)
TALF Loan Payable	182,781	-	NA
Other Liabilities	81,109	238,017	(66%)
Securities Lending Obligation	27,233,195	23,588,972	15%
TOTAL LIABILITIES	30,042,856	26,362,009	14%
TOTAL NET ASSETS	$ 129,768,107	$ 118,430,073	10%

[1] Includes securities lending collateral.

The STRP benefits are funded from employer, member, State/Federal contributions, and investment earnings. The STRP net investment income increased to $15.1 billion in fiscal year 2009-10 compared to a loss of $40.4 billion in fiscal year 2008-09. While the portfolio experienced net appreciation across short term securities, fixed income and global equities, the primary contributor to the increase in net investment income in fiscal year 2009-10 was the net appreciation of global equities which represented approximately 50.7% of STRP investments, excluding securities lending collateral.

Benefit payments totaled $9.4 billion in the 2009-10 fiscal year. The $753.7 million or 8.8% increase in benefit payments over the prior year is primarily the result of an increase in retirees receiving benefit payments. Administrative expenses increased by $27.1 million or 24% as a result of an increase in

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accrued expenses, an increase in the System's capitalization threshold for capital assets and initiation of depreciation of the new headquarters building.

CHANGES IN NET ASSETS
(Dollars in Thousands)

ADDITIONS	2010	2009	Percent Change
Member	$ 2,331,430	$ 2,500,632	(7%)
Employer	2,286,266	2,464,243	(7%)
State/Federal Government	1,221,628	1,140,382	7%
Investment/Other Income (Loss)	15,097,050	(40,350,170)	137%
TOTAL ADDITIONS	20,936,374	(34,244,913)	161%
DEDUCTIONS			
Benefit Payments	9,357,942	8,604,237	9%
Refund of Contributions	100,125	105,816	(5%)
Administrative Expenses	140,273	113,154	24%
TOTAL DEDUCTIONS	9,598,340	8,823,207	9%
NET ASSET INCREASE (DECREASE)	11,338,034	(43,068,120)	126%
BEGINNING NET ASSETS	118,430,073	161,498,193	(27%)
ENDING NET ASSETS	$ 129,768,107	$ 118,430,073	10%

The most recent actuarial valuation indicates that the DB Program is underfunded, with 78% of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2009. This is a decrease from the 87% estimated funded status as of June 30, 2008. The amount by which the DB Program actuarial obligation exceeded actuarial assets was $40.5 billion as of June 30, 2009. The decrease in the funded status between June 30, 2008 and June 30, 2009 is a result of the losses that occurred due to the collapse in the economic markets and reflects only a portion of the significant asset losses that occurred during fiscal year 2008-09. Large deferred losses still exist and will be recognized in future valuations. The most recent actuarial valuation indicates 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.

The most important long-run driver of a pension plan is investment income, which can contribute as much as 80% or more of the total inflows into a pension plan over its life. Currently the investment rate of return (discount rate) assumption is 8.0%. The actuarial assumptions and methods used in the June 30, 2009 valuation were based on the 2007 Actuarial Experience Analysis adopted by the Board in April 2008. The investment return assumption (discount rate), based on actuarial principles should be based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments and the basis used to determine the actuarial value of assets. Factors included in the derivation of the long-term investment return rate include expected future rate of return on classes of assets developed by the System's investment consultants and the System's price inflation assumption, the System's risk tolerance, and an allowance for expenses. The investment return assumptions are adopted by the Board, and the Board is currently in the process of evaluating the current 8% investment return assumption (discount rate) to be used in the June 30, 2010 actuarial valuation.

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The table below presents information to highlight the importance of the investment rate of return, which is used to discount the actuarial liabilities of the System, and how fluctuations in the investment rate of return and discount rate would change the Funded Ratio, Unfunded Actuarial Accrued Liability (UAAL) and the Projected 30-Year Level Funding Rate (Funding Rate) using various investment rate of return assumptions.

Defined Benefit Program

(Dollars In Millions)

	Actuarial Value of Assets			Market Value of Assets
Investment Return Assumption	Funded Ratio	UAAL	Funding Rate	UAAL
6.00%	61%	$ 93,465	41.991%	$130,718
7.50%	74%	51,949	28.691%	89,202
7.75%	76%	46,112	26.761%	83,365
8.00%	78%	40,541	24.894%	77,794
9.00%	88%	20,627	17.992%	57,880

Based on the June 30, 2009 Actuarial Valuation.

The information presented in the Funding Rate column represents the total contributions needed from both employers and employees, as a percentage of covered payroll, to meet the 30 year funding goal. The last column in the table reflects the UAAL using the market value of assets, which provides a picture of what the UAAL would be if the asset losses that occurred during fiscal year 2008-09 were recognized immediately.

Pension2 Program (Pension2)

Pension2 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 Pension2. Through Pension2, school employees have the opportunity to supplement their pension benefits. Net assets increased by $59.2 million or 33% when compared to the prior fiscal year due to an increase of $11.2 million in contributions. In addition there was a net investment appreciation of $17.2 million in fiscal year 2009-10 versus net depreciation on investments of $28.5 million in fiscal year 2008-09.

Teachers' Health Benefits Fund (THBF)

The THBF is a trust fund created to administer health benefit programs established by statute. 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 retired members of the Defined Benefit Program meeting certain eligibility criteria.

The System funds the MPP Program from current employer contributions, which increased by $1.8 million or 6.0% to $31.7 million during fiscal year 2009-10. The THBF paid benefits of $35.4 million in fiscal year 2009-10 compared with $29.4 million the prior year. The majority of the change is

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attributable to a one time credit the System received in fiscal year 2008-09 from the Social Security Administration for incorrect charges that were assessed to a group of Medicare Part A members in prior years. The reduction in the prior year expense coupled with the fact that there was an increase in members receiving benefits in fiscal year 2009-10 explains the net change in benefit payments between fiscal years. The System invests the assets of the THBF in the State of California's Surplus Money Investment Fund and earned $32.9 thousand in interest income for the fiscal year ended June 30, 2010.

The most recent actuarial valuation for the fiscal year ended June 30, 2008, 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, 2008. The amount by which the MPP Program actuarial obligation exceeded assets was $972 million as of June 30, 2008.

Teachers' Deferred Compensation Fund (TDCF)
The TDCF is a trust fund established to account for 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 fee revenues, and interest of $544 thousand, an increase of $142 thousand or 35.3% from the prior year. The majority of the increase in fee revenues was generated through the 403(b) Comply program which was developed to provide services to help employers comply with comprehensive IRC 403(b) regulations that became effective January 1, 2009. Employers participating in the program have increased from 107 at June 30, 2009 to 144 employers as of June 30, 2010.

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, 2010 (with Comparative Totals as of June 30, 2009)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension 2 403 (b) Plan	Pension 2 457 Plan	Teachers' Health Benefits Fund	Teachers' Deferred Compensation Fund	Comparative Totals 2010	Comparative Totals 2009
Assets							
Investments, at fair value:							
Short term	$ 2,360,264	$ 10,535	$ 121	$ 646	$ 705	$ 2,372,271	$ 2,954,473
Debt securities	29,595,724	-	-	-	-	29,595,724	26,031,609
Global equity securities	65,851,701	-	-	-	-	65,851,701	62,308,032
Mutual funds	-	156,566	436	-	-	157,002	117,659
Guaranteed annuity contracts	-	67,412	146	-	-	67,558	50,416
Private equity investments	19,128,797	-	-	-	-	19,128,797	15,170,855
Real estate investments	13,035,532	-	-	-	-	13,035,532	12,394,643
Securities lending collateral	27,100,866	-	-	-	-	27,100,866	22,989,750
Total investments	157,072,884	234,513	703	646	705	157,309,451	142,017,437
Cash and cash equivalents	211,688	-	-	-	1	211,689	173,117
Receivables:							
Investments sold	1,327,277	-	-	-	-	1,327,277	1,252,113
Interest and dividends	380,933	-	-	6	1	380,940	364,015
Member, employer and other	571,272	3,012	69	-	74	574,427	918,177
Total receivables	2,279,482	3,012	69	6	75	2,282,644	2,534,305
Capital assets, net of accumulated depreciation	246,909	-	-	-	-	246,909	251,551
Total assets	159,810,963	237,525	772	652	781	160,050,693	144,976,410
Liabilities							
Investments purchase payable	1,680,139	-	-	-	-	1,680,139	1,738,801
Foreign currency forward contracts (net)	21,811	-	-	-	-	21,811	2,484
TALF loan payable	182,781	-	-	-	-	182,781	-
Benefits in process of payment	843,821	-	-	-	-	843,821	793,735
Other liabilities	81,109	-	-	79	643	81,831	238,698
Securities lending obligation	27,233,195	-	-	-	-	27,233,195	23,588,972
Total liabilities	30,042,856	-	-	79	643	30,043,578	26,362,690
Net assets held in trust for pension and other postemployment benefits	$ 129,768,107	$ 237,525	$ 772	$ 573	$ 138	$ 130,007,115	$ 118,613,720

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, 2010
(with Comparative Totals for the Fiscal Year Ended June 30, 2009)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension 2 403 (b) Plan	Pension 2 457 Plan	Teachers' Health Benefits Fund	Teachers' Deferred Compensation Fund	Comparative Totals 2010	Comparative Totals 2009
Additions							
Contributions:							
Member contributions	$ 2,331,430	$ 53,536	$ 674	$ -	$ -	$ 2,385,640	$ 2,543,635
Employer contributions	2,286,266	-	-	31,749	-	2,318,015	2,494,205
State of California/Federal Government	1,221,628	-	-	-	-	1,221,628	1,140,382
Total contributions	5,839,324	53,536	674	31,749		5,925,283	6,178,222
Investment Income (Loss):							
Net appreciation (depreciation) in fair value of investments	11,263,449	14,461	58	-	-	11,277,968	(42,850,643)
Interest, dividends and other	3,433,523	2,714	2	33	5	3,436,277	3,570,982
Securities lending income (loss)	151,597	-	-	-	-	151,597	(35,418)
Less investment expenses:							
Cost of lending securities	(55,676)	-	-	-	-	(55,676)	(296,793)
Unrealized gain (loss) on securities lending	466,892	-	-	-	-	466,892	(599,221)
Reverse repurchase agreement	-	-	-	-	-	-	(15,097)
Other investment expenses	(170,426)	-	-	-	-	(170,426)	(159,864)
Net investment income (loss)	15,089,359	17,175	60	33	5	15,106,632	(40,386,054)
Other income	7,691	-	-	-	539	8,230	7,914
Total additions	20,936,374	70,711	734	31,782	544	21,040,145	(34,199,918)
Deductions							
Retirement, disability, death and survivor benefits	9,085,362	-	-	-	-	9,085,362	8,256,132
Premiums paid	-	-	-	35,421	-	35,421	29,415
Distributions and withdrawals	-	11,892	-	-	-	11,892	8,644
Purchasing power benefits	272,580	-	-	-	-	272,580	348,105
Refunds of member contributions	100,125	-	-	-	-	100,125	105,816
Administrative expenses	140,273	374	-	309	414	141,370	114,280
Total deductions	9,598,340	12,266	-	35,730	414	9,646,750	8,862,392
Net increase/(decrease)	11,338,034	58,445	734	(3,948)	130	11,393,395	(43,062,310)
Net assets held in trust for pension and other postemployment benefits							
Beginning of the year	118,430,073	179,080	38	4,521	8	118,613,720	161,676,030
End of the year	$ 129,768,107	$ 237,525	$ 772	$ 573	$ 138	$ 130,007,115	$ 118,613,720

The accompanying notes are an integral part of these financial statements

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

1. Description of the System and Contribution Information

The California State Teachers' Retirement System (System) is the administrator of cost-sharing multiple-employer pension plans, a tax-deferred defined contribution plan, the Medicare Premium Payment Program, and the Teachers' Deferred Compensation Fund as described below. The Teachers' Retirement Law California Education Code (Section 22000 et seq.), as amended and enacted by the 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 various plans and funds as fiduciary funds in its financial statements. The System provides pension benefits to California full-time and part-time public school teachers from preschool through community college and certain other employees of the public school system.

State Teachers' Retirement Plan (STRP)
The State Teachers' Retirement Plan (STRP) is comprised of four programs: Defined Benefit Program (DB Program), Defined Benefit Supplement Program (DBS Program), Cash Balance Benefit Program (CB Benefit Program), and the Replacement Benefit Program (RB 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. The System also uses these assets to defray reasonable expenses of administering the STRP. Although the System is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust.

STRP Defined Benefit Program (DB Program)
The DB Program is a defined benefit pension plan. At June 30, 2010, there were 1,604 contributing employers (charter schools, 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, 2009, membership consisted of:

Active members	
Vested	319,620
Nonvested	139,389
Inactive members	156,207
Retirees and benefit recipients	232,617
Total members, retirees and beneficiaries	847,833

Information as of June 30, 2010 will not be available prior to December 2010.

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. 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 up to 0.2% to the age factor. In no event does 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, on a full-time basis, for a position the person worked. 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 December 31, 2010, will receive a longevity bonus of $200, $300, or $400 per month for 30, 31 or 32 or more years of credited service, respectively.

- 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 dies and has at least one year of credited service.

- Members' accumulated contributions are refundable with interest upon separation from the System. The State Teachers' Retirement Board determines the credited interest rate each fiscal year. For the year ended June 30, 2010, the rate of interest credited to members' accounts was 2.00%.

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

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 up to 85% of the initial monthly allowance. 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. In fiscal year 2009-10, deferred revenue from the sale of the Elks Hills Naval Petroleum Reserve in the amount of $24.5 million was recognized and included in

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

the State of California/Federal Government contributions line item on the Statement of Changes in the Fiduciary Net Assets. The State is required to contribute 2.5% of teachers' payroll for the fiscal year ending in the prior calendar year, which is reduced in accordance with Education Code Section 22954(c), to fund the SBMA. In fiscal year 2008-09, the State Legislature authorized the Board to adjust purchasing power protection payments between no less than 80% and no more than 85% of the purchasing power initial monthly allowance. Actuarial studies conducted by the System indicate that resources are sufficient to fund the allowance up to the 85% level through the year 2089.

In fiscal year 2009-10, the amount contributed to the SBMA was $652 million, excluding School Lands Revenue.

Contributions

Required member, employer and State contribution rates are set by the Teachers' Retirement Law. 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 are as follows:

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

Employers - 8.25% of applicable member earnings.

State - Effective 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 $563.1 million in fiscal year 2009-10.

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 from the fiscal year ending in the prior calendar year per 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, 2009, there is no normal cost deficit or unfunded obligation for benefits in place as of July 1, 1990. As a result, the State is not required to contribute quarterly payments starting October 1, 2010. The adjustment for benefit payments from the DBS program used in the calculation of the assets available for the 1990 benefit structure was modified in the June 30, 2009 valuation to reflect only 75% of the actual refunds of contributions. The June 30, 2009 calculation reflects only a portion of the significant asset losses that occurred during the 2008-09 fiscal year. Large deferred losses still exist and will be recognized in future valuations. This makes it highly probable that the next actuarial valuation will indicate that supplemental contributions will be required under Education Code Section 22955(b).

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

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

Interest is credited to the nominal DBS Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 4.25% for the fiscal year ended June 30, 2010. 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. Per the Board policy there were no additional earnings or additional annuity credits granted for the fiscal year ended June 30, 2010.

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.

Interest is credited to the nominal CB Benefit Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 4.25% for the year ended June 30, 2010. 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. Per the Board policy there were no additional earnings or additional annuity credits granted for the fiscal year ending June 30, 2010

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

Participants - 4% of applicable member's earnings

Employers - 4% of applicable member's earnings

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

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2010, there were 33 contributing school districts and 31,966 contributing members.

STRP Replacement Benefit Program (RB Program)
The STRP has an excess benefits arrangement for DB Program members that is administered as a qualified excess benefit arrangement through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Contributions that would otherwise be credited to the DB program each month are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equivalent to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. During fiscal year 2009-10, there were 168 retirees participating in the RB Program

Pension2 Program (Pension2)
Pursuant to Chapter 291, Statutes of 1994, Pension2 was established to include two tax-deferred defined contribution plans under the Internal Revenue Code (IRC) Sections 403(b) and 457, respectively. TIAA-CREF is responsible for administrative services, including custody and record keeping services.

As of June 30, 2010, the IRC 403(b) and 457 plans had approximately, 6,226 and 94 plan participants and approximately 668 and 11 participating employers (school districts), respectively. Pension2 is available to all full-time California pre-kindergarten through community college districts and county office of education employees. Part-time employees' eligibility is determined by their employers. Enrollment in the 457 plan is by adoption only. Employee contributions to the plans are voluntary and require no minimum limitations; however, the IRC imposes an annual maximum amount that can be contributed to the plan.

The Pension2 investments are comprised of a selection of mutual funds with underlying investments that include stocks, bonds, and real estate investments and guaranteed annuity contracts 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) which also established the Medicare Premium Payment Program (MPP Program), a cost-sharing multiple-employer other postemployment benefit plan paid from the THBF, to retired members of the DB Program. At June 30, 2010, there were 7,618 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.

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 had retired or would retire prior to July 1, 2001 and who meet certain other eligibility criteria. Subsequently the MPP Program has been extended several times. On April 5, 2007, the Board extended the MPP Program to members who retired or will retire prior to July 1, 2012.

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

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 STRP each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total costs do not exceed the amount initially identified as the cost of the program.

Teachers' Deferred Compensation Fund (TDCF)
The TDCF was established pursuant to Chapter 655, Statutes of 2006 (SB 1466) and used to account for 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 fee revenues received by the System from deferred compensation plans and a vendor registration program.

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. Furthermore, 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. Cash equivalents held by the System include repurchase agreements, foreign currency, and deposits with the State Treasury.

Investments
The System's investments held at June 30, 2010, are either in the custody of State Street Bank, the System's master custodian and/or in the System's name. State statutes and Board policies allow investments consisting of government, corporate and international debt, global equities, mutual funds, private equities, real estate, and other investments.

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 (depreciation) on those investments. Purchases and sales are recorded on the trade date. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

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

There are certain market risks, including credit, interest rate, concentration of credit, custodial credit and foreign currency 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.

Investments are reported at fair value. The diversity of the investment types which the System has entered into requires a wide range of techniques to determine fair value. The overall valuation processes and information sources by major asset classification are as follows:

Short term
Short term investments consist primarily of money market funds, certificates of deposit and similar instruments with maturities of less than one year. Short term investments are reported at fair value or at cost or amortized cost, which approximates fair value. For those investments which are reported at fair value, the investments are valued using similar methodologies as described within the Debt securities section below.

Debt securities
Debt securities consist primarily of negotiable obligations of the U.S. Government and U.S. Government sponsored agencies, corporations, and securitized offerings backed by residential and commercial mortgages. Certain debt securities, such as U.S. government bonds, have an active market for identical securities. These securities can typically be valued using the close or last traded price on a specific date. The majority of other debt securities are not as actively traded and are thus valued by pricing vendors, which use modeling techniques that include market observable inputs required to develop a fair value. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings and other assumptions based upon the specifics of the asset type.

Global Equities
The majority of global equity securities held by the System are actively traded on major stock exchanges or over-the-counter. These exchanges make information on trades of identical securities available daily on a last trade or official close basis. If such information is not available, other pre-established means are used to determine a price.

In addition, the System holds majority limited partner positions in corporate governance funds, organized to invest strategically in publicly traded equity securities of companies on U.S. and European exchanges to achieve long-term capital appreciation. These limited partnerships have been valued using the net asset value (NAV) of the entity, with the most significant input into the NAV being the value of its investment holdings. The general partners obtain prices for their holdings in a manner similar to that described above for the System's global equity holdings.

Mutual funds
Mutual funds are held on behalf of individual participants in Pension2. These are open-ended funds that are priced daily at NAV by the fund sponsor based generally upon the exchange traded last or official closing price of the securities held by the fund.

