•GROWING MEMBERS FINANCIAL FUTURES•

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component of the State of California for the Fiscal Year Ended June 30, 2011

CALSTRS®
HOW WILL YOU SPEND YOUR FUTURE?

Mission Statement

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

Our goal

Risk and Reward

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

No Surprises

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

One and Done

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

Rock Solid

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

CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component of the State of California for the Fiscal Year Ended June 30, 2011

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Comprehensive Annual Financial Report
Prepared by CalSTRS Staff

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

December 20, 2011

The Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the fiscal year ended June 30, 2011, details the performance of the system's funds.

This fiscal year was marked by persistent, worldwide economic difficulties that continued to stretch the limits of governmental, corporate and personal budgets. Signs of economic recovery remain elusive, although CalSTRS garnered a second year of double-digit returns thanks to sound investment management.

Our successful investment performance last fiscal year is commendable; however, it clearly illustrates the most important issue facing CalSTRS: Investment returns alone will not restore the fund's long-term viability. We have been working with the Legislature and Governor to raise awareness of the system's $56 billion funding shortfall, the cost of waiting to address it and the ultimate risk failing to do so presents to the state's General Fund. The funding shortfall can be managed, but it will require a thoughtful, strategic solution involving increased contributions, which can be gradual, predictable and fair to all parties. It is our fiduciary responsibility to press this issue and protect the long-term health of the fund. The Legislature and Governor, however, must tackle the challenge of crafting a specific funding strategy since only they have the authority to do so. Ultimately, CalSTRS will be sustained through the collaboration and responsible stewardship of all who seek to fulfill the state's promise to California's educators.

CalSTRS mission and fiduciary priorities are focused on securing our members' financial future into their retirement. In order to best help our members comprehend their pension benefit, we are sharpening our communications efforts to promote a deeper understanding of how the parts of CalSTRS work together and what actions our members can take to have the retirement lifestyle they want.

The goal of this communications initiative is to build member awareness of the comprehensive hybrid retirement system CalSTRS has become over the past decade. The CalSTRS hybrid system was implemented in 2001 upon the establishment of the Defined Benefit Supplement Program and has since grown with the inclusion of Pension2, CalSTRS Defined Contribution vehicle.

CalSTRS is one of the few pension systems in the U.S. with all three plan components in place: defined benefit, cash balance and defined contribution.

The Defined Benefit Program, a traditional defined benefit plan, provides a monthly amount based on a formula using age, service and compensation. The Defined Benefit Supplement Program, a cash balance plan, acts like a 401(k), but also has a minimum earnings guarantee. Pension2, a defined contribution plan, is a voluntary personal wealth plan offering 403(b) and 457(b) products.

We are actively looking at strengthening the importance of the Defined Benefit Supplement Program for growing assets and greatly expanding Pension2 marketing and services as a voluntary supplemental savings tool. The overall goal is to encourage members to use the multi-faceted organization CalSTRS has become to take action early in their career as they work toward a secure retirement.

For nearly 100 years, CalSTRS has provided retirement security for generations of California's educators. We've never missed a benefit payment for our members — even during the Great Depression. In these challenging fiscal and political times, CalSTRS continues to operate by focusing on careful planning and long-term, strategic objectives in order to fulfill our fiduciary responsibility to our members.

MEMBER PROFILE

Established 98 years ago, the California State Teachers' Retirement System, with a $155.3 billion portfolio as of June 30, 2011, is the largest teacher and second largest public pension fund in the United States. It administers retirement, disability and survivor benefits for California's 856,360 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 the administrator. The law sets required member and employer contribution rates. CalSTRS members include employees of approximately 1,600 school districts, community college districts, county offices of education and regional occupational programs as of June 30, 2011. Our membership spans from the new teacher just starting out to the retired educator enjoying the fruits of decades of teaching in the classroom.

The median CalSTRS pension replaced less than 60 percent of final salary for the members who retired last year. 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-funded 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 more than 40 publications and web-based information, we strive to be members' trusted guide to retirement.

INVESTMENTS OVERVIEW

For fiscal year 2010-11, the investment portfolio increased $25.6 billion, or 23.0 percent, in value. This was the highest investment return in 25 years. While a cause for celebration, we must balance the short-term success with the longer term consequences of the global financial meltdown of 2008. Our investment professionals continue to adapt and effectively respond to the volatility of the dynamic global financial markets.