Guaranteed annuity contracts
Pension2 offers the TIAA Traditional Annuity, which is a guaranteed annuity contract, to program participants. This investment option guarantees the participant's contributions plus a specified minimum interest rate. Rates and certain account features vary depending on the type of annuity contract held by the participant. These contracts are valued in a manner similar to the calculation of NAV for a mutual fund, as described above.

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

Private equity
The System has invested as a limited partner in various funds which employ specific strategies. The most common investment categories for these funds include leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital. The strategies of all such funds are long term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution. Private equity partnerships are valued using their respective NAV, and are audited annually. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly or semi-annual basis, in conjunction with management and investment advisors. The valuation assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment.

Real estate
The Real Estate asset class invests in directly-held properties, joint ventures, commingled funds, publicly traded equity investments and debt instruments including, but not limited to, seller-financed loans, notes and preferred equity. Properties owned directly or in a joint venture structure are subject to independent third party appraisals performed in accordance with the Uniform Standards of Professional Appraisal Practice once every three years. In the interim years, fair values are estimated by the third party advisor or operating partner based upon general market and property specific assumptions that are not observable, but which are reviewed and approved by the System's management. Real estate investments in a commingled fund are long term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution. Limited partner interest in a commingled fund is valued by the System using the NAV of the partnership. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a continuous basis, audited annually and periodically appraised by an independent third party. The valuation assumptions are based upon both market and property specific inputs which are not observable and involve a certain degree of expert judgment. Publicly traded equity investment values are based on quoted market price. Debt instruments are priced using the same methodologies as described in the debt securities section above. These values are reviewed quarterly in order to insure they are accurately reported at fair value.

Investment Risk Management
The STRP enters into forward foreign currency exchange contracts primarily 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 equity and fixed income markets. The futures contracts are financial instruments that derive their value from underlying indices. The STRP could be exposed to risk if the counterparties to the contracts are unable to meet the terms of their contracts. The STRP seeks to minimize risk from counterparties by establishing minimum credit quality standards and maximum credit limits. See Note 4 for disclosures related to these risks.

Capital Assets
Capital assets held by the STRP, which consist of land, building, equipment, and intangible assets are recorded at cost and reflected on the Statement of Fiduciary Net Assets, net of accumulated depreciation/amortization. The capitalization threshold for all capital assets is $1 million or more. Depreciation/amortization is charged to operations using the straight-line method on the estimated useful life of the related asset. Estimated useful lives range from one to five years for equipment, forty years for buildings, and a minimum of 5 years for amortizable intangible assets. Accumulated

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

depreciation and depreciation expense for the year ended June 30, 2010 was $6.9 million, and $6.9 million, respectively. The System implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in fiscal year 2009-10. The System reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. As of June 30, 2010, there has been no impairment of capital assets.

Administrative Expenses
The cost of administering the System is financed through contributions and investment earnings.

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

Securities Lending Transactions
The System reports securities lent, reinvested cash collateral, and the related liabilities resulting from securities lending transactions on the Statement of Fiduciary Net Assets. The System also reports the income earned and costs of lending securities as investment income and expenses on the Statement of Changes in Fiduciary Net Assets.

Reclassification
Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2009 to conform to the presentation as of and for the year ended June 30, 2010.

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, 2009, from which the summarized information was derived.

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

3. Funded status

STRP
The funded status of each program within the STRP as of June 30, 2009, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
DB Program	$ 145,142	$ 185,683	$ 40,541	78%	$ 27,327	148%
CB Benefit Program	$ 92	$ 115	$ 23	80%	$ 182	13%
DBS Program	$ 5,146	$ 6,599	$ 1,453	78%	$ 28,763	5%

As of June 30, 2009, the actuarial valuation report indicated that the actuarial value of assets does not include deferred losses, which are significant, and future revenue from contributions and appropriations for the DB Program is not expected to be sufficient to finance its obligations. Based on the current valuation results, the DB Program assets, and the assumptions about future experience, the System's consulting actuary finds that a level contribution rate of 31.859% beginning on the valuation date is projected to amortize the Unfunded Actuarial Accrued Liability (UAAL) over a 30-year period. That increase would be equivalent to an increase of 13.908% of Earned Salaries for a period of 30 years from the valuation date. The System needs a significant increase in revenue to make progress towards its funding target. The projected revenue shortfall is due primarily to investment return experience over the last decade that was significantly less than the long-term actuarial assumption of 8% per year. Still, the DB Program assets are sufficient to make benefit payments for a number of years. However, the projected time horizon before the assets would be depleted (and benefits would have to be paid on a "pay-as-you-go" basis) will be shortened significantly if the System is not able to secure additional funding.

THBF
The funded status of the MPP Program, as of June 30, 2008, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
MPP Program	$ 4	$ 976	$ 972	0.4%	$ 6,604	15%

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 presents multi-year trend information about whether the actuarial value of plan assets is

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

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 percent of payroll
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%	6.00%
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	Level $ Entry Age Normal
Amortization Method	Level percent of payroll	Level dollar basis
Amortization Approach	Open	Closed
Remaining Amortization Period	30 years	27 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	6.00%	Not applicable
Wage growth	4.25%	Not applicable
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	7.00% grading down to 5.00% in 2011 (1)

(1) The prior assumption was 9.00% grading down the 6.00% in 2011. The assumption was changed to better reflect actual and anticipated experience.

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

4. Deposits and Investments

Deposits in the Pooled Money Investment Account (PMIA), administered by the State, represent various investments with average days to maturity of approximately 203 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 30 days, and is reported at amortized cost which approximates fair value.

Repurchase agreement transactions as of June 30, 2010 have underlying collateral with fair values of approximately 102% of the cost of the repurchase agreement. The agreed-upon yields were 0.01% with maturity dates through July 1, 2010.

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 global equity and debt securities. The majority of security loans can be terminated on demand by either the STRP or the borrower. The underlying securities on loan are reported as assets on the Statement of Fiduciary Net Assets. 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, 2010, the weighted duration difference between the investments and these loans was 26 days. At June 30, 2010, the fair value of the securities on loan was $27.3 billion, fair value of the invested collateral was $27.1 billion and the securities lending obligations were $27.2 billion. The invested collateral and corresponding obligation are reflected in the Statement of Fiduciary Net Assets as assets and liabilities, respectively. Due to the decline in the fair value in the invested collateral, the liability represented by the securities lending obligation is greater than the invested collateral. The invested collateral securities in this program are typically held to maturity and expected to mature at par.

In accordance with GASB Statement No. 28 *Accounting and Financial Reporting on Securities Lending Transactions,* non-cash collateral of $808 million is not reported in the Statement of Fiduciary Net Assets because the STRP is not permitted to pledge or sell these 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 borrowers fail to pay the STRP for income distributions by the securities' issuers while the securities are on loan.

Real Estate

Real estate investments are classified as investments in accordance with GASB Statement No. 25, *Financial Reporting for Defined Pension Plans and Note Disclosures for Defined Contribution Plans*. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of equity contributions from the System, other investors and through the utilization of debt. The System engages real estate advisors and operating partners who are responsible for managing a portfolio's day to day activities, performance and reporting. At June 30, 2010, the estimated fair value of real estate equities (net of all outstanding debt) totaled approximately $13.0 billion. The System's share of outstanding debts is $11.3 billion, excluding obligations of limited partnership interests in commingled funds.

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

The System's portion of real estate debt service requirements includes both recourse and non-recourse loans. The chart below details the repayment of real estate debt, excluding obligations of limited partnership interests in commingled funds, as of June 30, 2010:

Real Estate Debt Service Requirements
(Dollars in Thousands)

		Principal	Interest	Total
Year Ended June 30,	2011	$ 3,410,628	$ 421,711	$ 3,832,339
	2012	1,924,298	351,501	2,275,799
	2013	1,584,812	283,148	1,867,960
	2014	1,078,944	227,702	1,306,646
	2015	1,164,497	157,457	1,321,954
	2016 - 2020	2,014,632	258,810	2,273,442
	2021 - 2025	34,132	51,929	86,061
	2026 - 2030	19,465	42,036	61,501
	2031 - 2035	7,041	39,373	46,414
	2036 - Thereafter	94,275	79,597	173,872
	Total	$11,332,724	$1,913,264	$13,245,988

Real estate debts currently bear interest at variable rates ranging from LIBOR + 60 basis points (bps) to LIBOR + 500 bps as of June 30, 2010.

The System's Real Estate Investment Policy, effective July 2007, states that "leverage shall be monitored with a long-term goal of maintaining it at no higher than 60%." At June 30, 2010, the total leverage on the real estate portfolio was 66.4%. At the June 3, 2010 Investment Committee meeting a new Real Estate Investment Policy was approved. This policy states that leverage will be monitored within each segment's limitations and will be regularly reported to the Board for compliance.

Term Asset-Backed Securities Loan Facility (TALF)

The Federal Reserve Bank of New York (the Fed) created the Term Asset-Backed Loan Facilities Program (TALF) to help market participants meet the credit needs of households and small businesses by facilitating the issuance of certain Asset-Backed Securities (ABS) and Commercial Mortgage-Backed Securities (CMBS) by providing non-recourse loans that are collateralized by newly originated or existing securities that meet specific credit quality and other program requirements. The TALF program expired in June 2010.

In July and August 2009, the System borrowed $111.2 million and $113.1 million, respectively, through the TALF program. The TALF loan proceeds refinanced approximately 83% of the $268.8 million fair value of qualified ABS and CMBS, which serve as collateral for the loans. The Fed is granted a security interest in the collateral, which is held in custody at the Fed's custodial bank. Interest earned on the collateral is pledged toward the repayment of interest on the TALF loans. The TALF loans have varying maturities of 3 to 5 years and bear interest at fixed rates ranging from 3.03% to 3.87%, and/or variable rates at the Prime Rate less 175 basis points. There are no regularly scheduled principal repayments on the loans, however repayments of principal on the collateral securing such loans are used in part to repay principal on the loans in accordance with the terms of the Master Loan and Security Agreement with the Fed. Upon loan maturity, the System may repay the loans or surrender the collateral to the Fed in lieu of loan repayment.

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

At June 30, 2010, the aggregate outstanding TALF loan balance was $182.8 million as the System repaid $41.6 million in aggregate amount of TALF loans during the current fiscal year.

In July and August 2010, the System paid an additional $155.7 million of TALF loan principal in advance of the loan maturity dates. As a result, the aggregate outstanding TALF loan balance was reduced to $27.1 million after these payments were made.

Investment Risk Schedules
The following investment risk schedules disclose the System's investments subject to certain types of risk, pursuant to GASB Statement No. 40. With the exception of interest rate risk, which does not include Pension2, each schedule discloses investments of all funds, 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 core 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. 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 opportunistic strategies, a portion of which are managed externally and which 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.

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. The notation "WR" represents those securities in which the ratings were withdrawn, NR represents those securities that are not rated and NA represents those securities for which the rating disclosure requirements are not applicable. 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.

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

At June 30, 2010, the fixed income, short term investments and security lending collateral are shown by credit rating below:

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	$ 7,300,415	$ 906,548	$ 742,559	$ -	$ -	$ 2,822,293	$11,628	$ -	$11,783,443
AA	116,057	564,723	163,446	23,280	-	58,278	15,151	-	940,935
A	189,838	2,177,600	261,499	34,999	-	74,727	-	-	2,738,663
BBB	95,360	2,624,457	129,044	-	-	16,368	-	-	2,865,229
BB	96,213	638,014	5,575	-	-	-	-	-	739,802
B	48,487	1,223,278	3,825	-	-	-	-	-	1,275,590
CCC	56,755	492,224	-	-	-	-	-	-	548,979
CC	8,523	1,018	-	-	-	-	-	-	9,541
C	87	6,641	-	-	-	-	-	-	6,728
D	10,805	3,529	-	-	-	-	-	-	14,334
WR	-	192,746	-	-	-	4,067	-	-	196,813
NR	332,645	335,247	5,777	854,634	144,951	595,694	-	67,558	2,336,506
NA	1,290,684	-	-	-	-	7,315,092	-	-	8,605,776
Total	$ 9,545,869	$ 9,166,025	$ 1,311,725	$ 912,913	$144,951	$ 10,886,519	$26,779	$ 67,558	$32,062,339

The PMIA $145 million is comprised of the following funds: STRP $143.6 million, THBF $646 thousand, and TDCF $705 thousand.
The above table includes $10.6 million in Money Market Securities, $26.8 million in Mutual Fund, and $67.6 million in Annuity Contracts.
which are reflected in Pension2 Program on the Statement of Fiduciary Net Assets.

Securities Lending Collateral
(Dollars in Thousands)

Ratings	Money Market Securities	Repurchase Agreements	Short Term Investment Fund	US Treasury	Corporate Floating Rate Notes	Agency Callable Obligations	Agency Bullets (Non-Callables)	Discount Notes	Asset Backed Securities	Total
AAA	$ 4,731,795	$ 2,949,308	$ -	$ -	$ 137,204	$ 1,870,742	$ 559,984	$ 1,367,324	$ 4,613,858	$ 16,230,215
AA	1,795,495	-	-	-	1,489,315	-	-	-	33,922	3,318,732
A	2,341,333	45,000	-	-	875,112	-	-	-	-	3,261,445
BBB	-	-	-	-	44,999	-	-	-	23,754	68,753
BB	-	-	-	-	-	-	-	-	25,740	25,740
B	-	-	-	-	-	-	-	-	164	164
CCC	-	-	-	-	-	-	-	-	7,007	7,007
CC	-	-	-	-	-	-	-	-	15,597	15,597
D	-	-	-	-	-	-	-	-	6,687	6,687
NR	2,901,155	415,854	633,923	-	-	-	-	-	31,486	3,982,418
NA	-	-	-	256,872	-	-	-	-	-	256,872
Total	$ 11,769,778	$ 3,410,162	$ 633,923	$ 256,872	$ 2,546,630	$1,870,742	$ 559,984	$ 1,367,324	$4,758,215	$27,173,630

The above amount excludes cash and accruals in the total of a negative $72,764 (in thousands) which is included from 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 core long term investment grade portfolios the discretion to deviate within a range of +/- 20% (.80 to 1.20) of the weighted average effective duration of the Barclays Capital benchmark. The permissible range of deviation for the weighted average effective duration within the opportunistic strategy portfolios is negotiated with each manager and detailed within their respective Investment Guidelines.

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

Investments may contain terms that increase the sensitivity of their fair values to increasing and decreasing interest rates. Although the System has investments which have an inherent prepayment risk as well as caps, floors, and step-up features, these are mitigated through the diversification of asset classes, security selection, maturity, and credit quality.

The table below represents the net asset values and duration of the long term fixed income portfolios, at June 30, 2010, which include cash and accruals that are not included in the total investments section of the Statement of Fiduciary Net Assets:

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	$ 7,942,430	4.79	4.65	0.14
Credit Obligations				
Corporate	5,582,784	6.01	6.06	-0.05
High Yield	2,038,354	3.62	4.17	-0.55
Debt Core Plus	3,196,492	5.14	4.07	1.07
Securitized Obligations				
Commercial Mortgage Backed Securities	914,648	3.72	3.74	-0.02
Mortgage Backed Securities	7,949,173	2.08	1.97	0.11
Special Situations	598,572	1.27	4.02	-2.75
Total	$ 28,222,453	4.22	4.02	0.20

The above amount excludes Debt Opportunistic and Overlay investments with a Net Asset Value of $249,073 (in thousands) as of June 30,2010.

At June 30, 2010 the absolute return portfolio, which is comprised of global inflation securities and not included in the table above, had a fair value of $1.2 billion and an effective duration of 9.53 compared to its benchmark duration of 9.58.

At June 30, 2010, the segmented time distribution for short term fixed income investments based upon the expected maturity, 1st call date or 1st reset date are as follows:

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	TOTAL
Money Market Securities	$ 662,254	$ 55,000	$ 50,000	$ -	$ -	$ 767,254
Short Term Investment Fund	132,300	-	-	-	-	132,300
PMIA	144,951	-	-	-	-	144,951
Corporate Credit Obligations	69,848	41,445	-	-	20,160	131,453
US Government and Agency Obligations						
Bullets (Non-Callables)	104,959	-	6,563	15,011	25,079	151,612
Discount Notes	178,235	27,995	144,790	178,845	354,639	884,504
Callable	65,008	35,478	15,006	10,015	24,982	150,489
US Treasury	200,000	24,991	25,113	95,022	24,955	370,081
Asset Backed Securities	63,168	7,223	-	-	-	70,391
Total	$ 1,620,723	$ 192,132	$ 241,472	$ 298,893	$ 449,815	$ 2,803,035
Weightings	57.82%	6.85%	8.61%	10.66%	16.05%	100.00%

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

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

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.

At June 30, 2010, the weighted average maturity of investments classified for the Pension2 IRC 403(b) and 457 plans on the Statement of Fiduciary Net Assets are as follows:

Pension2
Weighted Average Maturity
(Dollars in Thousands)

Investment Type	Maturity	Fair Value
Money Market Securities	54 days	$ 10,656
Vanguard Inflation Protected Securities Fund	9.1 years	11,628
Vanguard Short-Term Bond Index Fund	2.7 years	15,151
Total		$ 37,435

Pension2's 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 1.25% 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.

At June 30, 2010, the segmented time distribution based upon the expected maturity, 1st call date and/or 1st reset date for the Securities Lending Cash Collateral investments are as follows:

Securities Lending Collateral
Segmented Time Distribution
(Dollars in Thousands)

Investment Type (by portfolio)	0-1 days	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	TOTAL
Money Market Securities	$ 815,041	$ 1,213,437	$ 4,948,423	$ 3,014,222	$ 1,463,655	$ 315,000	$ 11,769,778
Repurchase Agreements	1,170,162	-	800,000	200,000	790,000	450,000	3,410,162
Short Term Investment Fund	633,923	-	-	-	-	-	633,923
US Treasury	-	-	49,981	-	-	206,891	256,872
Corporate Floating Rate Notes	124,813	44,865	1,286,631	661,129	409,032	20,160	2,546,630
Agency Callable Obligatons	-	60,010	589,890	443,713	377,691	399,438	1,870,742
Bullets (Non-Callables)	394,775	-	80,013	-	20,015	65,181	559,984
Discount Notes	-	-	74,987	74,978	49,978	1,167,381	1,367,324
Asset Backed Securities	-	13,177	3,607,881	515,826	590,246	31,085	4,758,215
Total	$ 3,138,714	$ 1,331,489	$ 11,437,806	$ 4,909,868	$ 3,700,617	$ 2,655,136	$ 27,173,630
Weightings	11.55%	4.90%	42.09%	18.07%	13.62%	9.77%	100.00%

The above amount excludes cash and accruals in the total of negative $72,764 (in thousands) which is included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2010, the STRP 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. At June 30, 2010, the System was in compliance with this policy. IRC 403(b) and 457 plans investments have no single issuer that exceeds 5% of total investments.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository 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, 2010, all of the System's investments, other than Pension2 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, 2010, one hundred percent (100%) of the IRC 403(b) and 457 plans 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.

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

At June 30, 2010, the System's investments denominated in foreign currencies are as follows:

Foreign Currency Risk
(Dollars in Thousands)

(In U.S. Dollar Equivalents)

Currency Name	Cash	Equity	Fixed Income	Spot Contracts	Forward Contracts	Total Exposure
Argentine Peso	$ -	$ -	$ -	$ -	$ 11	$ 11
Australian Dollar	3,204	1,100,076	39,659	(116)	(1,548)	1,141,275
Brazilian Real	3,375	550,226	43,113	(6)	(589)	596,119
Canadian Dollar	13,047	1,620,985	126,127	(53)	(4,959)	1,755,147
Chilean Peso	31	7,099	-	-	(88)	7,042
Colombian Peso	-	-	-	-	382	382
Czech Koruna	-	32,262	-	-	(220)	32,042
Danish Krone	849	151,986	-	-	-	152,835
Egyptian Pound	8	34,328	-	-	-	34,336
Euro Currency	54,115	7,877,677	489,855	(15)	3,729	8,425,361
Ghana Cedi	-	-	1,386	-	-	1,386
Hong Kong Dollar	5,886	1,293,661	-	-	-	1,299,547
Hungarian Forint	-	17,946	-	-	(604)	17,342
Indian Rupee	2,079	337,605	-	(56)	231	339,859
Indonesian Rupiah	629	134,497	3,129	1	46	138,302
Israeli Shekel	1,008	70,371	1	-	120	71,500
Japanese Yen	31,895	3,249,506	52,719	10	(11,944)	3,322,186
Kazakhstan Tenge	-	-	-	-	(2)	(2)
Malaysian Ringgit	170	53,772	-	115	(138)	53,919
Mexican Peso	6,419	248,454	-	(142)	(761)	253,970
Moroccan Dirham	-	-	-	-	222	222
New Romanian Leu	-	-	-	-	(153)	(153)
New Russian Ruble	-	-	-	-	(557)	(557)
New Taiwan Dollar	2,807	414,456	-	(106)	(3)	417,154
New Turkish Lira	2	175,926	-	-	-	175,928
New Zealand Dollar	126	21,538	-	-	(38)	21,626
Norwegian Krone	1,272	132,536	-	(3)	219	134,024
Pakistan Rupee	-	12,839	-	-	-	12,839
Peruvian Nouveau Sol	-	-	-	-	124	124
Philippine Peso	-	4,296	-	-	(170)	4,126
Polish Zloty	-	28,663	-	-	(473)	28,190
Pound Sterling	6,922	3,053,165	302,155	(46)	(58)	3,362,138
Singapore Dollar	1,013	306,043	-	-	(325)	306,731
South African Rand	21	368,257	-	3	(58)	368,223
South Korean Won	436	540,363	-	49	(1,807)	539,041
Swedish Krona	1,052	320,115	33,982	1	(915)	354,235
Swiss Franc	2,130	1,108,298	-	(12)	(1,169)	1,109,247
Thailand Baht	39	78,229	-	-	(8)	78,260
Tunisian Dinar	-	-	-	-	32	32
Turkish Lira	-	90,686	-	(2)	(304)	90,380
Yuan Renminbi	-	-	-	-	(36)	(36)
Total	$ 138,535	$ 23,435,861	$ 1,092,126	$ (378)	$ (21,811)	$ 24,644,333

The foreign currency figures are comprised of numerous portfolios within the global equity, debt securities, private equity, and real estate investment line items on the Statement of Fiduciary Net Assets.

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

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 held temporarily in foreign accounts until it is able to be repatriated or expended.

In accordance with the Investment Policy and Management Plan, the System has established a strategic allocation to non-dollar public and private equity assets (i.e. private equity 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 and/or oversight of 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, 2010, the IRC 403(b) and 457 plans are not exposed to foreign currency risk.

Derivative Instruments

In June 2008, the Governmental Accounting Standards Board issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. Pursuant to the requirements of this statement, the System has provided a summary of derivative instrument activities during the reporting period and the related risks.

As of June 30, 2010, the derivative instruments held by the System are considered investments and not hedges for accounting purposes. The term hedging, as it is used elsewhere in the notes to these financial statements, denotes an economic activity and not an accounting method. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Assets.

All investment derivatives discussed below are included within the Investment Risk Schedules, which precede this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

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

The table below presents the related net appreciation (depreciation) in fair value, the fair value amounts and the notional amounts of derivative instruments outstanding at June 30, 2010:

Investment Derivative Disclosure
(Dollars in Thousands)

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2010		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Investment Derivatives Instruments					
TBA Securities	Investment Income / (Loss)	$ 25,489	Debt Securities	$ 4,577	$ 709,741
Credit Default Swaps	Investment Income / (Loss)	4,422	Debt Securities	(1,590)	25,785
Interest Rate Swaps	Investment Income / (Loss)	(2,585)	Debt Securities	(2,625)	35,253
Total Return Bond Swaps	Investment Income / (Loss)	373	-	-	-
Foreign Currency Forwards	Investment Income / (Loss)	(29,454)	Foreign Currency Contracts	(21,811)	4,041,198
Futures (Domestic and Foreign)	Investment Income / (Loss)	63,895	-	-	144,638
Options Bought	Investment Income / (Loss)	(789)	Debt Securities	399	93.546
Options Written	Investment Income / (Loss)	1,803	Debt Securities	(806)	211.615
Rights	Investment Income / (Loss)	(4,943)	Equities	1,402	6,042 shares
Warrants	Investment Income / (Loss)	(3,262)	Equities	172	2,325 shares
Total Derivative Instruments		$ 54,949		$ (20,282)	

At June 30, 2010, no derivative instruments were classified as short term, private equity or real estate investments or held as part of the System's Securities Lending Collateral or Pension2 retirement plans.

Valuation methods used by the System are described in more detail in Note 2. The System's derivative instruments that are not exchange traded, such as credit default swaps, interest rate swaps and to-be-announced securities ("TBA"), are valued using methods employed for debt securities.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the instruments themselves have no fair value at June 30, 2010, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2010.

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

Counterparty Credit Risk

Below is a table which depicts the counterparty credit ratings of the System's non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2010:

Counterparty Credit Rating
(Dollars in Thousands)

Ratings	TBA Securities	Credit Default Swaps	Interest Rate Swaps	Foreign Currency Forwards	Total
AAA	$ 721	$ -	$ -	$ -	$ 721
AA	-	131	-	583	714
A	2,841	347	-	8,171	11,358
BBB	967	-	-	-	967
NR	48	-	-	-	48
Subtotal Investments in Asset Position	$ 4,577	$ 478	$ -	$ 8,754	$ 13,809
Investments in Liability Position	-	(2,068)	(2,625)	(30,565)	(35,258)
Total Investments in Asset / (Liability) Position	**$ 4,577**	**$ (1,590)**	**$ (2,625)**	**$ (21,811)**	**$ (21,449)**

In cases where a wholly owned broker-dealer subsidiary does not engage the rating companies for a standalone rating, the subsidiary is assigned the parent company rating as the broker-dealer is an integral part of their business model(s). With the exception of forward trade commitments (e.g. TBAs and foreign currency forwards), it is the System's practice to require counterparty collateral posting provisions in its non exchange-traded derivative instruments where it is consistent with market practice. As of June 30, 2010, the System does not hold any collateral related to its non exchange traded derivative instruments.

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2010 was $13.8 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. While the System did not have any master netting agreements with its counterparties at June 30, 2010, the table above presents exposure for similar instruments with the same counterparty on a net basis.

At June 30, 2010, the System did not have any significant exposure to counterparty credit risk with any single party.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement 40. At June 30, 2010, all of the System's investments in derivative instruments, other than Pension2 retirement plan investments, are held in the System's name and/or are not exposed to custodial credit risk as of June 30, 2010.

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

Interest Rate Risk

At June 30, 2010, the System is exposed to interest rate risk on its investments in TBAs and interest rate swaps. The table below describes the maturity periods of these derivative instruments.

Investment Maturities
(Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) 1 - 5	6 - 10	More than 10
TBA Securities	$ 4,577	$ 4,526	$ 51	$ -
Credit Default Swaps	(1,590)	347	(36)	(1,901)
Interest Rate Swaps	(2,625)	-	(326)	(2,299)
Total	$ 362	$ 4,873	$ (311)	$ (4,200)

TBAs and interest rate swaps are highly sensitive to changes in interest rates. The table below details the reference rate, fair value and notional amount of these derivative instruments:

Derivative Instruments Highly Sensitive to Interest Rate Changes
(Dollars in Thousands)

Investment Type	Reference Rate	Fair Value	Notional
TBA Securities	4.0% Fixed	$ 61	$ 8,400
TBA Securities	4.5% Fixed	3,074	348,500
TBA Securities	5.0% Fixed	1,625	279,700
TBA Securities	5.5% Fixed	(253)	39,041
TBA Securities	6.0% Fixed	70	34,100
Subtotal - TBA Securities		$ 4,577	709,741
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.6%	(326)	6,100
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 0%	(2,299)	29,153
Subtotal - Interest Rate Swaps		$ (2,625)	35,253
Total		$ 1,952	$ 744,994

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

Foreign Currency Risk
At June 30, 2010, the System is exposed to foreign currency risk on its investments in rights, warrants and forwards denominated in foreign currencies.

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

		Forward Contracts		
Currency Name	**Equities**	**Net Receivables**	**Net Payables**	**Total Exposure**
Argentine Peso	$ -	$ 13	$ (2)	$ 11
Australian Dollar	-	2,307	(3,854)	(1,547)
Brazilian Real	-	511	(1,099)	(588)
Canadian Dollar		2,382	(7,341)	(4,959)
Chilean Peso	-	288	(376)	(88)
Colombian Peso	-	468	(86)	382
Czech Koruna	-	234	(453)	(219)
Euro Currency	1,274	9,516	(5,787)	5,003
Hong Kong Dollar	178	-	-	178
Hungarian Forint	-	67	(671)	(604)
Indian Rupee	-	241	(11)	230
Indonesian Rupiah	-	118	(72)	46
Israeli Shekel	-	133	(13)	120
Japanese Yen	-	4,411	(16,355)	(11,944)
Kazakhstan Tenge	-	-	(2)	(2)
Malaysian Ringgit	-	216	(354)	(138)
Mexican Peso	-	203	(964)	(761)
Moroccan Dirham	-	265	(43)	222
New Romanian Leu	-	-	(153)	(153)
New Russian Ruble	-	58	(614)	(556)
New Taiwan Dollar	-	39	(42)	(3)
New Zealand Dollar	-	250	(289)	(39)
Norwegian Krone	102	351	(132)	321
Peruvian Nouveau Sol	-	124	-	124
Philippine Peso	-	59	(230)	(171)
Polish Zloty	-	355	(828)	(473)
Pound Sterling	-	3,794	(3,852)	(58)
Singapore Dollar	-	21	(346)	(325)
South African Rand	-	317	(375)	(58)
South Korean Won	-	74	(1,882)	(1,808)
Swedish Krona	-	1,064	(1,979)	(915)
Swiss Franc	-	506	(1,675)	(1,169)
Thailand Baht	-	10	(18)	(8)
Tunisian Dinar	-	46	(14)	32
Turkish Lira	-	-	(304)	(304)
Yuan Renminbi	-	146	(182)	(36)
Subtotal	$ 1,554	$ 28,587	$ (50,398)	$ (20,257)
Invesments Denominated in USD	20	-	-	20
Total	$ 1,574	$ 28,587	$ (50,398)	$ (20,237)

Derivative instruments included as equities above consist of rights and warrants. Foreign currency forward contracts are commitments to purchase or sell a stated amount of foreign currency at a specified future date and price. At June 30, 2010, the foreign currency forward contracts receivable and payable were $3.92 billion and $3.94 billion respectively. The unrealized loss on these contracts was $21.8 million.

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

In addition, the System has investments in foreign futures contracts with a total notional value of $54.4 million. As indicated above, futures variation margin amounts are settled each trading day and recognized as realized gains/(losses) as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2010.

Contingent Features
At June 30, 2010, the system held no positions in derivatives containing contingent features.

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 $20.8 billion at June 30, 2010. The following table depicts the unfunded commitments by asset class:

Asset Class	Unfunded Commitments *(Dollars in Thousands)*
Fixed Income	$ 53,798
Corporate Governance	264,693
Private Equity	9,761,276
Real Estate	10,715,489
Total	$ 20,795,256

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, 2010, the STRP had commitments of approximately $2.2 billion expiring through January 2015. The STRP is paid a fee over the term of such agreements and earned approximately $9.7 million for the year ended June 30, 2010.

7. New Accounting Pronouncement

GASB Statement No. 59, *Financial Instruments Omnibus*, provides guidance on updating and improving existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Specifically the requirements of this statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. The provisions of GASB Statement No. 59 address (1) unallocated insurance contracts; (2) 2a-7-like external investment pools; (3) interest rate disclosures; and (4) the scope and applicability of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The provisions of GASB Statement No. 59 are effective for financial statements for periods beginning after June 15, 2010.

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, 2009 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)
State Teachers' Retirement Plan						
Defined Benefit Program						
2010	(1)	(1)	(1)	(1)	(1)	(1)
2009	$ 145,142	$ 185,683	$ 40,541	78%	$ 27,327	148%
2008	155,215	177,734	22,519	87%	27,118	83%
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 (2)	114,094	134,677	20,583	85%	22,591	91%
Cash Balance Benefit Program						
2010	(1)	(1)	(1)	(1)	(1)	(1)
2009	$ 92	$ 115	$ 23	80%	$ 182	13%
2008	99	98	(1)	101%	181	(0.48%)
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%
Defined Benefit Supplement Program (3)						
2010	(1)	(1)	(1)	(1)	(1)	(1)
2009	$ 5,146	$ 6,599	$ 1,453	78%	$ 28,763	5.05%
2008	5,636	5,627	(9)	100%	27,118	(0.03%)
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%)
Teachers' Health Benefits Fund						
Medicare Premium Payment Program (4)						
2010	(1)	(1)	(1)	(1)	(1)(3)	(1)
2009	(5)	(5)	(5)	(5)	(5)	(5)
2008 (4)	$ 4	$ 976	$ 972	0.40%	$ 6,604	14.70%
2007 (4)(6)	4	921	917	0.40%	N/A	N/A
2006	3	797	794	0.40%	7,452	10.70%

(1) Actuarial valuations as of June 30, 2010, are expected to be available by 2011.

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

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

(3) From the June 30, 2005 to the June 30, 2008 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 payroll for-2004 include these additional pay items.

(4) 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.

(5) An actuarial valuation for the MPP Program Fund is performed on a biennial basis and not available as of 2009.

(6) An actuarial valuation for the MPP Program was not completed as of June 30, 2007. The actuarial accrued liability and the unfunded actuarial accrued liability were estimated based on June 30, 2006 actuarial information.

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] (c)	Total Contributed (b) + (c)	Percentage Contributed (b + c)/a
State Teachers' Retirement Plan					
Defined Benefit Program [3][6]					
2010	$ 4,924	$ 2,130	$ 563	$ 2,693	55%
2009	4,547	2,331	536	2,867	63%
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%
Cash Balance Benefit Program [3]					
2010	$ 7.91	$ 6.71	$ 0	$ 6.71	85%
2009	7.44	7.49	0	7.49	101%
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%
Defined Benefit Supplement Program [3]					
2010	$ 222	$ 145	$ 0	$ 145	65%
2009	121	121	0	121	100%
2008	78	118	0	118	151%
2007	93	111	0	111	119%
2006	90	104	0	104	116%
2005	86	96	0	96	111%
Purchasing Power Protection Program [4][5]					
2010	$ 659	$ 1	$ 658	$ 659	100%
2009	605	1	604	605	100%
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%
Teachers' Health Benefits Fund					
Medicare Premium Payment Program [7]					
2010	$ 64	$ 32	$ 0	$ 32	50%
2009	62	30	0	30	48%
2008 [8]	58	33	0	33	57%
2007	47	32	0	32	68%
2006	47	30	0	30	64%

The total Employer Contributions for the State Teachers' Retirement Plan excludes the contributions received relating to benefits paid for the Replacement Benefits Program.

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

(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 and reduced for transfers per Education Code 24255

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

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

(5) An ARC has not been determined for the Purchasing Power Protection Program. The figure is the contractual amount adjusted for proceeds form 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 percent of payroll basis
Amortization Period	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%	6.00%
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	Level $ Entry Age Normal
Amortization Method	Level percent of payroll basis	Level dollar basis
Amortization Period	Open	Closed
Remaining Amortization Period	30 years	27 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	6.00%	Not applicable
Wage Growth	4.25%	Not applicable
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	7.00% grading down to 5.00% in 2011 (1)

(1) The prior assumptions was 9% grading down the 6% in 2011. The assumption was changed to better reflect actual and anticipated experience.

Other Supplemental Information

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

	State Teachers' Retirement Plan	Pension2 IRC 403(b) Plan	Teachers' Health Benefit Fund	Teachers' Deferred Compensation Fund	Totals
Personnel services:					
Salaries and wages	$ 45,576	$ -	$ 139	$ 100	$ 45,815
Staff benefits	17,165	-	57	31	17,253
Accrued vacation	1,385	-	1	7	1,393
Accrued worker's compensation expense	1,032	-	-	-	1,032
Accrued personal leave	(17)	-	-	-	(17)
Accrued OPEB Expense	6,952	-	16	30	6,998
Total personnel services	72,093	-	213	168	72,474
Operating expenses and equipment:					
General	1,809	-	88	65	1,962
Depreciation	6,863	-	-	-	6,863
Printing	1,737	-	-	1	1,738
Communications	770	-	-	-	770
Postage	1,396	-	-	-	1,396
Insurance	71	-	-	-	71
Travel	440	-	1	10	451
Training	526	-	-	-	526
Facilities operations	7,607	-	-	-	7,607
Consultants and professional services	26,826	374	-	100	27,300
Data processing	6,537	-	-	-	6,537
Information technology	2,645	-	-	-	2,645
Indirect State central services	3,849	-	-	-	3,849
Equipment	7,100	-	-	70	7,170
Other	4	-	7	-	11
Total operating expenses and equipment	68,180	374	96	246	68,896
Total	$ 140,273	$ 374	$ 309	$ 414	$ 141,370

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

External Equity Managers:		
Domestic:		
Ariel Capital Management	$	5
Batterymarch Financial Management, Inc.		729
Bivium Capital Partners, LLC		1,161
BlackRock Financial Management, Inc.		381
BlackRock Institutional Trust Co, NA		1,358
Capital Prospects, LLC		722
Chicago Equity Partners		863
Delaware Investment Advisors		552
Delphi Management, Inc.		697
Denver Investment Advisor, LLC		379
First Quadrant, LP		605
FIS Funds Management, Inc.		1,711
Goldman Sachs Asset Management		76
Leading Edge Investment Advisors, LLC		1,251
Light Green Advisors		160
Mellon Capital Management Corp.		285
NCM Capital Management Group, Inc.		357
New Amsterdam Partners, LLC		247
Northern Trust Global Advisors, Inc.		1,305
Progress Investment Management		1,826
Sasco Capital, Inc.		5,402
State Street Global Advisors		995
Sterling Capital Management, LLC		1,514
T. Rowe Price International, Inc.		2,426
TCW Asset Management Co.		3,782
UBS Global Asset Management (Americas), Inc.		773
Total Domestic:	$	29,562
International:		
Acuity Investment Management	$	375
Baillie Gifford Overseas Ltd.		5,847
Batterymarch Financial Management, Inc.		1,161
BlackRock Institutional Trust Co, NA		777
BlackRock International Ltd.		2,261
Capital Guardian Trust Co.		2,599
Generation Investment Management US, LLP		12,016
Lazard Asset Management, LLC		7,785
Mondrian Investment Partners Ltd.		11,299
Morgan Stanley Investment Management		1,813
Nicholas Applegate Capital Management		2,102
Oechsle International Advisors, LLC		1,972
Pyramis Global Advisors Trust Co.		1,467
State Street Global Advisors		1,096
T. Rowe Price International, Inc.		6,907
Templeton Asset Management, Ltd.		7,509
UBS Global Asset Management (Americas), Inc.		1,533
Total International:	$	68,519
Total External Equity Managers:	$	98,081