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, 2011. The markets are dynamic and fluid, any judgment of the financial statements should also consider current market conditions.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING AND INTERNAL CONTROLS

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. Management is responsible for the integrity and fairness of the information presented in the financial statements, including data that, out of necessity, is based on estimates and judgments. Management is also responsible for establishing and maintaining an effective internal control structure. A system of internal controls provides reasonable, but not absolute, assurance that assets are properly safeguarded and that financial statements are reliable. We believe that the internal controls currently in place support this purpose, and that the financial statements, accompanying schedules and statistical tables are fairly presented in all material respects.

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 on an annual basis. The actuarial valuation provides a picture of the overall funding health of our programs, including the 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 State Teachers' Retirement Plan.

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 previous fiscal year. This look back shows us overall trends in our programs and membership demographics that help us accurately forecast our future ability to meet our members' 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 CalSTRS for its comprehensive annual financial report for the year ended June 30, 2010. This is the 16th 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 2011 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

Award | GFOA CERTIFICATE

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Teachers' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010

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

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

PPCC

Public Pension Coordinating Council

Recognition Award for Administration 2011

Presented to

California State Teachers' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

Teachers' Retirement Board | AS OF JUNE 30, 2011

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

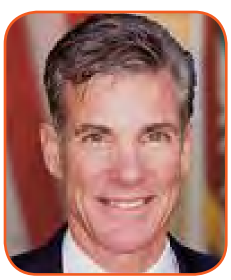
John Chiang
State Controller
Ex-Officio Member

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

Bill Lockyer
State Treasurer
Ex-Officio Member

Ana Matosantos
Director of Finance
Ex-Officio Member

Beth Rogers, Ph.D
Public Representative
Term:
1/11/08 – 12/31/11



Tom Torlakson
State Superintendent of
Public Instruction
Ex-Officio Member

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

EXECUTIVE STAFF

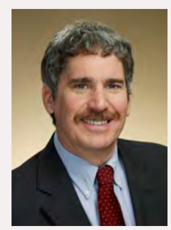
JACK EHNES
Chief Executive Officer

CHRISTOPHER J. AILMAN
Chief Investment Officer

CHRISTINE FORD
Chief of Staff

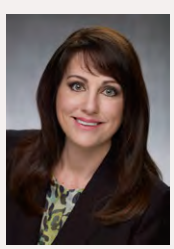
BRIAN J.BARTOW
General Counsel

ED DERMAN
Deputy Chief Executive Officer
Plan Design and Communication

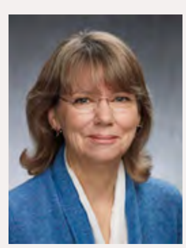


JANICE HANSON
Deputy Chief Executive Officer
Enterprise Initiatives and Technology

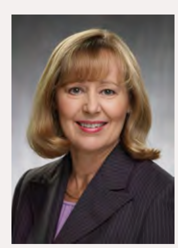
CASSANDRA LICHNOCK
Human Resources Executive Officer



ROBIN MADSEN
Chief Financial Officer



PEGGY PLETT
Deputy Chief Executive Officer
Benefits and Services



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, Regional Occupational Centers and Programs, and select State agencies. 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, 2010, due to the timing of the issuance of the basic financial statements.

Membership by the Numbers

As of June 30, 2011

Benefits to Members and Benefit Recipients

SERVICE RETIREMENT

CalSTRS is committed to providing exceptional service to its retired members. Our staff establishes and maintains timely and accurate service retirement benefits.

14,099	Members who retired in fiscal year 2010–11
9 percent	Decrease from fiscal year 2009–10

DISABILITY BENEFITS

88 percent	Applications processed within 150 days
882	Applications received
633	Approved applications
11.5 percent	Increase in number of applications from fiscal year 2010–11

SURVIVOR BENEFITS

7,407	Notifications of death received
7.61 percent	Increase in number of notifications from fiscal year 2009–10
90 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.

9,869	Members using automated phone self-serve options
282,138	Member inquiries answered
156 seconds	Average wait time to talk with Contact Center agent
20 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.

- 77 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 available online in October on the member's *my*CalSTRS account and 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 this report.