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

External Fixed Income Managers:		
Aberdeen Asset Management	$	59
Artio Global Investors		2,387
BlackRock Financial Management, Inc.		3,091
EH Williams Capital Management, LLC		615
Goldman Sachs Asset Management		2,533
LM Capital Group, LLC		732
Post Advisory Group, LLC		1,609
Western Asset Management Co.		2,737
External Fixed Income Managers subtotal:	$	13,763
FX Overlay		
FDO Partners	$	157
Lee Overlay Partners		329
FX Overlay Total:	$	486
Total External Fixed Income Managers:	$	14,249
Real Estate Managers/Advisors:		
BlackRock Realty Advisors	$	1,915
CB Richard Ellis Investors, LLC		7,201
Heitman Capital Management, LLC		2,475
ING Clarion Partners		721
Principal Global Investors		4,691
Thomas Properties Group, LLC		263
Total Real Estate Managers/Advisors:	$	17,266
Research and Rating Services:		
Capital IQ	$	56
CEM Benchmarking, Inc.		30
Credit Sights		24
Evestment Alliance		33
Factiva, Inc.		22
Factset Research System		242
Fitch Information, Inc.		87
Gimme Credit		13
International Strategy & Investment Group, Inc.		50
Moody's Investors Service		232
Morgan Stanley Capital International, Inc.		101
Oxford Analytica, Ltd.		10
Property & Portfolio Research, Inc.		188
Real Estate Research Corp.		92
RealPoint LLC		47
Reuters America, LLC		97
Russell Investment Group		40
Standard & Poor's		364
The Yield Book		55
Trepp, LLC		35
Zephyr Associates, Inc.		18
Miscellaneous		50
Total Research and Rating Services:	$	1,886

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

Risk Management Systems:		
Barra, Inc.	$	821
Barclay's Capital		150
BlackRock Financial Management, Inc.		3,025
Pension Fund Data Exchange Ltd.		4
Total Risk Management Systems:	$	4,000
Trading Systems		
Bloomberg, LP	$	900
Intex Solutions, Inc.		222
IPC Systems, Inc.		33
Market Axess		37
Omgeo		13
Thomson Financial, LLC		249
Thomson Tradeweb, LLC		40
Miscellaneous		12
Total Trading Systems	$	1,506
Advisors and Consultants:		
Altius Associates Limited	$	621
Altura Capital		65
Bard Consulting		560
Bonuccelli & Associates, Inc.		1,099
Cambridge Associates		5,037
Capital Hotel Management, LLC		320
Courtland Partners, Ltd.		73
Credit Suisse		60
Ennis Knupp & Associates		136
Houlihan Lokey Howard & Zukin		75
Nelson & Bernstein		75
Pension Consulting Alliance		1,018
Townsend Group		325
Valuation Research Corporation		140
Total Advisors and Consultants:	$	9,604
Attorneys, Master Custodian and Insurers:		
Aon Risk Services	$	1,586
Berman Devalerio		23
Cox Castle Nicholson		166
Fulbright & Jaworski		13
Groom Law Group		175
Manatt, Phelps & Phillips LLP		6
Sheppard Mullin Richter & Hampton		52
State Street Bank (Master Custodian)		6,226
Total Attorneys, Master Custodian and Insurers:	$	8,247

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

Corporate Governance:		
Administrative Costs	$	1,256
Asset4 AG		140
Carbon Disclosure Project		16
Ceres		15
Council of Institutional Investors		30
Eva Dimensions, LLC		44
Factset Research System		188
First Rain		80
Glass Lewis & Co., LLC		152
Governance Metics International		26
Grant & Eisenhofer		12
Institutional Shareholder Services		312
International Fund Service		131
Investor Responsibility Support Services, Inc.		70
Korn / Ferry International		39
Mercer Human Resource CNS		30
Morgan, Lewis & Bockius, LLP		142
Raymond T White		25
Stanford Law School		10
The Conference Board		30
Thomson Reuters		26
Miscellaneous		33
Total Corporate Governance:	$	2,807
Operating Expenses:		
Administrative Costs	$	12,450
Bank of America		128
California Public Employees Retirement System		41
EFL Associates		114
Pacific Pension Institue		10
Pacific Standard Press		18
Miscellaneous		19
Total Operating Expenses:	$	12,780
Total	$	170,426

California State Teachers' Retirement System

Schedule of Consultant and Professional Services Expenses

(Dollars in Thousands) **Schedule V**

State Teachers' Retirement Plan

Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
Alameda County Office of Education	$ 65	Regional Counseling Services
Aon Risk Services, Inc.	301	Consulting Services
Benchmark Medical Consultants	103	Legal Services
Berman Obaldia	75	Consulting Services
Business Advantage	1,273	Consulting Services
Cal Gov Technology	499	Consulting Services
California Department of General Services	85	Consulting Services
Celer Systems, Inc.	127	Consulting Services
Comsys Services LLC	89	Consulting Services
Contra Costa County Office	188	Regional Counseling Services
Cooper Software, Inc.	385	Consulting Services
Cooperative Personnel Services	46	Consulting Services
Coretechs, Inc.	55	Consulting Services
CPS Human Resource Services	29	Consulting Services
Crusade	221	Consulting Services
Deloitte & Touche LLP	1,802	Consulting Services
Department of Justice	200	Consulting Services
Department of Public Health	20	Consulting Services
DSG Group, Inc.	182	Consulting Services
Dublin Unified School District	149	Regional Counseling Services
Eclipse Solutions, Inc.	151	Consulting Services
Employee Relation, Inc.	12	Consulting Services
Employment Development Department	45	Consulting Services
Folsom Cordova Unified School	221	Regional Counseling Services
Forrester Research, Inc.	173	Consulting Services
Forward Solutions	239	Consulting Services
Fresno County Office of Education	242	Regional Counseling Services
Gartner, Inc.	33	Consulting Services
Genex Services, Inc.	22	Consulting Services
Girard Gibbs LLP	32	Legal Services
Goldlink Pacific, Inc.	132	Consulting Services
Graphic-Focus	111	Consulting Services
Hareline Graphics	78	Consulting Services
Helm Technical Services	144	Consulting Services
Hewlett Packard	159	Consulting Services
Hogan & Hartson	197	Consulting Services
Humboldt County Office of Education	80	Regional Counseling Services
Huron Consulting Services LLC	758	Consulting Services
I-Level, Inc.	40	Consulting Services
In The Beginning Photographics	17	Consulting Services
Infiniti Consulting Group, Inc.	757	Consulting Services
Informatix, Inc.	813	Consulting Services
Insight Technologies, Inc.	185	Consulting Services
Intergalactic Placements	90	Consulting Services
International Network	114	Consulting Services
Jaykumar Maistry	963	Consulting Services
Jeve Consulting, Inc.	130	Consulting Services
Kearnford Application Systems	137	Consulting Services
Kern County Superintendent of Schools	173	Regional Counseling Services
Kiefer Consulting, Inc.	51	Consulting Services
KPMG LLP	696	Audit Services
Link One Professionals LLC	110	Consulting Services
Los Angeles County Superintendent of Schools	995	Regional Counseling Services
M Corporation	196	Consulting Services
Macias, Gini & O'Connell LLP	272	Audit Services
Manatt, Phelps & Phillips LLP	48	Legal Services
Mara Consulting, Inc.	116	Consulting Services

California State Teachers' Retirement System

Schedule of Consultant and Professional Services Expenses

(Dollars in Thousands) **Schedule V (Continued)**

State Teachers' Retirement Plan *(continued)*

Individual or Firm	Commission/Fee	Nature of Services
Consulting and professional services:		
Matthew Bender & Company, Inc.	15	Consulting Services
Mayer Hoffman Mccann, P.C.	364	Consulting Services
Mclagan Partners, Inc.	58	Consulting Services
Metavista Consulting Group	96	Consulting Services
Milliman, Inc.	309	Consulting Services
Monterey County Office of Education	76	Regional Counseling Services
Montridge Consulting	124	Consulting Services
Mouse Magic	16	Consulting Services
MSLA, A Medical Corporation	42	Consulting Services
Murphy Austin Adams Schoenfeld	62	Legal Services
Nanran, Inc.	277	Consulting Services
Netprotex, Inc.	155	Consulting Services
Olson,Hagel & Fishburn LLP	62	Legal Services
Orange County Department of Education	459	Regional Counseling Services
Pinnacle Consulting	156	Consulting Services
Placer County Office of Education	94	Regional Counseling Services
Princeton Solutions Group	151	Consulting Services
Proprose	52	Consulting Services
Providence Technology Group	87	Consulting Services
Public Sector Consultants,Inc.	125	Consulting Services
Q Data Usa, Inc.	141	Consulting Services
Quest Media & Supplies	272	Consulting Services
Reed Smith LLP	200	Legal Services
Robert Yetman	40	Consulting Services
Runyon Saltzman and Einhorn	69	Consulting Services
Russbo, Inc.	185	Consulting Services
Sacramento It Consulting LLC	147	Regional Counseling Services
San Bernardino County Office of Education	382	Regional Counseling Services
San Diego Cnty Office of Education	368	Regional Counseling Services
San Francisco County Office Education	85	Regional Counseling Services
San Joaquin Cnty Office of Education	93	Regional Counseling Services
San Jose Unified School District	258	Regional Counseling Services
San Mateo-Foster City School District	72	Regional Counseling Services
Santa Barbara County Office of Education	115	Regional Counseling Services
Santa Cruz County of Education	119	Regional Counseling Services
Segula Technologies, Inc.	240	Consulting Services
Senate Rules Committee	12	Consulting Services
Shasta County Office of Education	154	Regional Counseling Services
Sierra Metrics, Inc.	263	Consulting Services
Solano County Office of Education	75	Regional Counseling Services
Sonoma County Office of Education	214	Regional Counseling Services
Stanfield Systems, Inc.	178	Consulting Services
Stanislaus County Office of Education	102	Regional Counseling Services
State Controller's Office	2,755	Consulting Services
State Personnel Board	58	Consulting Services
Strata Marketing Group	419	Consulting Services
Tackett-Barbaria Design	13	Consulting Services
Teah Bennett & Associates, Inc.	40	Consulting Services
The Ballard Group	262	Consulting Services
Thomas V. Ennis Consulting	138	Consulting Services
Thomas/Ferrous	208	Consulting Services
Tulare County Superintendent of Schools	67	Consulting Services
University Enterprises, Inc.	1,213	Consulting Services
Ventura County Superintendent of Schools	126	Regional Counseling Services
Visionary Integration	140	Consulting Services
Visual Communication	26	Consulting Services
Wright On-Line Systems	20	Consulting Services
Yuba County Office of Education	70	Regional Counseling Services
Other	81	Various Services Under $10K
	$ 26,826	

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

State Teachers' Retirement Plan *(continued)*

Individual or Firm

Data Processing:	Commission/Fee	Nature of Services
Dept. of Technology Services	$ 516	Data Processing
Office of The State Chief Information Officer	6,020	Data Processing
Tetra Corporate Services, Inc.	1	Data Processing
Total Data Processing	6,537	

Teacher's Deferred Compensation Fund

Individual or Firm

Consulting and professional services:	Commission/Fee	Nature of Services
Jem Resource Partners LP	$ 66	Consulting Services
Madera County Office of Education	1	Consulting Services
Meridian Wealth Management	9	Consulting Services
University Enterprises, Inc.	24	Consulting Services
Total consultants and professional services	$ 100	

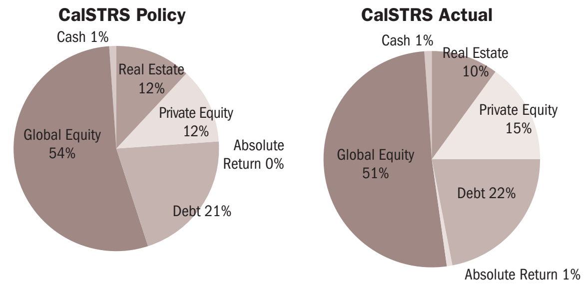
IRC 403(b) Plan

Individual or Firm

Consulting and professional services:	Commission/Fee	Nature of Services
TIAA-CREF	$ 374	Administrative Services
Total consultants and professional services	$ 374	

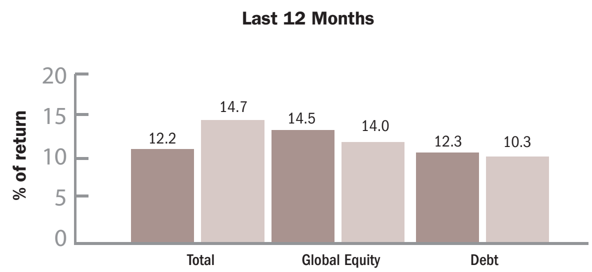
Pension Consulting Alliance, Inc.
Los Angeles · Portland · New York

The CalSTRS investment portfolio increased by $11.1 billion over the past twelve months ending with a value of $130 billion on June 30, 2010. As highlighted below, the CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. Clearly, the scale and breadth of investments make the management and oversight of these assets highly complex. In light of these factors, CalSTRS has been effective in using its resources in a cost-efficient manner to ensure that benefits continue to flow to CalSTRS participants.



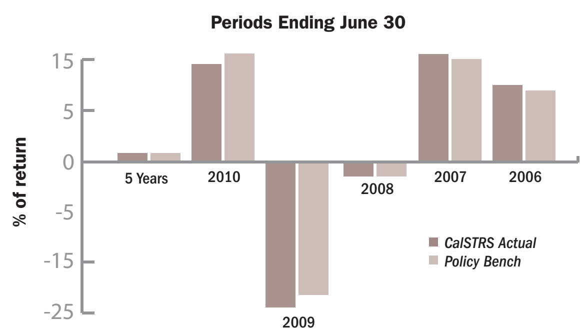
Investment Allocation

The Board adopts long-term asset allocation targets to be implemented over several years. The fiscal year-end report reflects strategic allocation guidelines for the 2009-2010 fiscal year as adopted by the Board effective August 13, 2009 (see left pie chart). The portfolio's actual allocation is slightly different from policy. Private Equity and Debt are over-weighted, while Public Equity and Real Estate are modestly underweighted (see right pie chart).



Investment Results

Over the last year, the CalSTRS investment portfolio produced an absolute return of 12.2%, ranking in the third quartile among its large public pension fund peers[(1)] (top bar chart). During this period, portfolio results lagged the policy benchmark return by negative 2.5%.[(2)] Relative-to-benchmark underperformance by private asset classes (Real Estate and Private Equity) contributed to this result.



During the last three years, CalSTRS' portfolio generated a negative 6.8% average annual return underperforming the policy benchmark by (190) basis points per year and ranked in the fourth quartile versus their peer funds. Underperformance over this time period was attributable to underperformance of Real Estate. Over the last five years, the CalSTRS investment portfolio produced an average annual return of 2.1%, trailing its policy benchmark by (20) basis points per year (bottom chart). These results are below CalSTRS' actuarial rate of return. Successive one-year periods are presented here as well. CalSTRS' portfolio has outperformed its policy benchmark in three 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 daily time-weighted return geometrically linked to calculate a monthly return. Periods longer than one month are geometrically linked to calculate annualized "time-weighted" rates of return.

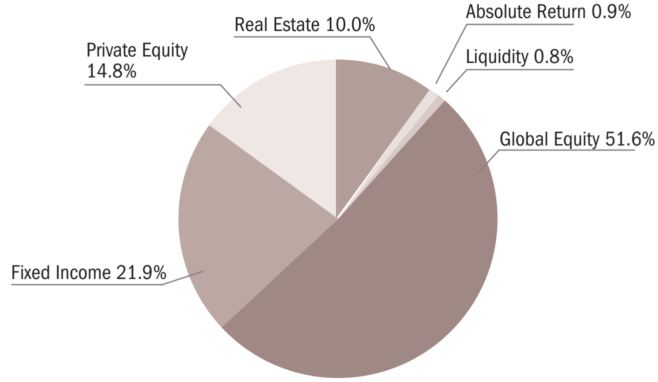
The CalSTRS Investment Portfolio earned a double digit return in Fiscal Year 2009–10. This would normally be cause for a celebration, however, the sobering and lingering effects of the financial meltdown of the fall of 2008 continue to hurt longer-term returns and harm the Defined Benefit Program's funded status. A double-digit return is welcome, but it is far from digging CalSTRS out of the hole. The impact of the fall of 2008 cannot be overlooked or taken lightly as President Obama described it as "a near-death experience for the U.S. economy."

In FY 2009–10, for the CalSTRS portfolio and the U.S. economy, it was a year divided into two sections. First was a robust summer and fall, as huge levels of U.S. government stimulus pumped in to revive the economy, then a flat to negative winter and spring as the economic boost wore off.

The following pages briefly outline the CalSTRS Investment Portfolio as well as each asset class reported in the financial statements. Over the 12 months ending June 30, 2010, the portfolio grew $11.1 billion in value, which resulted in a positive 12.2 percent annual return.

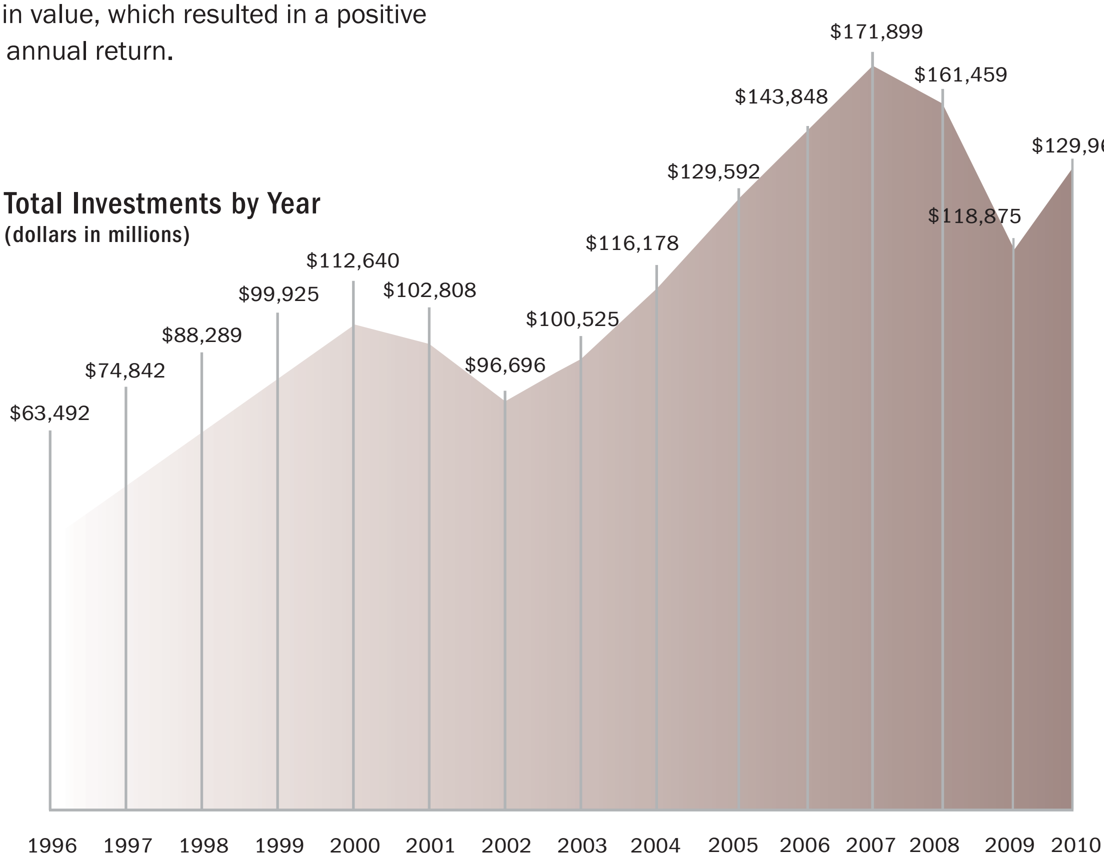
Asset Allocation as of June 30, 2010

Total investment portfolio of $130 billion



While this annual report provides a great amount of detail of the CalSTRS Investment Portfolio, it only represents a point in time. The global financial markets are very volatile. To get the most current information on the portfolio and each asset class, visit www.calstrs.com and click on Investments.

Table 1 | **Total Investments by Year**
(dollars in millions)



Additionally, Investments posts to the CalSTRS website a quarterly report on all segments of the portfolio. These reports provide a picture of the changes to the portfolio during the current fiscal year.