MEMBER INFORMATIONAL PUBLICATIONS

CalSTRS offers a number of publications to 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* is also produced on CD, 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

The 403bCompare website is a bank of free objective information about 403(b) vendors and the products they offer.

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 allows members to compare up to three like products with a side by side comparison of fund descriptions, fees and returns.

BENEFITS COUNSELING

CalSTRS provides services to both educate and assist members with retirement planning. CalSTRS benefits counselors meet with members individually or in a small group setting. These sessions are conducted in-person, over the telephone or online. In all settings, counseling sessions provide specific, personalized information and assistance to members.

When making a counseling appointment, members may choose to meet with a CalSTRS benefits counselor in-person or over the telephone. Individual counseling sessions are most beneficial when close to retirement or considering a disability benefit. CalSTRS redesigned the individual session to be more member-driven, providing beneficial tools for members to take a more proactive role in their retirement planning.

CalSTRS developed a series of group counseling sessions to better meet member expectations and demand for services. These sessions offer members greater accessibility to counseling services at times most convenient for them and include the same beneficial tools included in the individual session. There are three types of group sessions offered:

- *CalSTRS and You*, designed for members who are not eligible to retire, focuses on identifying gaps in projected retirement income and planning for ways to bridge that gap;
- *CalSTRS and Your Retirement*, designed for members who are eligible to retire, focuses on pre-election of an option and other retirement decisions members must make and includes a personalized retirement estimate;
- *Application Roundtable* is designed for members who are ready to complete the retirement application. A benefits counselor assists members with properly filling out the form and, if a member chooses, may verify and accept a member's application in the session.

This year the number of counseling sessions reflects the emphasis on group counseling as a method of providing access to counseling services for all members throughout the year.

- Individual benefits counseling was provided to 36,190 members at more than 27 locations throughout California and over the telephone.
- Group counseling was provided in 341 sessions to 2,263 members at counseling offices, over the telephone and online.

All counseling services continue to receive high marks on member satisfaction surveys.

MEMBER WORKSHOPS

CalSTRS provides workshops to enable members to educate themselves about their benefits. Workshops are designed to meet the specific needs of members at each age and career stage:

- *Demystifying CalSTRS* focuses on basic plan information and the importance of supplemental benefits.
- *CalSTRS Fundamentals*, designed for members in mid-career, covers basic details of CalSTRS benefits and personal financial planning.
- *CalSTRS Retirement Checkup*, designed for late-career members, focuses on the CalSTRS retirement formula, retirement decisions, potential income gaps, postretirement employment and the retirement timeline.
- *CalSTRS Retirement Income Management* for both late career members and retirees, presents ways to protect and manage income in retirement.

■ CalSTRS presented 549 workshops to 12,398 members.

MEMBER EDUCATION FAIR

CalSTRS presented its first Member Education Fair at headquarters in West Sacramento in April. The Fair included three member workshops and booths with representatives from Social Security, HICAP, CalPERS, Pension2 and CalSTRS Home Loan Program.

■ A total of 245 members and 50 spouses participated in this inaugural event.

SPRING INTO RETIREMENT EVENTS

At five locations throughout California, members had the ability to have benefits counselors review and help them submit their service retirement applications and other forms. Locations included West Sacramento, Fresno, Hayward, San Diego and Downey.

■ A total of 695 members attended the events and 376 service retirement applications were submitted.

FORMS DROP-OFF

Members continue to take advantage of convenient, secure forms drop-off service at counseling offices. Members appreciate knowing that when they submit a form at a counseling office it goes directly to CalSTRS. Many take the opportunity to have their forms checked for completeness before submission to CalSTRS.

■ More than 14,000 forms were submitted to CalSTRS from 27 different locations throughout the state last year.

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. 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.

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 Crowe Horwath 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.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying basic financial statements of the California State Teachers' Retirement System (the System), a component unit of the State of California, as of and for the year ended June 30, 2011, as listed in the table of contents. 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 2010 financial statements, which were audited by other auditors whose report dated October 15, 2010, expressed an unqualified opinion on those statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 previously present fairly, in all material respects, the fiduciary net assets of the California State Teachers' Retirement System as of June 30, 2011, 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.

The financial statements include summarized prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2010, from which such summarized information was derived.