During FY 2009-10, the best performing asset class, from an absolute return basis, was Private Equity, up 21.7 percent. But it is not just about absolute return, at CalSTRS results are measured also relative to a benchmark. When you consider how the relative opportunity set performed, then you can

Table 2 | Total Returns by Year (percent)

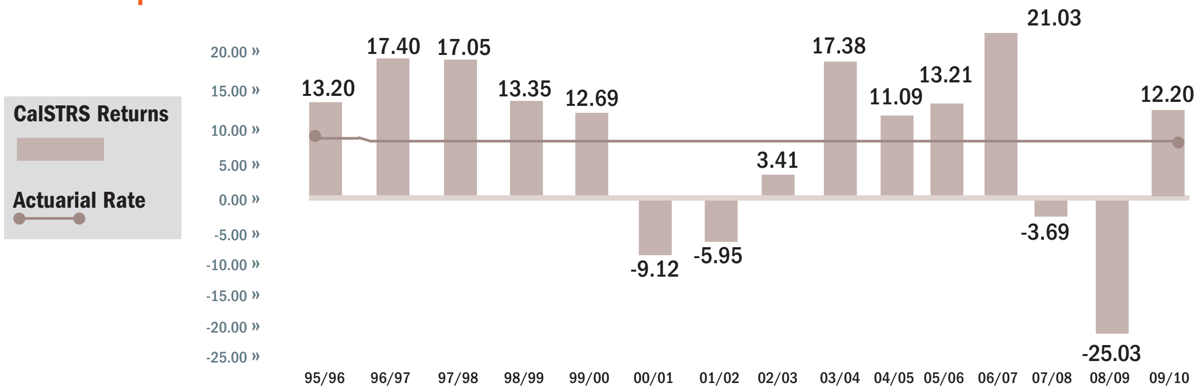


Table 3 | Time-Weighted Performance Returns for Major Asset Categories

PORTFOLIO TYPE / ASSOCIATED INDICES	1 YR	3 YR	5 YR	10 YR
Total Fund [(1)]	12.20%	(6.78%)	2.13%	2.50%
Global Equity	14.53	(9.83)	0.95	0.15
Global Equity Custom [(2)]	13.96	(9.90)	0.79	(0.14)
U.S. Equity	15.70	(9.92)	(0.66)	(0.96)
U.S. Equity Custom [(3)]	15.71	(9.63)	(0.65)	(1.18)
Russell 3000	15.71	(9.63)	(0.65)	(1.10)
Non-U.S. Equity	12.14	(9.75)	4.06	2.31
MSCI All Country World Index ex-U.S.	10.29	(10.80)	3.45	2.00
MSCI Europe, Australia, Far East & Canada	6.84	(12.72)	1.34	0.36
MSCI Emerging Market	23.13	(2.63)	12.81	10.14
Fixed Income	12.30	7.59	5.76	6.92
U.S. Debt Custom [(4)]	10.31	7.58	5.57	6.93
Barclays Capital U.S. Aggregate	9.50	7.55	5.54	6.47
Barclays Capital High Yield Cash Pay	26.58	6.89	7.30	7.59
Real Estate	(12.45)	(17.68)	0.47	6.30
Real Estate NCRIEF (lagged 1 quarter)	(9.60)	(4.30)	4.22	7.14
Private Equity	21.69	(0.58)	10.61	7.34
Private Equity Custom [(5)]	56.68	1.96	4.21	5.21
Liquidity [(6)]	8.91	(5.38)	(0.33)	3.33
Barclays Capital 3-Month Treasury Bill [(7)]	0.18	1.66	2.82	2.65

CalSTRS' investment performance is calculated using a daily time-weighted return geometrically linked to calculate a monthly return. Periods longer than one month are geometrically linked to calculate annualized 'time-weighted' rates of return.

(1) Absolute Return investment category not included - Funding occurred January 2010.

(2) Weighted blend of Russell 3000 tobacco free and MSCI All Country World Index ex-U.S. tobacco free

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

(4) 95% Barclays Capital US Aggregate tobacco free + 5% US High Yield Cash Pay 2% Issuer Constrained Index tobacco free from 10/31/2008. Salomon LPF through 7/1/02; LB US Aggregate tobacco free through 4/1/07; a blend of LB US Aggregate and LB High Yield Cash Pay tobacco free through 10/31/08

(5) Blend of the Russell 3000 + 3% & State Street Private Equity Index cumulative pooled internal rate of return data weighted by sub-asset type; lagged 1 quarter. Previously Russell 3000 + 5% + 90 day T-Bill from 4/1/99 to 6/30/08; CPI + 12% prior to 4/1/99; lagged 1 quarter

(6) Includes the Securities Lending Program loss incurred in FY 08-09 and income earned in subsequent years.

(7) Barclays Capital 3-Mo T-Bill from 10/31/2008; LB 3-Mo T-Bill from 7/1/06; Citigroup 3-Mo T-Bill prior to 7/1/06

better assess the ability to capture the most of each marketplace. On a relative basis, the best performing asset class was Fixed Income, which beat its market by 2 percent; followed by the Global Equity portfolio, which also outperformed its opportunity set. The longer-term investments of Real Estate and Private Equity underperformed their benchmarks over the one-year period as those investments are slower to react to the economic rebound. Those two areas are best viewed over very long periods.

The following pages go into greater detail regarding each asset class and its respective performance. The CalSTRS Investment Committee, Investments staff and external consultants have thoroughly reviewed the results and developed a list of key issues for the Investment Committee and staff to change. During the Fiscal Year 2010–11, several changes will be made to the portfolio, investment policies, internal investment management and internal procedures to help the fund generate as much return as possible within acceptable risk parameters.

Innovation and Risk

The Innovation and Risk (IR) Unit's policy was approved in March 2009 and the group has yet to deploy capital. The Innovation Portfolio's allocation is not to exceed the lesser of 1.5 percent of the total plan assets or $2 billion. IR's goal is to identify, research and incubate investment opportunities that currently are not utilized by the fund. Each new strategy that is pursued is expected to improve the risk/return efficiency of the total plan or an asset class by increasing its return, decreasing its risk or achieving both.

Currently, IR is working on the implementation of two new investment strategies: global macro and commodities. In addition, IR is continuing to refine the first generation of quantitative tools to evaluate new strategies. Examples of strategies under review include microfinance, life settlements and "green" investments not currently included in the traditional asset classes. Finally, IR is completing the implementation of the BarraOne Risk Management System and the development of risk reports at the enterprise level.

Fixed Income

The fixed income allocation within the CalSTRS Investment Portfolio amounted to $28.5 billion on June 30, 2010. The primary, or core, function of fixed income is to provide diversification to the total investment portfolio, while maximizing the risk-adjusted return. The investment programs managed within the Fixed Income Unit are structured in such a way as to take advantage of the benefits/efficiencies of both internal and external asset management. More than three-quarters of the fixed income assets are managed internally by CalSTRS Investments staff and have been designed to generate market level returns with a low to moderate level of risk. The remaining quarter of the fixed income assets follow an Opportunistic Strategy, a portion of which is externally managed, with higher risk levels and higher expected returns.

The Fixed Income portfolio generated 12.3 percent for the twelve months ending June 30, 2010, outperforming the performance benchmark by 199 basis points. The strong performance this past year can be attributed in large part to the substantial turnaround in investor's risk appetite as government policy actions and massive liquidity injections of capital into the banking system restored a sense of confidence to the global investment markets. Over the longer term five- and ten-year periods, the portfolio continues to meet the system's performance objectives for the asset class with returns in line with the performance benchmark, which is representative of the fixed income markets.

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

CURRENCY MANAGEMENT PROGRAM

CalSTRS has recognized the need to implement strategies designed to address the management of currency risk because of the global nature of the Fund, and the impact that currency fluctuations

Table 4 | **Largest Fixed Income Holdings as of June 30, 2010**
(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	MATURITY DATE	INTEREST RATE	PAR	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN (LOSS)
US TREASURY N/B	1/15/13	1.375%	350,000,000	$354,728,493	$349,235,321	$5,493,172
US TREASURY N/B	5/31/16	3.25	315,000,000	334,605,597	320,048,027	14,557,570
US TREASURY N/B	2/15/20	3.625	297,912,000	314,744,010	299,917,462	14,826,548
UNITED STATES TREAS NTS	3/31/16	2.375	305,000,000	309,504,865	295,150,555	14,354,310
US TREASURY N/B	1/31/15	2.25	287,640,000	294,793,627	287,530,163	7,263,464
UNITED STATES TREAS NTS	9/30/13	3.125	240,000,000	255,528,002	245,117,815	10,410,187
US TREASURY N/B	4/15/13	1.75	245,226,000	250,804,896	247,981,344	2,823,552
UNITED STATES TREAS BDS	2/15/39	3.5	266,620,000	247,649,992	228,675,021	18,974,971
US TREASURY N/B	6/15/12	1.875	235,000,000	240,813,898	237,041,184	3,772,714
US TREASURY N/B	3/31/14	1.75	235,000,000	238,259,452	233,918,438	4,341,014

can have on the return of dollar-based investors. The Currency Management Program is designed to add value to the Investment Portfolio by protecting the translation value of the system's non-dollar assets when there is the risk that the U.S. dollar will strengthen and preserving the diversification benefits of holding non-U.S. dollar assets when there is widespread U.S. dollar weakness.

Currency volatility remained elevated relative to historical norms throughout the 2009–10 fiscal year. The divergent investment themes of supportive global liquidity juxtaposed with the heightened fear stemming from the European sovereign debt crisis and the continuation of poor global credit conditions led to little consensus among market investors. For the past one-, three-, and five-year periods, the Currency Management Program has not generated significant value. However, since inception in 1995, it has added 74 basis points annually to the Fund.

SECURITIES LENDING PROGRAM

The CalSTRS Securities Lending Program was established in 1988 as a low-risk strategy, designed to enable the Fund to use its existing asset base and investment expertise to generate incremental income. While the Securities Lending Program has consistently added from four to five basis points in value to the Fund, the unprecedented volatility and illiquidity within the markets in late 2008 resulted in a loss to the program for the first time since its inception in 1988.

The securities lending markets have stabilized over the past 12-18 months. As a result, increasing utilization rates and additional markets opening up overseas have been seen that offer additional diversification and opportunities for the program to recoup previous losses in a risk controlled manner. For the fiscal year ended June 30, 2010, the Securities Lending Program earned approximately $96 million in additional income for the Fund.

Home Loan Program

The CalSTRS Home Loan Program, established by legislation in 1984, provides the opportunity for home ownership to qualified participants while meeting CalSTRS investment goals by generating a mortgage asset. The Home Loan Program offers a variety of mortgage products while also providing "best in class" customer service to borrowers throughout the mortgage loan process.

The program also includes a low down payment product and a reverse mortgage product designed to provide a financial alternative to members age

62 and older and/or their parents. The mortgage assets created by the Home Loan Program are either retained in the Fund as investments or sold in the financial markets.

Bank of America Home Loans is the master servicer and administrator for the program. With its assistance, the number of correspondent lenders throughout California has increased to 61. The Home Loan Program also has a dedicated toll free telephone number as well as a website at CalSTRS.com/homeloanprogram for providing information to prospective borrowers.

Private Equity

CalSTRS Private Equity portfolio is valued at $19.2 billion. Private equity assets are 14.7 percent of the total fund with a 12 percent target allocation. Unfunded commitments total $9.8 billion.

The Private Equity portfolio consists of three components: 1) limited partnership interests, 2) co-investments, and 3) secondary partnership interests. There are 251 partnerships, 43 co-investments and five secondary interests in the Private Equity portfolio. On a dollar-weighted net asset value basis, limited partnerships comprise 84 percent of the portfolio, co-investments comprise 14 percent and secondary interests comprise 2 percent.

Annualized returns for the asset class have been 21.7 percent, negative .58 percent and 10.6 percent over one, three and five year periods respectively. Comparable benchmark returns are 56.7 percent, 2.0 percent and 4.2 percent respectively.

Credit Enhancement

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, 2010, the Credit Enhancement Program had commitments of approximately $2.2 billion and fee income earned during the fiscal year was approximately $9.7 million.

Real Estate

CalSTRS portfolio of real estate assets is valued at $13 billion. Real estate assets are 10 percent of the total fund with a 12 percent target allocation. Unfunded commitments total $10.7 billion.

The Real Estate portfolio is divided into two segments: 1) core, domestic investments either held directly or with a joint venture partner and are diversified by property type and region; and 2) tactical, domestic and international investments held in a joint venture or as a limited partner in a commingled fund. The core portfolio comprises 34 percent of the total Real Estate portfolio and the tactical portfolio comprises the other 66 percent.

At the June 2010 Investment Committee meeting a revised policy was approved. This revised policy now divides the portfolio into four segments: 1) Core, 2) Value Add, 3) Opportunistic and 4) Public. The Real Estate portfolio will be measured against a policy weighted benchmark comprised of four indices that are reflective of the four segments. The policy will be implemented over time as approved by the Investment Committee.

The CalSTRS Real Estate portfolio has achieved gross annualized returns of negative 12.4, negative 17.7, and 0.5 percent for the one-, three-, and five- year periods, respectively. CalSTRS returns underperformed the NCREIF benchmark by 13.4 and 3.8 each of the three and five-year periods, primarily due to the unleveraged nature of the NCREIF benchmark.

Global Equities

At the end of fiscal year 2009–10, the $67.1 billion Global Equity portfolio represented 52.0 percent of the total fund. U.S. Equity accounted for 67 percent of the total equity allocation, while Non-U.S. Equity accounted for the remaining 33 percent.

The Global Equity portfolio outperformed its policy benchmark by 57 basis points (14.53 percent vs. 13.96 percent) for the fiscal year ending June 30, 2010. This outperformance was driven by the strong relative returns of the Non-U.S. Equity Portfolio, which surpassed the MSCI ACWI ex-U.S. ex-Tobacco Index by 185 basis points (12.14 percent vs. 10.29 percent). In absolute terms, the U.S. Equity portfolio beat the Non-U.S. Equity portfolio; however, it lagged the Russell 3000 ex-Tobacco Index by 1 basis point (15.70 percent vs. 15.71 percent) during the fiscal year.

U.S. AND NON-U.S. EQUITY PROGRAMS

During fiscal year 2009–10, the Global Equities group completed the following key initiatives:

- Staff conducted a three-part study to explore the existing and optimal balance between passive and active management styles across the Global Equity portfolio. Part of the asset management process is to periodically review the existing portfolio structure and investment strategies in conjunction with the evolving markets. Staff evaluated the pros and cons of active vs. passive management, performed a peer group comparison and compared costs and long-term performance associated with both investment styles. The study concluded in February 2010 with the Teachers' Retirement Board's approval to expand the active/passive ranges for the U.S. and Non-U.S. segments of the Global Equity portfolio from +/- 5 percent to +/- 10 percent.
- Over the past couple of years, Global Equity staff has evaluated the merits of increasing the level of internal management. Since the internal portfolio management team has successfully managed a Russell 1000 passive portfolio for 10 years, staff determined it would be appropriate to begin managing other passive accounts in-house. In April 2010, staff started managing a $500 million Russell 2000 Index portfolio. After establishing a successful track record, staff will consider internal management for the remainder of the U.S. passive assets. In addition, staff began managing an MSCI Canada passive index fund in December 2009, becoming the first internally managed Non-U.S. portfolio.

Table 5 | Largest Equity Holdings as of June 30, 2010
(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	SHARES	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN/(LOSS)
EXXON MOBIL CORP	17,832,287	$1,017,688,608	$817,039,086	$200,649,522
APPLE INC	3,128,162	786,826,588	209,938,965	576,887,623
MICROSOFT CORP	27,419,297	630,918,024	554,958,241	75,959,783
INTL BUSINESS MACHINES CORP	4,664,212	575,936,898	362,336,020	213,600,878
PROCTER + GAMBLE CO/THE	9,520,198	571,021,476	393,727,215	177,294,261
JOHNSON + JOHNSON	9,474,992	559,593,028	409,729,534	149,863,494
JPMORGAN CHASE + CO	14,606,935	534,759,890	463,492,718	71,267,172
AT+T INC	21,672,481	524,257,315	593,327,713	(69,070,398)
CHEVRON CORP	7,317,360	496,556,050	380,817,464	115,738,586
GENERAL ELECTRIC CO	34,014,611	490,490,691	672,088,290	(181,597,599)

Corporate Governance

During Fiscal Year 2009–10, CalSTRS staff voted on 60,563 proxy proposals submitted by 3,807 corporations that were held in the portfolio. Some companies had multiple meetings and the fund ended up voting at 4,331 meetings for portfolio companies. The 60,563 proposals represented a 2.2 percent decrease from the 61,950 proposals voted on in 2008–09. The decrease in the number of proposals may be due to fewer special meetings resulting from slowed merger activity and is likely to reverse in 2010–11.

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.

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: 16,278
   » Voted For: 8,534 (52 percent)
   » Voted Against: 7,744 (48 percent)

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: 2,653
   » Voted For: 2,421 (91 percent)
   » Voted Against: 232 (9 percent)

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: 1,386
   » Voted For: 548 (40 percent)
   » Voted Against: 838 (60 percent)

4. ***Advisory Vote on Compensation:*** More commonly known as Say-on-Pay, these are periodic votes that provide shareholders the opportunity to ratify the compensation of the executives named in the proxy. CalSTRS votes on these proposals on a case-by-case basis. It should be noted that the "Against" votes detailed below are the instances where companies had instituted Say-on-Pay and shareholders voted down the management proposal to approve the plans.

   » Number Voted: 112
   » Voted For: 91 (81 percent)
   » Voted Against: 21 (19 percent)

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

   » Number Voted: 103
   » Voted For: 83 (81 percent)
   » Voted Against: 20 (19 percent)

6. ***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: 1,015
   » Voted For: 652 (64 percent)
   » Voted Against: 363 (36 percent)

7. ***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: 311
   » Voted For: 69 (22 percent)
   » Voted Against: 242 (78 percent)

8. ***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: 633
   » Voted For: 507 (80 percent)
   » Voted Against: 126 (20 percent)

The Corporate Governance unit continues to manage six governance funds, accounting for a combined $2.8 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, 2010, the Corporate Governance funds returned a positive 17.8 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 40 percent to the Government Index Portfolio. Beginning July 1, 2002, Cash Balance Benefit Program contributions are

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

	June 30, 2009		June 30, 2010			
PORTFOLIO TYPE	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	% OF MARKET VALUE	NET MARKET CHANGE
Global Equity	$66,605	$64,449	$63,739	$67,059	51.60%	$2,610
Fixed Income	26,415	25,953	27,755	28,466	21.90%	2,513
Private Equity	18,162	15,183	20,251	19,158	14.74%	3,975
Real Estate	21,199	12,320	23,179	13,040	10.03%	720
Liquidity	969	970	1,021	1,021	0.79%	51
Absolute Return	0	0	1,221	1,217	0.94%	1,217
TOTAL PORTFOLIO	**$133,350**	**$118,875**	**$137,166**	**$129,961**	**100.00%**	**11,086**
Adjustments:						
Securities Lending Collateral		$22,990		$27,101		
SSB Accruals		144		223		
Cash & Cash Equiv		(173)		(212)		
PLAN ASSETS-INVESTMENTS		**$141,836**		**$157,073**		

invested in the Teachers' Retirement Fund, excluding Private Equity and Real Estate investments. The market value, as of June 30, 2010, was $114 million. The rate of return for the Cash Balance Benefit Program for the fiscal year was 14 percent.

DEFINED BENEFIT SUPPLEMENT PROGRAM

The Defined Benefit Supplement Program contributions are invested in the Teachers' Retirement Fund excluding Private Equity and Real Estate investments. Contributions were first received in the Defined Benefit Supplement Program in January 2001.

The market value as of June 30, 2010, was $6.2 billion. Since the inception of the Defined Benefit Supplement Program, the annualized rate of return is 3.0 percent. The rate of return for the Defined Benefit Supplement Program for the fiscal year was 14 percent.