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2010, the System's independent actuaries determined that, at June 30, 2010, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by $56 billion. The most recent actuarial value of assets as of June 30, 2010 does not include either deferred investment losses or gains that will be recognized in the future.

The financial statements include investment securities valued at approximately $42 billion as of June 30, 2011, most of whose fair value has been estimated general partners and investment advisors, and reviewed and approved by CalSTRS management, in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the estimate of values may differ from the values that would have been used had a ready market existed for the investment securities, and the differences could be material.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011 on our consideration of the California State Teachers' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 25-38 and the Schedule of Funding Progress, and the Schedule of Contributions from Employers and Other Contributing Entities on pages 70-74 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 introduction section, other supplemental information in the financial section, investments section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction section, investments section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Crowe Horwath LLP

Crowe Horwath LLP

October 7, 2011
Sherman Oaks, California

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the California State Teachers' Retirement System's (CalSTRS) financial performance provides an overview of financial activities for the fiscal year ended June 30, 2011. This discussion and analysis focuses on the current year's activities, resulting changes, and currently known facts. This discussion is more meaningful when read in conjunction with the CalSTRS financial statements and notes to the financial statements.

In addition to historical information, this discussion and analysis includes some forward-looking statements that involve uncertainties and risks. CalSTRS' actual results, performance and achievements expressed or implied in these statements are subject to changes in interest rates, securities markets, general economic conditions, legislation and other factors.

CalSTRS is primarily responsible for administering a hybrid retirement system, consisting of traditional defined benefit, cash balance and defined contribution plans, including disability and survivor benefits for California public school teachers and certain other employees of the state's public school system. CalSTRS is comprised of the following:

- State Teachers' Retirement Plan (STRP)
- CalSTRS Pension2® Program (Internal Revenue Code 403(b) and 457 plans)
- Teachers' Health Benefits Fund (THBF)
- Teachers' Deferred Compensation Fund (TDCF)

As part of CalSTRS' fiscal year 2010-11 planning, the Teachers' Retirement Board (board) and staff agreed that the top priority for the current and next several years is the long-range funding strategy. Another important internal issue is evaluating CalSTRS' technology infrastructure capabilities to further mitigate operational risks and address not only service improvements, but also the potential for significant changes to the benefit structure as a result of external opportunities and challenges. Because of the importance of these issues, CalSTRS expects to expend considerable staff effort and other budgetary resources beyond those necessary for day-to-day operations to continue to address these two priorities in the coming years.

CalSTRS projects a funding shortfall or unfunded actuarial obligation for the Defined Benefit Program. The shortfall is based on an actuarial valuation, explained later in this Management's Discussion and Analysis. CalSTRS projected assets must balance with the cost of future benefits over the long term to pay the pension obligation to all generations of teachers. Currently, CalSTRS is projected to have assets to pay benefits through 2042.

Under California state law, the Defined Benefit Program receives contributions from members and employers set at a percentage of members' earnings, in addition to contributions from the state's General Fund. CalSTRS' investment earnings finance the cost of administering the plan and reduce the amount of contributions required to fund benefits. CalSTRS has few options to address its funding shortfall because it cannot unilaterally raise contribution rates. According to state law, only the Legislature and the Governor have the authority to adjust contribution rates paid by members, employers and the state.

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Historically, investment returns contribute about 55 percent of the retirement benefit. CalSTRS uses a time weighted return methodology to calculate returns for performance purposes. Despite earning an approximate 23 percent return on a performance basis in fiscal year 2010-11, CalSTRS estimates it cannot invest its way out of its projected funding shortfall. As of the June 30, 2010 actuarial valuation for the Defined Benefit Program, the gap between the value of assets and the value of its obligations, or funding gap, has grown to approximately $56.0 billion.

On August 18, 2011, the California State Auditor released a report assessing the high-risk issues that face the State of California and selected state agencies. In this report, the State Auditor "added CalSTRS' Defined Benefit Program to the list of high-risk issues because the State faces the possibility of having to help finance CalSTRS' pension liabilities."