Table 7 | Schedule of Investment Fees July 1, 2009 Through June 30, 2010 (dollars in thousands)

	ASSETS UNDER MANAGEMENT	INVESTMENT EXPENSES	BASIS POINTS
Investment Categories			
Global Equity	$67,058,739	$115,609	17.2
Fixed Income	28,466,473	21,025	7.4
Private Equity	19,158,250	10,453	5.5
Real Estate	13,039,740	22,813	17.5
Liquidity	1,021,242	248	2.4
Absolute Return	1,216,816	278	2.3
ASSETS AND EXPENSES	**$129,961,260**	**$170,426**	**13.1**

Table 8 | Global Equity Broker Commissions July 1, 2009 Through June 30, 2010

BROKER NAME	COMMISSION	SHARES	COMMISSION PER SHARE
Credit Suisse Bank	$3,471,801	386,373,635	$0.009
J.P. Morgan	2,356,888	260,920,299	0.009
Merrill Lynch	2,317,244	263,517,522	0.009
Instinet	2,025,878	149,470,984	0.014
Citigroup	1,883,064	159,130,575	0.012
Goldman Sach	1,815,711	257,596,993	0.007
Morgan Stanley	1,753,954	196,582,223	0.009
Deutsche Bank Secuirities Corp	1,647,572	264,091,565	0.006
UBS AG	1,545,063	190,549,237	0.008
Macquarie Securities	742,378	131,923,705	0.006
Other Brokers	15,067,216	1,187,271,160	0.013
COMMISSIONS	**$34,626,769**	**3,447,427,898**	**$0.010**

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December 10, 2010

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Defined Benefit Program

Dear Members of the Board:

The basic financial goal of the Defined Benefit Program of the California State Teachers' Retirement System (CalSTRS) is to establish contributions which fully fund the obligations and which, as a percentage of payroll, remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

CalSTRS measures its funding status as the Funded Ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Ratio
June 30, 2007	88%
June 30, 2008	87%
June 30, 2009	78%

Based on the current actuarial assumptions, the current projected income from member, employer, and State contributions will not finance the DB Program 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.

The June 30, 2009 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

Milliman did not prepare Schedules I and II, or the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2010 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, 2009 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the DB Program and the actuarial assumptions which were last reviewed and adopted by the Board on April 3, 2008. The assumptions will be reviewed in detail again in 2012.

ACTUARY'S CERTIFICATION LETTER, CONTINUED

Milliman

Teachers' Retirement Board
December 10, 2010
Page 2

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for CalSTRS consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a one-third smoothed recognition method of the difference between the actual market value to the expected actuarial value.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial 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.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We certify that the June 30, 2009 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

Mark C Olleman   Nick Colli

Mark C. Olleman, FSA, EA, MAAA	Nick J. Collier, ASA, EA, MAAA
Principal and Consulting Actuary	Principal and Consulting Actuary

MCO/NJC/nlo

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, 2009, and adopted by the Teachers' Retirement Board on September 3, 2010. 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, 2009 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, 2009 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. In addition the State has made payments of $56,979,949 for fiscal year 2009–10 to CalSTRS in interest and a portion of withheld contributions.

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, 2009.

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, 2009.

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, 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 post-retirement employment with an incentive 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 0.2 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, 2009, determined there is an unfunded actuarial obligation for this program. The prior actuarial valuation as of June 30, 2008, 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.

Effective January 1, 2009

Funding

- Effective with fiscal year 2009–10 through fiscal year 2012–13, withheld contributions and interest of $56,979,949, will be made each fiscal year to the SBMA.
- Actuarial Valuations for the Defined Benefit Program will be completed every year.

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 actuarial staff.

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 Teachers' Retirement 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, 2009 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(B)

Benefits are subject to limits imposed under Internal Revenue Code section 415(b). 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

Benefit

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

Benefit

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.

Benefit

Fifty percent of final compensation.

- 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.

Benefit

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.

Benefit

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.

Benefit

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

None

DEFINED BENEFIT PROGRAM

All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on 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

	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	–	–	–	–

Table 3 cont. | Probabilities of Refund by Sample Duration of Members and Sample Entry Ages

	ENTRY AGES				
Duration	**Under 25**	**25-29**	**30-34**	**35-39**	**40+**
Male					
Under 5	100%	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	–	–	–

DEFINED BENEFIT PROGRAM

Table 4 | Assumption for Pay Increases Due to Promotions and Longevity for Sample Ages
(exclusive of the assumed general wage increase, which includes inflation)

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

Table 5 | Economic Assumptions

Consumer Price Inflation	3.25%
Investment Yield (Net of Expenses)	8.00
Wage Inflation	4.25
Interest on Member Accounts	6.00

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[1]

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)

[1] *Future disabled members are valued with a two-year age setback.*

Table 8 | Service Retirement (sample ages)[1]

			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

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

Table 9 | Disability Rates (sample ages)

COVERAGE A		
Male	25	0.021%
	30	0.030
	40	0.081
	50	0.159
	55	0.210
Female	25	0.021%
	30	0.030
	40	0.090
	50	0.220
	55	0.280

COVERAGE B		
	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 Member Valuation Data

DATE (AS OF JUNE 30)	NUMBER	ANNUAL PAYROLL	ANNUAL AVERAGE PAY	% INCREASE IN AVERAGE PAY
2004[1]	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
2008	461,378	27,118,230,762	58,777	3.4
2009	459,009	27,327,386,616	59,536	1.3

[1] *Annual Payroll and Annual Average Pay were revised on an estimated basis to reflect date corrections.*

DEFINED BENEFIT PROGRAM

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

	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS – END OF YEAR			
Date (as of June 30)	Number	Annual Benefit[1]	Number	Annual Benefit[1]	Number	Annual Benefit[1]	% Increase	Average Annual Benefit
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
2009	13,420	657,984	6,163	149,998	228,969	8,340,671	8.2	36,427
2010	16,201	77,293	6,499	165,404	243,796	9,171,309	10.0	37,619

[1] *Dollars in thousands*

Table 12 | Solvency Test

	AGGREGATE ACCRUED LIABILITIES FOR (in millions)				FUNDING OF LIABILITIES		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefits to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2004[1]	$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
2008	26,881	81,984	68,869	155,215	100.0	100.0	67.3
2009	27,477	88,927	69,279	145,142	100.0	100.0	41.5

[1] *Service Already Rendered by Active Members was revised on an estimated basis to reflect data corrections.*

DEFINED BENEFIT PROGRAM

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	
	2009 (2008)	2008 (2007)
Actuarial Obligation at June 30:	$177,734	$167,129
Normal Cost	4,772	4,855
Benefit Payments	(8,170)	(7,535)
Expected Interest	14,085	13,266
Expected Actuarial Obligation at June 30:	188,421	177,715
Expected Actuarial Value of Assets at June 30:	164,046	154,983
Expected UAO at June 30	24,375	22,732
Actuarial (Gains) or Losses		
Change in Assumptions	0	0
Investment Return Assumptions	18,003	1,302
Demographic Assumptions	(2,738)	(606)
Net Change Other Sources	901	(909)
Total Actuarial (Gains) & Losses	16,166	(213)
Unfunded Actuarial Obligation at June 30	$40,541	$22,519
Funded Ratio	78%	87%

DEFINED BENEFIT SUPPLEMENT PROGRAM | ACTUARY'S CERTIFICATION LETTER

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December 10, 2010

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Defined Benefit Supplement Program

Dear Members of the Board:

The basic financial goal of the Defined Benefit Supplement (DBS) Program of the California State Teachers' Retirement System (CalSTRS) is to maintain sufficient resources to fully fund the obligations. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

CalSTRS measures its funding status as the Funded Ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Ratio
June 30, 2007	116%
June 30, 2008	100%
June 30, 2009	78%

The market loss for the fiscal year ended in 2009 caused a significant decrease in the Funded Ratio; however, the current contribution level is still projected to pay off the Unfunded Actuarial Obligation over a reasonable period.

The June 30, 2009 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will 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 2010 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, 2009 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the DBS Program and the actuarial assumptions which were last reviewed and adopted by the Board on April 3, 2008. The assumptions will be reviewed in detail again in 2012.

Milliman

Teachers' Retirement Board
December 10, 2010
Page 2

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for CalSTRS consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the traditional unit credit funding method. The actuarial assets are equal to fair market value.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial 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.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We certify that the June 30, 2009 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

Mark C Olleman　　Nick Collier

Mark C. Olleman, FSA, EA, MAAA	Nick J. Collier, ASA, EA, MAAA
Principal and Consulting Actuary	Principal and Consulting Actuary

MCO/NJC/nlo

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 as of June 30, 2009, and adopted by the Teachers' Retirement Board September 3, 2010. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2009 actuarial valuation.

The Defined Benefit Supplement Program was established January 1, 2001. 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. The only exception is for the economic assumptions which use a lower investment return assumption because the funds are not invested in private equity or real estate. 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 for the DBS Program. 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, 2009, result in an unfunded actuarial obligation of $1,453,334.

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 actuarial staff.

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 Supplement Program was performed by the firm Gabriel, Roeder, Smith and Company. The result of the audit was reported to the Teachers' Retirement 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 Supplement Program Provisions

(The following tables and summary were prepared by CalSTRS staff. All information is considered in the June 30, 2009 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 than one year during a single school 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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

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.

DEFINED BENEFIT SUPPLEMENT PROGRAM

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, 2009 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[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 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%
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	7.75
Wage Inflation	4.25
Interest on Member Accounts	6.00

DEFINED BENEFIT SUPPLEMENT PROGRAM

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[1]

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)

[1] *Future disabled members are valued with a two-year age setback.*

Table 8 | Service Retirement (sample ages)[1]

		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

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

Table 9 | Disability Rates – Coverage B (sample ages)

COVERAGE A		
Male	25	0.021%
	30	0.030
	40	0.081
	50	0.159
	55	0.210
Female	25	0.021%
	30	0.030
	40	0.090
	50	0.220
	55	0.280

COVERAGE B		
	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

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 10 | Schedule of Active Member Valuation Data

DATE (AS OF JUNE 30)	NUMBER	ANNUAL PAYROLL[1]	ANNUAL AVERAGE PAY	% INCREASE IN AVERAGE PAY
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
2008	460,961	28,574,701,507	61,989	4.270
2009	458,736	28,763,266,744	62,701	1.148

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

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

	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS - END OF YEAR			
Date (as of June 30)	Number	Annual Benefits	Number	Annual Benefits	Number	Annual Benefits	% Increase	Average Annual Benefits
2005	2,951[1]	$4,765,404[1]	18[1]	$ 29,192[1]	5,477	$7,624,364	256%	$1,392
2006	4,067	7,984,912	363	588,458	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
2009	6,668	22,090,439	1,582	4,948,230	23,010	55,237,098	48	2,401
2010	8,796	31,707,577	1,816	6,612,662	30,048	80,571,112	45.9	2,681

[1] *Revised in 2007*

Table 12 | Solvency Test

AGGREGATE ACCRUED LIABILITIES FOR					FUNDING OF LIABILITIES		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefits to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
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	–
2008	5,434,171,000	193,173,000	0	5,636,113,000	100.0	100.0	–
2009	6,316,154,000	283,161,000	0	5,145,981,000	81.5	–	–

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 13 Analysis of Financial Experience

(gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience)

	ACTUARIAL VALUATION AS OF JUNE 30	
	2009 (2008)	**2008** (2007)
Actuarial Obligation at June 30	$5,627,344,000	$4,622,046,000
Expected Changes:		
Contributions	822,010,000	802,380,000
Benefits Paid	(186,281,000)	(157,151,000)
Expected Earnings/Credits	460,754,000	383,211,000
Expected Actuarial Obligation at June 30	6,723,827,000	5,650,486,000
Expected Actuarial Value of Assets at June 30	6,733,275,000	6,468,889,000
Expected UAO at June 30	(9,448,000)	(818,403,000)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(124,512,000)	(23,142,000)
(Gain) on Assets	1,587,294,000	832,776,000
Total Actuarial Gains & Losses	1,462,782,000	809,634,000
Additional Earnings and Annuity Credits		
Additional Earnings Credit	0	0
Additional Annuity Credit	0	0
Total Additional Earnings and Annuity Credits	0	0
Unfunded Actuarial Obligation (Surplus) at June 30	$1,453,334,000	($8,769,000)
Funded Ratio	78%	100%

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December 10, 2010

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Cash Balance Benefit Program

Dear Members of the Board:

The basic financial goal of the Cash Balance Benefit (CBB) Program of the California State Teachers' Retirement System (CalSTRS) is to fully fund the obligations based on member and employer contributions which are fixed, as a percentage of payroll, and remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

CalSTRS measures its funding status as the Funded Ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Ratio
June 30, 2007	117%
June 30, 2008	101%
June 30, 2009	80%

The market loss for the fiscal year ended in 2009 caused a significant decrease in the Funded Ratio; however, the current contribution level is still projected to pay off the Unfunded Actuarial Obligation over a reasonable period.

The June 30, 2009 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will 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 2010 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, 2009 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the CBB Program and the actuarial assumptions which were last reviewed and adopted by the Board on April 3, 2008. The assumptions will be reviewed in detail again in 2012.

ACTUARY'S CERTIFICATION LETTER, CONTINUED

Milliman

Teachers' Retirement Board
December 10, 2010
Page 2

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for CalSTRS consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the traditional unit credit funding method. The actuarial assets are equal to fair market value.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial 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.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We certify that the June 30, 2009 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

Mark C Olleman   Nick Collier

Mark C. Olleman, FSA, EA, MAAA	Nick J. Collier, ASA, EA, MAAA
Principal and Consulting Actuary	Principal and Consulting Actuary

MCO/NJC/nlo

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, 2009, and adopted by the Teachers' Retirement Board September 3, 2010. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2009 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.

Program amendments include:

Effective January 1, 2006

- Reduced the one-year waiting period for the receipt of termination benefits to six months.
- Extended 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, 2009, 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, 2009, result in an unfunded actuarial obligation of $22,887.

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 actuarial staff.

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 Cash Balance Benefit Program was performed by the firm Gabriel, Roeder, Smith and Company. The result of the audit was reported to the Teachers' Retirement 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 Cash Balance Benefit Program Provisions

(The following tables and summary were prepared by CalSTRS staff. All information is considered in the June 30, 2009 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.

CASH BALANCE BENEFIT PROGRAM

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, 2009 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
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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 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	–	–	–	–	–	–

CASH BALANCE BENEFIT PROGRAM

Table 4 | Assumption for Pay Increases Due to Promotions and Longevity for Sample Ages (exclusive of the assumed general wage increase, which includes inflation)

	ENTRY AGES					
Duration	Under 25	25–29	30–34	35–39	40–44	45+
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
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	7.75
Wage Inflation	4.25
Interest on Member Accounts	6.00

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[1]

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)

[1] *Future disabled members are valued with a two-year age setback.*

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

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

CASH BALANCE BENEFIT PROGRAM

Table 9 | Disability Rates – Coverage B (sample ages)

COVERAGE A		
Male	25	0.021%
	30	0.030
	40	0.081
	50	0.159
	55	0.210
Female	25	0.021%
	30	0.030
	40	0.090
	50	0.220
	55	0.280

COVERAGE B		
	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
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
2008	11,627	181,104,000	15,576	14.0
2009	11,332	182,871,332	16,138	3.6

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
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
2009	12	29,184	2	4,104	33	81,935	44.3	2,483
2010	17	51,207	5	23,079	45	110,061	34.3	2,446

[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.*

CASH BALANCE BENEFIT PROGRAM

Table 12 | Solvency Test

	AGGREGATE ACCRUED LIABILITIES FOR				FUNDING OF LIABILITIES		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefit to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
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	–
2008	97,802,000	229,000	0	98,892,000	100.0	100.0	
2009	114,338,000	354,000	0	91,793,000	80.2	–	–

Table 13 | Analysis of Financial Experience

(gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience)

	ACTUARIAL VALUATION AS OF JUNE 30	
	2009 (2008)	2008 (2007)
Actuarial Obligation at June 30:	$98,031,000	$79,882,000
Expected Changes:		
Contributions	14,970,000	14,418,000
Benefits Paid	(2,276,000)	(1,661,000)
Expected Earnings/Credits	8,089,000	6,685,000
Expected Actuarial Obligation at June 30:	118,814,000	99,324,000
Expected Actuarial Value of Assets at June 30:	119,742,000	113,655,000
Expected UAO at June 30	(928,000)	(14,331,000)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(4,134,000)	(1,293,000)
(Gain) on Assets	27,949,000	14,763,000
Total Actuarial Gains & Losses	23,815,000	13,470,000
Additional Earnings and Annuity Credits		
Additional Earnings Credit	0	0
Additional Annuity Credit	0	0
Total Additional Earnings and Annuity Credits	0	0
Unfunded Actuarial Obligation (Surplus) at June 30	$22,887,000	($861,000)
Funded Ratio	80%	101%

MEDICARE PREMIUM PAYMENT PROGRAM | ACTUARY'S CERTIFICATION LETTER

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December 10, 2010

Teachers' Retirement Board
California State Teachers' Retirement System

Re: GASB 43 Reporting for the Medicare Premium Payment Program

Dear Members of the Board:

The basic financial goal of the Medicare Premium Payment (MPP) Program of the California State Teachers' Retirement System (CalSTRS) is to maintain sufficient resources to fully fund the obligations. Actuarial valuations used for GASB 43 reporting are performed every two years and measure the progress toward this goal, as well as test the adequacy of the contribution rates. The most recent valuation was as of June 30, 2008.

The MPP Program 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 MPP Program payments. $625 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. This gives the appearance that the MPP Program is significantly underfunded in the GASB 43 results. However, based on the commitment to transfer assets from the DB Program to fund the MPP Program, it is our opinion that the MPP Program continues in sound financial condition as of June 30, 2008.

The June 30, 2008 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will 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 2010 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, 2008 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the MPP Program and the actuarial assumptions which were last reviewed and adopted by the Board at the June 2009 meeting. The assumptions will be reviewed in detail again in 2012.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 43 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the

Milliman

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Page 2

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 June 30, 2008 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

In conclusion, the results presented in this report satisfy GASB 43 reporting purposes. Based on the current actuarial assumptions, the current assets of the MPP Program fund 0.4% of the accrued liabilities. It should be noted that these calculations do not include $625 million of future employer contributions to the DB Program that has been allocated to pay the MPPP benefits.

Respectfully submitted,

Mark C Olleman   Nick Collier

Mark C. Olleman, FSA, EA, MAAA
Principal and Consulting Actuary

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

MCO/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, 2008, and adopted by the Teachers' Retirement Board September 4, 2009. The following tables and summary were prepared by CalSTRS staff. All information is considered when preparing June 30, 2008 GASB 43 reporting information.

The Medicare Premium Payment Program was established January 1, 2001. 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 2008 were considered when producing GASB 43 reporting information.

Actuarial Assumptions—There have been several changes to the assumptions since the June 30, 2006 valuation. The most significant changes were the mortality assumptions which increased life expectancies and the probabilities of enrollment in the MPP Program. The following assumptions were used to complete the valuation for this program.

Actuarial Methods

Actuarial Cost Method
  Level Dollar 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, 2008, result in an unfunded actuarial accrued liability of $972.1 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, 2008.)

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 ($443 per month in 2009)

Part B – Part B penalty. Based on Part B premium ($96.40 per month in 2009). Small group of high earners will have higher premiums, up to $161.40 in 2007.