That "possibility" is based upon the state's incontrovertible promise to fund the retirement benefits of CalSTRS members. The California Legislature's purpose in establishing CalSTRS was and is to "provide a financially sound plan for the retirement" of California's public school and community college teachers. [California Education Code section 22001.] The California Constitution recognizes the systems duty to "safeguard the competency of public pension funds." The Legislature emphasized its commitment to the financial competency of the State Teachers' Retirement Fund in the section of the law dealing with the state's contributions to the fund: "[p]ursuant to Section 22001 and case law, members are entitled to a financially sound retirement system. It is the *intent of the Legislature* that this section shall provide the retirement fund stable and full funding over the long term." [Education Code section 22955, subdivision d.]

The case law referenced is *California Teachers Association v. Cory* (1984) 155 Cal. App. 3d 494, which recognized the state's promise to fully fund the plan. "When the promise to permanently fund the retirement system is accepted by teachers by initial or continued employment a contract is established." *Id*. at 508. "[A] commitment to permanency of funding was made. Given this commitment to permanency of funding and the critical importance which funding bears to the capacity of the state to fulfill the underlying contractual promise to pay the pension, we imply a promise of funding in exchange for the valuable services rendered by the state's teachers." *Id*. at 506.

The state has guaranteed full payment through its "commitment to permanency of funding" of the benefits promised and has not limited its liability to the amounts administered from time to time by CalSTRS. Without a plan of action, the CalSTRS fund will be depleted in 2042 and the state will be legally obligated to pay the difference between the benefits paid and the contributions received to maintain the system.

To address the current risk environment specific to financial and administrative functions, CalSTRS identified the need to update core technology as a key long-range activity that will reduce operational risk and improve services to members. Through the effort, entitled "BusinessRenew," CalSTRS has embarked on a series of technological initiatives to modernize business practices of CalSTRS' operations. Under one such initiative, CalSTRS plans to implement the Systems, Applications and Products in Data Processing (SAP) Enterprise Resource Planning software along with streamlined business processes and fiscal management over the next two years.

In January 2012 CalSTRS plans to open a Member Service Center in Glendale, California. Survey results showed that members wanted a location and hours convenient to them, as well as services and training to help them achieve a secure retirement. The opening of the site assists in fulfilling members' needs as expressed through the survey.

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In response to demand, CalSTRS introduced an online tool to its members that allows them to complete a number of tasks, including submitting their service retirement forms via a secure website. This enables CalSTRS to better support its members as they advance through their careers toward retirement.

FINANCIAL HIGHLIGHTS

- Total net assets increased for the STRP by $25.6 billion or 19.7 percent to $155.3 billion.
- Total member contributions increased for the STRP by $24.5 million or 1.0 percent to $2.4 billion.
- Total employer contributions increased for the STRP by $24.0 million or 1.0 percent to $2.3 billion.
- Total state/federal contributions decreased for the STRP by $28.3 million or 2.3 percent to $1.2 billion.
- Net investment income for the STRP increased by $14.9 billion or 99.0 percent to $30.0 billion.
- Benefit payments increased by $734.1 million or 7.8 percent to $10.1 billion.
- In the most recent actuarial valuation as of June 30, 2010, the CalSTRS Defined Benefit Program was estimated to be funded at 71 percent compared to an estimated funding level of 78 percent as of June 30, 2009 (see Note 3 and Required Supplementary Information for additional information.)

OVERVIEW OF FINANCIAL STATEMENTS

Management's Discussion and Analysis is an introduction to CalSTRS' basic financial statements. CalSTRS' financial statements include the following components:

1. The Statement of Fiduciary Net Assets
2. The Statement of Changes in Fiduciary Net Assets
3. Notes to the Basic Financial Statements
4. Required Supplementary Information - Unaudited
5. Other Supplemental Information

The Statement of Fiduciary Net Assets. The Statement of Fiduciary Net Assets presents information on all of CalSTRS' 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 CalSTRS' financial position and its ability to fund future benefit payments.

The Statement of Changes in Fiduciary Net Assets. The Statement of Changes in Fiduciary Net Assets shows how CalSTRS' net assets changed during the fiscal year, reflecting contributions due, benefit payments made, investment returns, and the costs of administering CalSTRS.