Changes in the Medicare Premium Payment Program Provisions

The following amendments were considered for June 30, 2008 GASB 43 reporting:

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

Assumptions used for GASB 43 reporting were adopted by the Teachers' Retirement Board on April 5, 2007. Additional assumptions specific to the MPP Program were adopted at the board's June 5, 2009, meeting. 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.*

MEDICARE PREMIUM PAYMENT PROGRAM

Table 4 | Probability of Refund

	Entry Age – Male				
YEAR	UNDER 25	25–29	30–34	35–39	40 AND UP
Under 5	100%	100%	100%	100%	100%
10	46	46	38	36	36
15	38	38	31	21	–
20	28	31	15	–	–
25	15	15	–	–	–
	Entry Age – Female				
YEAR	UNDER 25	25–29	30–34	35–39	40 AND UP
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	–	–	–

Table 5 | Economic Assumptions

Investment Yield	
GASB Reporting	4.00%
Medical Inflation	
Part A Premiums	5.00%
Part B Premiums	7.0% grading down to 5.0% in 2011
Price Inflation	3.25%

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[1]

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)

[1]*Future disabled members are valued with a two-year age setback.*

Table 8 | Service Retirement (sample ages)[1]

	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

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

Table 9 | Disability Rates (sample ages)

COVERAGE A		
Male	25	0.021%
	30	0.030
	40	0.081
	50	0.159
	55	0.210
Female	25	0.021%
	30	0.030
	40	0.090
	50	0.220
	55	0.280

COVERAGE B		
	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 Medicare Part A Enrollment Rates

ASSUMPTION	BEST ESTIMATE	
	Male	**Female**
% of Actives and Under 65 Retirees Enrolling (Retired On or After 2001)	3.50%	3.50%
% of Under 65 Retirees Enrolling (Retired Before 2001)	4.50	4.50
% of Over 65 Retirees Enrolling (For Those Not Currently Enrolled) at Age:		
65	2.50	2.50
66	1.00	1.00
67	0.25	0.25
68	0.15	0.15
69	0.10	0.10
70–74	0.05	0.05
75 & above	0.05	0.05

MEDICARE PREMIUM PAYMENT PROGRAM

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
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
2009	399	1,489	208	604	6,431	35,814[3]	14.3	5,569
2010	347	1,215	220	660	6,475	34,015	-5.0	5,253

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

[2] Dollars in thousands.

[3] This does not include the $8.04 million credit adjustments and deletions. If including the credit adjustments and deletions, the Total Annual Benefits would be $28.3 million, the percentage increase in annual benefits would be -9.6% and the average annual benefit would be $4,402.

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%
2008	0	976.3	0	4.2	100	0.4	0

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

MEDICARE PREMIUM PAYMENT PROGRAM

Table 13 Analysis of Financial Experience

(gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience) (dollars in millions)

	GASB 43 REPORTING AS OF JUNE 30	
	2008 (2007)	2006 (2005)
Actuarial Obligation at June 30:		
Expected Changes:		
Eligibility Extended	not calculated	not calculated
Benefits Paid	($33.0)	($29.3)
Interest	not calculated	not calculated
Expected Actuarial Obligation at June 30:	not calculated	not calculated
Expected Actuarial Value of Assets at June 30:	not calculated	not calculated
Expected UAO at June 30	not calculated	not calculated
Actuarial (Gains) or Losses		
(Gain) on Medical Trend Assumption	not calculated	not calculated
(Gain) on Premium/Penalty	not calculated	not calculated
(Gain) on Part B Premium for higher earners	not calculated	not calculated
(Gain) other sources	not calculated	not calculated
Total Actuarial Gains & Losses	not calculated	not calculated
Unfunded Actuarial Obligation (Surplus) at June 30	$972.1	$793.8
Funded Ratio	0.4%	0.3%

The Statistical section presents additional detailed information that assists users in using the basic financial statements, notes to basic financial statements and required supplementary information to assess the economic condition of the California State Teachers' Retirement System. The section provides information for the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, Pension2 and Medicare Premium Payment programs. The remaining funds are deemed immaterial.

The schedules presented on the following pages include information on financial trends and operating information. The financial trend schedules assist users in understanding and assessing how the system's financial position has changed over time and include:

- Changes in Net Assets
- Benefit and Refund Deductions from Net Assets by Type

The operating information schedules provide data about the system's operations and resources to assist users in understanding CalSTRS benefits and services, and include:

- Members and Benefit Recipient Statistics
- Participating Employers Statistics

The information in this section was derived from the pension administration system, except where noted.

Notes:
Supplemental statistical tables are available upon request by calling CalSTRS at 800-228-5453.

The assets of the Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs comprise the Teachers' Retirement Fund, which is part of the State Teachers' Retirement Plan (STRP) as reported on the statement of changes in fiduciary net assets. The STRP also includes the Replacement Benefit Program (RBP). The RBP is funded as needed and detailed information is not included in the statistical section as it is deemed immaterial.

DEFINED BENEFIT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Additions										
Member Contributions	$1,673.4	$1,792.3	$1,820.1	$1,690.5	$1,626.1	$1,748.3	$1,640.7	$1,557.9	$1,381.9	$1,630.4
Employer Contributions	2,130.7	2,331.8	2,328.2	2,168.4	2,094.5	2,004.6	1,918.3	1,892.1	1,721.4	1,880.9
State of California/ Federal Government[1]	1,221.6	1,140.4	1,629.6	1,084.4	1,018.7	1,218.6	548.7	1,015.0	915.8	946.2
Investment Income	14,363.8	(39,215.5)	(9,260.3)	29,027.7	15,732.6	13,897.6	16,354.3	3,622.9	(6,268.5)	(10,230.9)
Other Income	7.7	7.5	213.1	0.5	0.1	1.4	(0.3)	0.0	0.7	0.4
Total Additions	**$19,397.3**	**($33,943.5)**	**($3,269.3)**	**$33,971.5**	**$20,472.0**	**$18,870.5**	**$20,461.7**	**$8,087.9**	**($2,248.7)**	**($5,773.0)**
Deductions										
Benefit Payments to Members	8,856.0	$8,094.7	$7,451.2	$6,839.5	$6,334.4	$5,835.9	$5,279.5	$4,715.6	$4,244.0	$3,764.6
Refunds of Member Contributions	85.4	74.9	83.5	87.5	82.9	79.1	79.2	78.7	73.9	77.4
Purchasing Power Benefits	272.6	348.1	229.8	230.3	215.3	221.3	223.5	233.8	257.0	189.4
Administration Expenses	134.0	109.7	106.4	103.4	93.6	92.9	93.5	72.1	63.5	54.5
Other Expenses	0.0	0.0	(0.2)	0.0	0.0	10.1	1.7	0.1	2.3	0.0
Total Deductions	**$9,348.0**	**$8,627.4**	**$7,870.7**	**$7,260.7**	**$6,726.2**	**$6,239.3**	**$5,677.4**	**$5,100.3**	**$4,640.7**	**$4,085.9**
Change in Net Assets	**$10,049.2**	**($42,571.0)**	**($11,140.0)**	**$26,710.8**	**$13,745.8**	**$12,631.2**	**$14,784.3**	**$2,987.6**	**($6,889.4)**	**($9,858.9)**

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	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Type of Benefit										
Age & Service Benefits										
Retired Members	$8,418.2	$7,805.8	$7,064.3	$6,521.0	$6,033.0	$5,568.1	$5,080.2	$4,518.5	$4,103.2	$3,785.8
Survivors	502.7	443.0	426.2	376.7	351.9	329.8	233.8	247.6	233.5	36.7
Death	35.0	32.3	35.0	26.5	27.6	34.2	74.0	78.1	69.6	42.1
Disability Benefits										
Retired Members	172.7	161.7	155.6	145.6	137.2	125.1	115.0	105.4	94.7	88.4
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Total Benefits	**$9,128.6**	**$8,442.8**	**$7,681.1**	**$7,069.8**	**$6,549.7**	**$6,057.2**	**$5,503.0**	**$4,949.6**	**$4,501.0**	**$3,954.0**
Type of Refund										
Separation	$85.4	$74.9	$83.5	$87.5	$82.9	$79.1	$79.2	$78.7	$73.9	$77.4
Total Refunds	**$85.4**	**$74.9**	**$83.5**	**$87.5**	**$82.9**	**$79.1**	**$79.2**	**$78.7**	**$73.9**	**$77.4**

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
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
2009	459,009	64,044	44.8	11.0	26.2
2010	441,544	64,156	45.1	11.3	26.3

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

Table 4 Members Retired for Service During Fiscal Year 2009–10, 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	631	62.2	5.867	$3,200	$314
500–1000	1,005	62.3	9.194	4,233	716
1000–1500	870	61.6	12.643	5,167	1,192
1500–2000	907	61.7	15.826	5,744	1,691
2000–2500	1,014	61.5	18.655	6,135	2,157
2500–3000	1,036	62.0	21.045	6,377	2,647
3000–3500	1,104	62.5	22.986	6,631	3,122
3500–4000	1,021	62.4	25.308	6,836	3,596
4000–4500	965	62.1	27.715	6,984	4,093
4500–5000	965	62.0	29.844	7,051	4,567
5000–5500	1,075	61.7	31.748	7,136	5,043
5500–6000	1,023	62.0	33.107	7,310	5,504
6000 & Greater	3,877	62.6	36.424	8,653	7,206
Total	**15,493**	**62.2**[3]	**25.495**[3]	**$6,800**[3]	**$4,059**[3]

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

Table 5 Members Retired for Service During Fiscal Year 2009–10[1], Classifed by Age and Option Elected[2]

			OPTION TYPES							
Age	Total	Member-Only	2	3	4	5	100% Beneficiary	50% Beneficiary	Compound	75% Beneficiary
Under 55	39	16	0	0	0	0	11	11	0	1
55	559	373	0	0	0	0	99	53	4	30
56	474	286	0	0	0	0	104	46	2	36
57	594	335	0	0	0	0	113	71	12	63
58	803	418	7	0	0	0	159	129	6	84
59	1,106	548	23	2	0	0	266	159	9	99
60	1,688	806	38	5	0	2	374	289	21	153
61	2,162	987	56	10	1	0	507	369	23	209
62	1,981	983	54	2	5	0	422	317	34	164
63	1,876	1,025	42	8	1	1	338	278	30	153
64	986	573	22	6	1	0	188	113	13	70
65	896	535	14	4	0	0	171	115	9	48
66	645	378	24	0	2	0	105	80	13	43
67	466	292	10	1	0	0	72	57	8	26
68	311	189	4	2	1	0	56	30	12	17
69	217	145	5	0	1	1	29	20	4	12
70	196	129	5	0	0	0	35	19	2	6
71	135	94	5	1	1	0	20	7	0	7
72	102	70	1	1	0	0	17	10	0	3
73	70	37	3	0	0	0	17	7	3	3
74	47	32	1	0	0	0	7	6	1	0
75 and over	140	102	2	1	0	0	13	12	3	7
Age Unknown	0	0	0	0	0	0	0	0	0	0
Total	**15,493**	**8,353**	**316**	**43**	**13**	**4**	**3,123**	**2,198**	**209**	**1,234**
% of Total	**100%**	**53.91%**	**2.04%**	**0.28%**	**0.08%**	**0.03%**	**20.16%**	**14.19%**	**1.35%**	**7.96%**

[1] Does not include formerly disabled members

[2] Option Elected:

Option 2 - Beneficiary receives 100% of member's modified allowance

Option 3 - Beneficiary receives 50% of member's modified allowance

Option 4 - Beneficiary receives 2/3 of member's modified allowance

Option 5 - Survivors receives 50% of member's modified allowance, upon death of either member of beneficiary

100% Beneficiary - Beneficiary receives 100% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount

75% - Beneficiary receives 75% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount

50% Beneficiary - Beneficiary receives 50% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount

Compound Beneficiary - Compound option that allows the member to provide for more than one beneficiary

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
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
2009	511	2,728	13.934	5,567	53.8
2010	498	2,825	14.524	5,827	55.3

Table 7 Total Number of Benefit Recipients by Type of Benefit

FISCAL YEAR ENDING JUNE 30	SERVICE RETIREMENT	DISABILITY BENEFITS	BENEFITS FOR SURVIVORS	TOTAL BENEFIT RECIPIENTS
2001	149,727	6,477	14,768	170,972
2002	154,884	6,723	15,465	177,072[1]
2003	159,172	6,949	15,747	181,868
2004	169,022	7,311	16,912	193,245
2005	176,008	7,571	17,662	201,241
2006	181,833	7,683	18,330	207,846
2007	188,659	7,915	19,067	215,641
2008	195,960	8,170	19,838	223,968
2009	203,649	8,380	20,588	232,617
2010	213,952	8,581	21,263	243,796

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

Table 8 | Members Retired for Service Characteristics[1] by Year of Retirement

EFFECTIVE DATE OF RETIREMENT BY SERVICE CREDIT	NUMBER OF RETIREMENTS	AVERAGE SERVICE CREDIT	AVERAGE MEMBER-ONLY BENEFIT	AVERAGE FINAL COMPENSATION	AVERAGE AGE AT RETIREMENT
7/1/2000 thru 6/30/2001[2]					
0 - 5	86	2.3	$226	–	–
5 - 10	505	7.3	513	–	–
10 - 15	661	12.6	1,067	–	–
15 - 20	707	17.4	1,594	–	–
20 - 25	821	22.4	2,165	–	–
25 - 30	988	27.3	3,076	–	–
30 - 35	2,446	32.6	4,138	–	–
35 - 40	2,041	37.2	5,267	–	–
40 & over	446	42.1	6,417	–	–
Total	**8,701**	**28.1**	**$3,524**	**$5,312**	**61.2**
7/1/2001 thru 6/30/2002[2]					
0 - 5	86	2.4	$228	–	–
5 - 10	499	7.3	512	–	–
10 - 15	679	12.6	1,093	–	–
15 - 20	860	17.4	1,714	–	–
20 - 25	886	22.3	2,387	–	–
25 - 30	1,081	27.1	3,288	–	–
30 - 35	2,912	32.7	4,536	–	–
35 - 40	2,277	37.2	5,738	–	–
40 & over	482	42.1	6,907	–	–
Total	**9,762**	**28.3**	**$3,869**	**$5,686**	**61.1**
7/1/2002 thru 6/30/2003[2]					
0 - 5	103	2.4	$206	–	–
5 - 10	674	7.2	525	–	–
10 - 15	749	12.6	1,149	–	–
15 - 20	1,074	17.5	1,821	–	–
20 - 25	1,063	22.6	2,494	–	–
25 - 30	1,212	27.1	3,372	–	–
30 - 35	3,384	32.7	4,640	–	–
35 - 40	2,444	37.2	5,855	–	–
40 & over	486	42.3	7,114	–	–
Total	**11,189**	**27.9**	**$3,879**	**$5,807**	**61.2**

[1] Does not include formerly disabled members
[2] The Average Member-Only Benefit for this fiscal year includes the Longevity Bonus.

Table 8 | Members Retired for Service Characteristics[1] by Year of Retirement (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
7/1/2003 thru 6/30/2004[2]					
0 - 5	116	2.4	$242	–	–
5 - 10	883	7.2	559	–	–
10 - 15	944	12.6	1,178	–	–
15 - 20	1,277	17.6	1,864	–	–
20 - 25	1,200	22.5	2,614	–	–
25 - 30	1,393	27.1	3,416	–	–
30 - 35	3,495	32.6	4,761	–	–
35 - 40	2,477	37.2	5,919	–	–
40 & over	516	42.1	7,255	–	–
Total	**12,301**	**27.1**	**$3,817**	**$5,891**	**61.2**
7/1/2004 thru 6/30/2005[2]					
0 - 5	122	2.5	$268	–	–
5 - 10	1,008	7.2	591	–	–
10 - 15	897	12.6	1,170	–	–
15 - 20	1,311	17.5	1,906	–	–
20 - 25	1,286	22.3	2,579	–	–
25 - 30	1,217	27.0	3,475	–	–
30 - 35	3,208	32.5	4,847	–	–
35 - 40	2,162	37.2	6,100	–	–
40 & over	413	42.0	7,422	–	–
Total	**11,624**	**26.3**	**$3,744**	**$5,944**	**61.7**
7/1/2005 thru 6/30/2006[2]					
0 - 5	115	2.4	$281	$5,724	61.2
5 - 10	980	7.3	607	4,056	61.7
10 - 15	919	12.5	1,197	4,756	61.2
15 - 20	1,235	17.6	1,935	5,387	61.2
20 - 25	1,198	22.2	2,631	5,758	61.3
25 - 30	1,143	27.0	3,678	6,423	61.9
30 - 35	2,843	32.5	4,982	6,685	60.4
35 - 40	2,091	37.2	6,279	7,024	61.2
40 & over	353	42.2	7,575	7,163	65.1
Total	**10,877**	**26.0**	**$3,810**	**$6,079**	**61.2**

[1] *Does not include formerly disabled members*

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

Table 8 | Members Retired for Service Characteristics[1] by Year of Retirement (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
7/1/2006 thru 6/30/2007[2]					
0 - 5	105	2.5	$253	$5,127	61.0
5 - 10	1,080	7.3	620	4,075	62.0
10 - 15	1,019	12.4	1,239	4,874	61.4
15 - 20	1,311	17.5	2,039	5,625	61.5
20 - 25	1,248	22.2	2,802	5,987	61.8
25 - 30	1,249	27.1	3,847	6,678	62.0
30 - 35	3,078	32.5	5,312	7,087	60.6
35 - 40	2,259	37.3	6,680	7,434	61.4
40 & over	413	42.2	8,151	7,830	65.0
Total	**11,762**	**26.1**	**$4,059**	**$6,371**	**61.5**
7/1/2007 thru 6/30/2008[2]					
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] Does not include formerly disabled members

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

Table 8 Members Retired for Service Characteristics[1] by Year of Retirement (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
7/1/2008 thru 6/30/2009[2]					
0 - 5	126	2.4	$291	$5,814	62.4
5 - 10	1,022	7.4	668	4,236	62.8
10 - 15	1,145	12.4	1,336	5,140	62.1
15 - 20	1,323	17.7	2,235	5,995	61.8
20 - 25	1,535	22.3	3,116	6,537	62.1
25 - 30	1,406	27.1	4,125	7,076	62.2
30 - 35	3,161	32.4	5,687	7,506	61.1
35 - 40	2,574	37.2	7,122	7,866	61.7
40 & over	461	42.2	8,594	8,316	64.9
Total	**12,753**	**26.3**	**$4,396**	**$6,796**	**61.9**
7/1/2009 thru 6/30/2010[2]					
0 - 5	148	2.3	$289	$5,535	61.4
5 - 10	1,356	7.4	686	4,287	63.0
10 - 15	1,436	12.6	1,446	5,385	62.4
15 - 20	1,663	17.6	2,326	6,138	62.3
20 - 25	2,323	22.4	3,236	6,658	62.4
25 - 30	1,885	27.1	4,231	7,165	62.5
30 - 35	3,620	32.4	5,665	7,478	61.2
35 - 40	2,481	37.2	7,228	7,999	61.6
40 & over	581	42.3	4,260	8,409	65.4
Total	15,493	25.5	4,256	6,800	62.2

[1] Does not include formerly disabled members
[2] 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
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
2009	60.8	26.4	4,798	3,164
2010	60.9	26.3	4,983	3,302

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

Table 10 Retired Members by Type of Benefit and Option Elected

Monthly Unmodified Allowance[4]	Total	TYPE OF BENEFIT[1] 1[3]	2	3	OPTION SELECTED[2] Unmodified	2	3	4	5	6	7	8	9
Less than $500	18,852	16,033	187	2,632	13,962	1,938	655	78	93	1,338	555	74	159
500 - 1000	27,216	22,901	864	3,451	18,279	2,841	1,653	137	123	2,317	1,446	73	347
1000 - 1500	27,845	23,147	1,106	3,592	16,418	3,321	1,991	243	174	2,858	2,274	69	497
1500 - 2000	27,911	23,122	1,682	3,107	15,595	2,989	1,448	500	197	3,197	3,276	97	612
2000 - 2500	26,694	21,828	2,183	2,683	13,791	2,690	1,161	432	232	3,709	3,860	116	703
2500 - 3000	21,621	18,204	1,508	1,909	10,631	2,006	699	330	132	3,667	3,395	115	646
3000 - 3500	16,549	14,505	735	1,309	7,779	1,385	431	265	78	3,167	2,719	123	602
3500 - 4000	12,436	11,471	205	760	5,757	940	303	177	59	2,398	2,197	87	518
4000 - 4500	11,112	10,516	71	525	4,973	767	236	106	41	2,220	2,175	125	469
4500 - 5000	10,778	10,338	21	419	4,711	690	219	72	31	2,397	2,057	123	478
5000 - 5500	10,691	10,388	12	291	4,574	661	178	65	19	2,462	2,049	134	549
5500 - 6000	9,071	8,864	1	206	3,851	555	154	61	17	2,106	1,685	125	517
6000 & Greater	23,020	22,635	6	379	8,662	1,758	315	133	42	6,170	3,992	483	1,465
Total	**243,796**	**213,952**	**8,581**	**21,263**	**128,983**	**22,541**	**9,443**	**2,599**	**1,238**	**38,006**	**31,680**	**1,744**	**7,562**

[1] Type of Benefit:
1) Service Retirement
2) Disability Benefits
3) Survivor Benefits

[2] Option Selected:
Option 2 - Beneficiary receives 100% of member's modified allowance. Option 3 - Beneficiary receives 50% of member's modified allowance. Option 4 - Beneficiary receives 2/3 of member's modified allowance. Option 5 - Survivors receives 50% of member's modified allowance, upon death of either member of beneficiary. Option 6 - Beneficiary receives 100% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount. Option 7 - Beneficiary receives 50% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount. Option 8 - Compound option that allows the member to provide for more than one beneficiary. Option 9 - Beneficiary receives 75% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount.

[3] Does not include formerly disabled members

[4] As of the June 30, 2004 population report the longevity bonus is included in the unmodified allowance

Table 11 Principal Participating Defined Benefit and Defined Benefit Supplement Employers for Current Year and Nine Years Ago

PARTICIPATING EMPLOYERS	2010 COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	2001 COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles Unified	49,364	1	9.77%	48,766	1	10.52%
San Diego Unified	10,883	2	2.15	13,413	2	2.89
Long Beach Unified	6,132	3	1.21	6,992	3	1.51
Fresno Unified	5,606	4	1.11	6,128	4	1.32
San Francisco Unified	5,095	5	1.01	5,297	5	1.14
Elk Grove Unified	4,476	6	0.89			
San Bernardino City Unified	4,133	7	0.82	4,448	7	0.96
Oakland Unified	3,916	8	0.77	4,467	6	0.96
Sacramento City Unified	3,613	9	0.71	4,097	8	0.88
Capistrano Unified	3,603	10	0.71			
San Juan Unified				3,863	9	0.83
Santa Ana Unified				3,591	10	0.77
All Other	408,708		80.85	362,297		78.19
Total (64 Employers)	**505,529**		**100.00%**	**463,359**		**100.00%**

DEFINED BENEFIT SUPPLEMENT PROGRAM

Table 1 | Changes in Net Assets (dollars in millions)[1]

FISCAL YEAR ENDING JUNE 30	2010	2009	2008	2007	2006	2005	2004	2003	2002
Additions									
Member Contributions	$651.5	$700.8	$684.8	$638.5	$599.1	$574.1	$565.8	$532.6	$487.2
Employer Contributions	145.3	121.2	117.6	111.4	104.0	95.6	125.3	72.2	0.0
Investment Income	712.9	(1,122.5)	(387.8)	798.1	339.0	235.5	247.6	63.9	(27.7)
Total Additions	$1,509.7	($300.5)	$414.6	$1,548.0	$1,042.1	$905.2	$938.7	$668.7	$459.5
Deductions									
Benefit Payments to Members	$223.7	$156.4	$139.4	$97.2	$98.0	$75.4	$42.0	$0.6	$0.1
Refunds of Member Contributions	13.7	29.8	17.7	18.0	14.0	8.6	3.1	0.7	0.0
Administration Expenses	6.1	3.4	2.9	2.5	2.0	1.7	1.2	0.6	0.3
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9
Total Deductions	$243.5	$189.6	$160.0	$117.7	$114.0	$85.7	$46.3	$1.9	$4.3
Change in Net Assets	$1,266.2	($490.1)	$254.6	$1,430.3	$928.1	$819.5	$892.4	$666.8	$455.2

[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	2010	2009	2008	2007	2006	2005	2004	2003	2002
Type of Benefit									
Age & Service Benefits									
Retired Members	$205.8	$146.7	$129.6	$91.3	$94.0	$71.4	$39.0	$0.5	$0.0
Survivors	1.2	0.6	0.4	0.2	0.1	0.0	0.2	0.0	0.0
Death	7.6	4.3	4.2	2.6	1.9	2.0	1.1	0.1	0.1
Disability Benefits									
Retired Members	9.1	4.8	5.2	3.1	2.0	2.0	1.6	0.0	0.0
Total Benefits	$223.7	$156.4	$139.4	$97.2	$98.0	$75.4	$42.0	$0.6	$0.1
Type of Refund									
Separation	$13.7	$29.8	$17.7	$18.0	$14.0	$8.6	$3.1	$0.7	$0.0
Total Refunds	$13.7	$29.8	$17.7	$18.0	$14.0	$8.6	$3.1	$0.7	$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 2009–10[1], Classified by Age and Option Elected[2]

		Regular Annuity				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	28	5	7		3	4		1		1	2	1	4
55	353	127	53	4	12	45	3	4	6	6	53	4	36
56	250	68	38	5	11	29	3	1	6	4	39	5	41
57	348	82	53	5	15	57	6	5	9	5	59	6	46
58	496	112	79	12	26	79	7	3	17	19	72	10	60
59	732	156	108	24	35	114	8	7	12	32	148	15	73
60	1,017	232	152	15	49	161	11	5	11	24	222	21	114
61	1,330	286	222	25	68	224	21	10	13	31	224	56	150
62	985	266	143	16	58	156	8	16	15	9	136	27	135
63	842	253	109	18	38	126	11	4	12	18	123	19	111
64	496	148	65	9	26	89	9	2	7	14	84	7	36
65	475	154	66	11	31	73	1	2	5	3	66	17	46
66	294	79	42	6	19	55	6	1	2	1	49	3	31
67	234	74	25	4	18	35	2	1	1	2	39	7	26
68	160	42	20	3	4	44	2	1	4	3	19	2	16
69	106	36	11	2	3	18		2	1	1	21		11
70	88	37	10	1	2	16		1	1	1	9		10
71	55	14	7	2		7	1	1		1	10	1	11
72	55	16	7	1	3	9			1		10	1	7
73	34	11	3	1		8				2	7		2
74	29	9	1		2	7	1		1		5	1	2
75 and over	68	22	6	2	1	4					16		17
Age Unknown	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**8,475**	**2,229**	**1,227**	**166**	**424**	**1,360**	**100**	**67**	**124**	**177**	**1,413**	**203**	**985**

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

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

FISCAL YEAR ENDING JUNE 30	COUNT	AVERAGE MONTHLY RETIREMENT ANNUITY	AVERAGE ACCUMULATED BALANCE[2]	AVERAGE AGE AT RETIREMENT
2003[1]	–	–	–	–
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
2009	22,474	203	9,019	61.6
2010	29,261	227	10,651	61.7

[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 MONTHLY DISABILITY ANNUITY	AVERAGE ACCUMULATED BALANCE[2]	AVERAGE AGE AT RETIREMENT
2003[1]	–	–	–	–
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
2009	236	163	6,308	54.8
2010	336	201	7,673	55.6

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

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

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	20,107	6,487	2,102	372	193	29,261
Disability	252	62	18	3	1	336
Survivors	285	105	28	9	4	431
Total	**20,644**	**6,654**	**2,148**	**384**	**198**	**30,028**
Type of Payment						
Regular Annuity						
Single Life Without Cash	1,134	1	0	0	0	1,135
Single Life With Cash	6,995	268	14	2	0	7,279
100% J&S	5,068	251	13	3	1	5,336
75% J&S	502	31	6	0	0	539
50% J&S	1,492	87	10	2	0	1,591
Period-Certain Annuity						
10 Year	3,060	1,046	124	16	5	4,251
9 Year	269	107	9	1	2	388
8 Year	170	93	10	2	0	275
7 Year	256	208	16	10	0	490
6 Year	242	307	44	7	4	604
5 Year	1,188	2,841	558	88	43	4,718
4 Year	66	439	154	18	9	686
3 Year	202	975	1,190	235	134	2,736
Total	**20,644**	**6,654**	**2,148**	**384**	**198**	**30,028**

CASH BALANCE BENEFIT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Additions										
Participant Contributions	$6,486.2	$7,481.4	$6,921.4	$5,952.9	$5,503.4	$4,149.1	$3,866.6	$3,580.9	$3,535.1	$2,936.1
Employer Contributions	6,712.5	7,489.5	7,497.2	5,930.5	5,102.3	4,490.1	3,844.9	3,589.6	3,586.0	3,035.0
Investment Income	12,648.1	(19,727.8)	(6,994.7)	14,093.1	6,111.4	4,540.2	5,384.4	1,381.9	(943.8)	(942.2)
Total Additions	**$25,846.8**	**($4,756.9)**	**$7,423.9**	**$25,976.5**	**$16,717.1**	**$13,179.4**	**$13,095.9**	**$8,552.4**	**$6,177.3**	**$5,028.9**
Deductions										
Benefit Payments to Participant	$2,019.4[1]	$1,221.9[1]	$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[2]
Refunds of Participant Contributions	1,090.5	1,054.4	608.1	664.3	472.4	244.8	196.7	132.5	89.8[2]	118.7
Administration Expense	112.7	65.5	52.1	44.1	36.0	34.0	27.7	16.8	10.8	8.2
Other Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Deductions	**$3,222.6**	**$2,341.8**	**$1,713.5**	**$1,592.3**	**$1,838.1**	**$1,514.0**	**$804.7**	**$337.3**	**$206.1**	**$126.9**
Change in Net Assets	**$22,624.2**	**($7,098.7)**	**$5,710.4**	**$24,384.2**	**$14,879.0**	**$11,665.4**	**$12,291.2**	**$8,215.1**	**$5,971.2**	**$4,902.0**

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, 2007–08, 2008–09 and 2009–10 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; $354,751; $169,976 and $396,434 respectively.

[2] In fiscal year 2000–01, all payments were categorized as refunds.

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

FISCAL YEAR ENDING JUNE 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Type of Benefit										
Age & Service Benefits										
Retired Members	$1,802.9[1]	$824.0[1]	$993.5[1]	$829.6[1]	$1,237.0[1]	$1,143.2[1]	$535.4[1]	$132.2	$82.7	$0.0
Death	216.5	397.9	59.8	48.0	91.4	92.0	44.9	48.3	22.8	0.0
Disability Benefits										
Retired Members	0.0	0.0	0.0	5.8	1.3	0.0	0.0	7.5	0.0	0.0
Total Benefits	$2,019.4	$1,221.9	$1,053.3	$883.4	$1,329.7	$1,235.2	$580.3	$188.0	$105.5	$0.0
Type of Refund										
Separation	$1,090.5	$1,054.4	$608.1	$664.3	$472.4	$244.8	$196.7	$132.5	$89.8	$118.7
Total Refunds	**$1,090.5**	**$1,054.4**	**$608.1**	**$664.3**	**$472.4**	**$244.8**	**$196.7**	**$132.5**	**$89.8**	**$118.7**

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, 2007–08, 2008–09, and 2009–10 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; $354,751; $169,976 and $396,434 respectively.

Table 3 Members Retired for Service During Fiscal Year 2009–10[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	0												
55	1									1			
56	0												
57	0												
58	0												
59	0												
60	1												1
61	0												
62	0												
63	1	1											
64	2					1						1	
65	2	1											1
66	1												1
67	0												
68	1								1				
69	3	1											2
70	0												
71	1	1											
72	0												
73	0												
74	1	1											
75	0												
Over 75	3										2		1
Total	**17**	**5**	**0**	**0**	**0**	**1**	**0**	**0**	**1**	**1**	**2**	**1**	**6**

[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 January 1, 2007
[5] Formerly known as the 50% Joint and Survivor Annuity

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
2009	67.3	13,054	201
2010	68.1	12,701	204

[1] *Revised 2007.*

Table 5 | All Participants Receiving an Annuity by Type of Benefit and Type of Annuity Selected

	MONTHLY UNMODIFIED ALLOWANCE					
Type of Benefit	**Less than $250**	**$250–500**	**$500–750**	**$750–1,000**	**$1,000 & Greater**	**Total**
Retirement	32	10	2	1	0	45
Disability	0	0	0	0	0	0
Survivors	0	0	0	0	0	0
Total	**32**	**10**	**2**	**1**	**0**	**45**
Type of Payment						
Regular Annuity						
Single Life Without Cash	2	0	0	0	0	2
Participant Only	13	0	0	0	0	13
100% Beneficiary Annuity	3	0	0	0	0	3
70% Beneficiary Annuity	0	0	0	0	0	0
50% Beneficiary Annuity	1	0	0	0	0	1
Period-Certain Annuity						
10 Year	4	1	0	0	0	5
9 Year	1	0	0	0	0	1
8 Year	0	0	0	0	0	0
7 Year	1	1	0	0	0	2
6 Year	0	1	0	0	0	1
5 Year	3	3	0	0	0	6
4 Year	0	0	1	0	0	1
3 Year	4	4	1	1	0	10
Total	**32**	**10**	**2**	**1**	**0**	**45**

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

	2010			2001		
PARTICIPATING EMPLOYERS	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles CCD	4,070	1	12.52%	964	1	9.52%
Contra Costa CCD	2,204	2	6.78%	886	3	8.75
Peralta CCD	2,151	3	6.62%	725	5	7.16
West Contra Costa Unified	2,118	4	6.52%	922	2	9.11
City College of San Francisco	1,876	5	5.77%	864	4	8.53
Chabot-Las Positas CCD	1,711	6	5.26%	584	7	5.77
San Jose/Evergreen CCD	1,655	7	5.09%	543	8	5.36
Santa Rosa Junior College	1,359	8	4.18%			
Glendale CCD	1,277	9	3.93%	689	6	6.81
Grossmont Union High	1,220	10	3.75%			
Foothill De Anza CCD				485	10	4.79
Ohlone CCD				495	9	4.89
All Other	12,866		39.58	2,967		29.31
Total	**32,507**		**100.00%**	**10,124**		**100.00%**

PROGRAMS ADMINISTERED OR OVERSEEN BY THE RETIREMENT SYSTEM

PENSION2

Table 1A | Changes in Net Assets for Pension2 IRC 403(B) (dollars in thousands)[3]

FISCAL YEAR ENDING JUNE 30	2010	2009[2]	2008[2]	2007	2006	2005	2004	2003	2002	2001
Additions										
Participant Contributions	$53,536	$42,966	$26,289	$23,338	$21,509	$20,379	$19,535	$17,481	$14,472	$14,732
Interest, Dividends and Investment Income	17,175	(28,479)	(12,569)	22,793	10,245	6,143	9,754	1,054	(6,158)	(5,099)
Other Income	0	0	17	16	0	0	0	0	0	0
Total Additions	$70,711	$14,487	$13,737	$46,147	$31,754	$26,522	$29,289	$18,535	$8,314	$9,633
Deductions										
Distributions and Withdrawals[1]	$11,892	$8,644	$9,570	$8,451	–	–	–	–	–	–
Benefit Payments to Participant	0	0	0	0	$2,286	$2,645	$1,617	$1,965	$453	$250
Refunds of Participant Contributions	0	0	0	0	7,481	6,131	6,440	3,478	2,553	2,288
Administration Expenses	374	278	526	782	935	917	807	504	372	344
Total Deductions	$12,266	$8,922	$10,096	$9,233	$10,702	$9,693	$8,864	$5,947	$3,378	$2,882
Change in Net Assets	$58,445	$5,565	$3,641	$36,914	$21,052	$16,829	$20,425	$12,588	$4,936	$6,751

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

[2] *Certain reclassifications have been made to the totals for the fiscal years ended June 30, 2008 and 2009.*

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

Table 1B | Changes in Net Assets for Pension2 IRC 457 Plans (dollars in thousands)

FISCAL YEAR ENDING JUNE 30	2010	2009
Additions		
Participant Contributions	$674	$37
Interest, Dividends and Investment Income	60	1
Other Income	0	0
Total Additions	$734	$38
Deductions		
Distributions and Withdrawals	$0	$0
Benefit Payments to Participant	0	0
Refunds of Participant Contributions	0	0
Administration Expenses	0	0
Total Additions	$0	$0
Change in Net Assets	$734	$38

The Pension2 IRC 457 Plan began in fiscal year 2008–09.

PROGRAMS ADMINISTERED OR OVERSEEN BY THE RETIREMENT SYSTEM

PENSION2[1]

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

	2010			2006		
PARTICIPATING EMPLOYERS	PARTICIPATING EMPLOYEES	RANK	PERCENTAGE	PARTICIPATING EMPLOYEES	RANK	PERCENTAGE
Los Angeles USD	1,290	1	20.41%	525	1	14.47%
San Diego City USD	161	2	2.55	65	2	1.79
Long Beach Unified	94	3	1.49	43	4	1.18
LA Comm College Dist	84	4	1.33			
Sacramento City USD	74	5	1.17	42	5	1.16
San Juan Unified	74	6	1.17	29	9	0.80
City College of San Fran	73	7	1.15			
San Diego Comm College	72	8	1.14			
San Francisco USD	60	9	0.95	44	3	1.21
Poway Unified	56	10	0.89			
Capistrano Unified				37	6	1.02
Fresno Unified				33	7	0.91
Mt. Diablo Unified				31	8	0.85
Orange Unified				28	10	0.77
All Other	4,282		67.75	2,752		75.83
Total (679 employers)	**6,320**		**100%**	**3,629**		**100.00%**

[1] Due to change in record keeper, data is only available since 2006.
Formerly known as the CalSTRS Investment Program.

MEDICARE PREMIUM PAYMENT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Additions										
Employer Contributions	$31,749	$29,962	$33,239	$32,257	$29,602	$28,483	$26,496	$22,221	$19,060	$4,800
Interest, Dividends and Investment Income	33	106	205	240	143	87	41	53	118	26
Other Income	0	0	0	0	0	(158)	8	0	31	0
Total Additions	**$31,782**	**$30,068**	**$33,444**	**$32,497**	**$29,745**	**$28,412**	**$26,545**	**$22,274**	**$19,209**	**$4,826**
Deductions										
Premiums Paid	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536	$0
Administration Expenses	309	316	334	190	359	429	373	355	377	453
Total Deductions	**$35,730**	**$29,731**	**$33,023**	**$31,460**	**$29,672**	**$27,845**	**$26,021**	**$22,381**	**$21,913**	**$453**
Change in Net Assets	**($3,948)**	**$337**	**$421**	**$1,037**	**$73**	**$567**	**$524**	**($107)**	**($2,704)**	**$4,373**

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

FISCAL YEAR ENDING JUNE 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001[1]
Type of Benefit										
Age & Service Benefits										
Retired Members	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536	$0
Total Benefits	$35,421	**$29,415**	**$32,689**	**$31,270**	**$29,313**	**$27,416**	**$25,648**	**$22,026**	**$21,536**	**$0**

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

MEDICARE PREMIUM PAYMENT PROGRAM

Table 3 Retired Members Enrolled in Medicare Premium Payment Program During Fiscal Year 2009–10 Classified by Age at Retirement

AGE	TOTAL
<55	9
55 - 56	30
56 - 57	16
57 - 58	16
58 - 59	26
59 - 60	39
60 - 61	70
61 - 62	57
62 - 63	29
63 - 64	13
64 - 65	13
65 - 66	10
66 - 67	7
67 - 68	5
68 - 69	1
69 - 70	2
70 - 71	1
71 - 72	1
72 - 73	0
73 - 74	0
74 - 75	0
>=75	2
Grand Total	**347**

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

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
2009	60.3	464
2010	60.3	438

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