Notes to the Basic Financial Statements. The Notes to the Financial Statements provide information essential to a full understanding of fiduciary fund financial statements. The type of information provided in each of the notes to the financial statements are as follows:

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

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- Note 2 provides a summary of significant accounting policies, including the basis of accounting for CalSTRS, 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 CalSTRS' 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. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, 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 CalSTRS' 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 CalSTRS.
- Note 6 provides a summary of significant commitments incurred by CalSTRS.
- 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 and actuarial assumptions and methods that assist in understanding the funded status of CalSTRS. The information available in the Required Supplementary Information section includes:

- Schedule I – Schedule of Funding Progress
- Schedule II – Schedule of Contributions from Employers and Other Contributing Entities

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

The information available in the Other Supplemental Information section includes:

- Schedule III – Schedule of Administrative Expenses
- Schedule IV – Schedule of Investment Expenses
- Schedule V – Schedule of Consultant and Professional Services Expenses

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FINANCIAL ANALYSIS

State Teachers' Retirement Plan (STRP)
The State Teachers' Retirement Plan (STRP) is a defined benefit pension plan that provides retirement, disability, and survivor benefits. It is comprised of four programs: the Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefit Program (See Note 1 for further explanation).

NET ASSETS
(Dollars in Thousands)

ASSETS	2011	2010	Percent Change
Investments [1]	$ 181,211,990	$ 157,072,884	15.4%
Cash and Cash Equivalents	343,122	211,688	62.1%
Investment Receivables	1,111,233	1,708,210	-34.9%
Member, Employer and Other Receivables	654,264	571,272	14.5%
Capital Assets	243,875	246,909	-1.2%
TOTAL ASSETS	183,564,484	159,810,963	14.9%
LIABILITIES			
Benefits in Process of Payment	917,085	843,821	8.7%
Investments Pending Settlement	1,920,924	1,701,950	12.9%
TALF Loan Payable	25,985	182,781	-85.8%
Other Liabilities	82,617	81,109	1.9%
Securities Lending Obligation	25,272,058	27,233,195	-7.2%
TOTAL LIABILITIES	28,218,669	30,042,856	-6.1%
TOTAL NET ASSETS	$ 155,345,815	$ 129,768,107	19.7%

[1] Includes securities lending collateral.

While CalSTRS earned an approximate 23 percent investment return calculated on a performance basis for fiscal year 2010-11, the STRP net assets increased 19.7 percent from $129.8 billion in fiscal year 2009-10 to $155.3 billion as of June 30, 2011. The difference in these percentages is reflective of the fact that contributions are not sufficient to cover benefit payments; and in turn, investment earnings are required to fund the gap. Investments, excluding securities lending collateral, increased by $26.0 billion or 20.0 percent to $156.0 billion as of June 30, 2011. At June 30, 2011, the STRP held $28.0 billion in debt securities, a decrease of $1.6 billion or 5.3 percent from June 30, 2010. At June 30, 2011, the STRP also held $80.6 billion in global equity securities, an increase of $14.7 billion or 22.4 percent from June 30, 2010. Remaining holdings in short-term, private equity, real estate and absolute return investments totaled $47.4 billion at June 30, 2011, an increase of $12.9 billion or 37.3 percent from the balance as of June 30, 2010. Net appreciation on investments of $26.6 billion in fiscal year 2010-11 compared to a net appreciation of $11.7 billion in fiscal year 2009-10 resulted in an increase of $14.9 billion.

Investment Receivables decreased by 34.9 percent from $1.7 billion to $1.1 billion as of June 30, 2011. This balance can fluctuate based on the open trades and dates of settlement.

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Securities lending collateral and obligations decreased during fiscal year 2010-11 by $1.9 billion and $2.0 billion, respectively. The Securities Lending Program is designed to use its existing asset base and investment expertise to generate a steady source of risk-controlled incremental income. In calendar year 2011, there have been positive developments in the security lending markets resulting in additional diversification and income opportunities.

In 2009, CalSTRS 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.) The facility was closed for new loan extensions in March 2010. Activity in this program decreased by $156.8 million or 85.8 percent to $26.0 million as CalSTRS paid back most of the loans, which were outstanding at June 30, 2010.

Other liabilities increased by $1.5 million between fiscal years, due primarily to an increase in the Other Post-Employment Benefits (OPEB) liability and deferred vacation accrual, which was offset by a significant decrease in accrued salaries and wages.

CHANGES IN NET ASSETS

(Dollars in Thousands)

ADDITIONS	2011	2010	Percent Change
Member	$ 2,355,909	$ 2,331,430	1.0%
Employer	2,310,251	2,286,266	1.0%
State/Federal Government	1,193,364	1,221,628	-2.3%
Investment/Other Income (Loss)	30,036,821	15,097,050	99.0%
TOTAL ADDITIONS	35,896,345	20,936,374	71.5%
DEDUCTIONS			
Benefit Payments	10,092,064	9,357,942	7.8%
Refund of Contributions	116,089	100,125	15.9%
Administrative Expenses	110,484	140,273	-21.2%
TOTAL DEDUCTIONS	10,318,637	9,598,340	7.5%
NET ASSET INCREASE (DECREASE)	25,577,708	11,338,034	125.6%
BEGINNING NET ASSETS	129,768,107	118,430,073	9.6%
ENDING NET ASSETS	$ 155,345,815	$ 129,768,107	19.7%

Additions to Plan Net Assets

The STRP benefits are funded from employer, member, state and federal contributions, and investment earnings. Employer and member contribution rates are established by state law. As a result, only the Legislature and the Governor, not the CalSTRS board, have the authority to change employer and member contribution rates. Based on current legislation, CalSTRS will be receiving 0.524 percent more as a percentage of creditable earnings for most of fiscal year 2011-12 than in fiscal year 2010-11 due to the unfunded liability status of the Defined Benefit Program.

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The STRP net investment income increased to $30.0 billion in fiscal year 2010-11 compared to net income of $15.1 billion in fiscal year 2009-10. While the portfolio experienced net appreciation across the STRP, the primary contributor to the increase in net investment income in fiscal year 2010-11 was the net appreciation of global equities which represented approximately 53.0 percent of investments, excluding securities lending collateral.

Contributions from State and Federal Government decreased by 2.3 percent or $28.3 million as a result of the finalization of the Elk Hills Naval Petroleum Reserve settlement.

Deductions from Plan Net Assets

Benefit payments totaled $10.1 billion in the fiscal year 2010-11. The $734.1 million or 7.8 percent increase in benefit payments over the prior year is primarily the result of an increase in retirees receiving benefit payments. The average monthly benefit paid to participants is $3,302. This benefit payment is typically the single retirement benefit CalSTRS members receive as they do not participate in Social Security.

Refund of Contributions increased by 15.9 percent from $100.1 million to $116.1 million for the year ended June 30, 2011. Refund requests and amounts fluctuate year to year due to changing demographic trends (e.g., deaths) and economic conditions (e.g., employment rates).

Administrative expenses decreased by $29.8 million or 21.2 percent. This is largely a result of the reversal of previously accrued furlough compensation, prior years' implementation of a new capitalization policy, and an increase in the capitalization of intangible assets.

Subsequent Changes in Financial Position

The global financial markets are highly dynamic and can change significantly in value each and every day. In seven of the past 10 years, the value of CalSTRS' investment portfolio has changed, increasing or decreasing by five percent or more, during the three months immediately following June 30 of each year. As of September 26, 2011, the investment portfolio had declined in comparison to the June 30 value by approximately $15.5 billion, to an estimated value of $140.5 billion, excluding securities lending collateral. The reader is encouraged to refer to the CalSTRS web site for the latest information.

In late July 2011, the U.S. Congress held a very public debate about the U.S. Federal deficit. On August 5, 2011, Standard & Poor's rating agency downgraded the U.S. Government credit rating, deepening investor fears and creating a global decline in equity values. This event, coupled with credit concerns and default risks of Greece, Italy, Portugal and Spain added to investor fears and increased the overall volatility of the global markets. With approximately 75 percent of the CalSTRS portfolio invested in daily priced securities, the investment portfolio is impacted by daily fluctuations in the financial markets.

During the first three months of fiscal year 2011-12, the U.S. stock market declined 8.1 percent as measured by the Russell 3000 index and the global stock markets dropped 9.9 percent as measured by the MSCI All World ex-US index. CalSTRS' long-term investment strategies and Investment Policy and Management Plan remain in place. As the global financial markets experience significant volatility the portfolio will change in value. The overriding investment philosophy followed by the CalSTRS Investment Committee and investment staff continues to center on the long held principles of diversification and a search for long-term stable cash flows at reasonable prices. This broad diversification has helped the investment portfolio, however it does not make the portfolio immune to significant changes in an economic environment. The reader is again encouraged to seek the most recent information on the investment portfolio on CalSTRS website.

CalSTRS Pension2 Program

CalSTRS Pension2 (Pension2) offers Internal Revenue Code (IRC) section 403(b) and 457 plans which are tax-deferred defined contribution plans. Through Pension2, school employees have the opportunity to supplement their pension benefits. TIAA-CREF has been retained to provide administration and trustee services over Pension2. Net assets increased by $75.4 million or 31.6 percent when compared to the prior fiscal year due to a net investment income of $43.9 million in fiscal year 2010-11 compared to net investment income of $17.2 million in fiscal year 2009-10.

Teachers' Health Benefits Fund

The Teachers' Health Benefits Fund (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 who meet certain eligibility criteria. Education Code sections 22950(c) and 25930 require a portion of the statutory employer contributions to be deposited directly to the THBF for the payment of MPP Program benefits and prohibit the transfer of Teachers' Retirement Fund resources for these payments.

Current employer contributions increased by $4.4 million or 13.9 percent to $36.1 million during fiscal year 2010-11. The THBF paid benefits of $35.8 million in fiscal year 2010-11, which is comparable to the $35.4 million in paid benefits in the prior year. CalSTRS invests the assets of the THBF in the State of California's Surplus Money Investment Fund and earned $10,500 in interest income for the fiscal year ended June 30, 2011.

Since the evaluated amount needed to fund the MPP Program in its entirety has not been transferred to the THBF, the funded ratio from a financial reporting perspective is 0.10 percent as of June 30, 2010. (See Note 3)

Teachers' Deferred Compensation Fund

The Teachers' Deferred Compensation Fund (TDCF) is a trust fund established to account for ancillary activities associated with various deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for the members and their beneficiaries. The TDCF received fee revenues and interest of $501,000, a decrease of $43,000 or 7.9 percent from the prior year. As of June 30, 2011, there were 145 employers participating in the program.

FUNDING ANALYSIS – DEFINED BENEFIT PROGRAM

The most important component of CalSTRS pension funding is investment income (including unrealized gains and losses). Historically, CalSTRS investment income has contributed over half of the total inflows to the plan. Currently the investment rate of return and discount rate assumption for actuarial valuation is 7.75 percent. The actuarial assumptions and methods used in the June 30, 2010 valuation were based on the 2007 Actuarial Experience Analysis adopted by the board in April 2008. The 2010 Actuarial Experience Analysis is expected in February 2012.

The investment return assumption (discount rate), according to 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 is the basis for determining the actuarial value of assets.

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The investment return assumptions are developed by CalSTRS' investment and actuarial consultants and are adopted by the board.

The table below presents information to highlight the importance of the investment rate of return, which is used to discount the actuarial liabilities of CalSTRS, 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) under various investment rate of returns 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%	57%	$ 105,079	44.281%	$128,241
7.00%	65%	$ 75,030	34.982%	$ 98,192
7.50%	69%	$ 62,061	30.845%	$ 85,223
7.75%	71%	$ 56,024	28.890%	$ 79,186
8.00%	74%	$ 50,199	26.978%	$ 73,361
9.00%	83%	$ 29,685	19.965%	$ 52,847

Based on the June 30, 2010 Actuarial Valuation.

The information presented in the Funding Rate column represents the total contributions needed from both employers and members, as a percentage of covered payroll, to meet the 30-year funding goal. The last column in the table reflects the unfunded actuarial accrued liabilities using the market value of assets, which provides a picture of what the unfunded actuarial accrued liabilities would be if the asset losses that occurred during fiscal year 2008-09 and asset gains that occurred during fiscal year 2009-10 were immediately recognized.

The most recent actuarial valuation indicates that the Defined Benefit Program is underfunded, with 71 percent of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2010. This is a decrease from the 78 percent estimated funded status as of June 30, 2009. Based upon the latest actuarial valuation for the year ended June 30, 2010, CalSTRS' actual value of actuarial obligations exceeded its actuarial value of assets by $56.0 billion.

The following chart is a 10-year historical comparison of investment income (including unrealized gains and losses), employer contributions and benefit payments.

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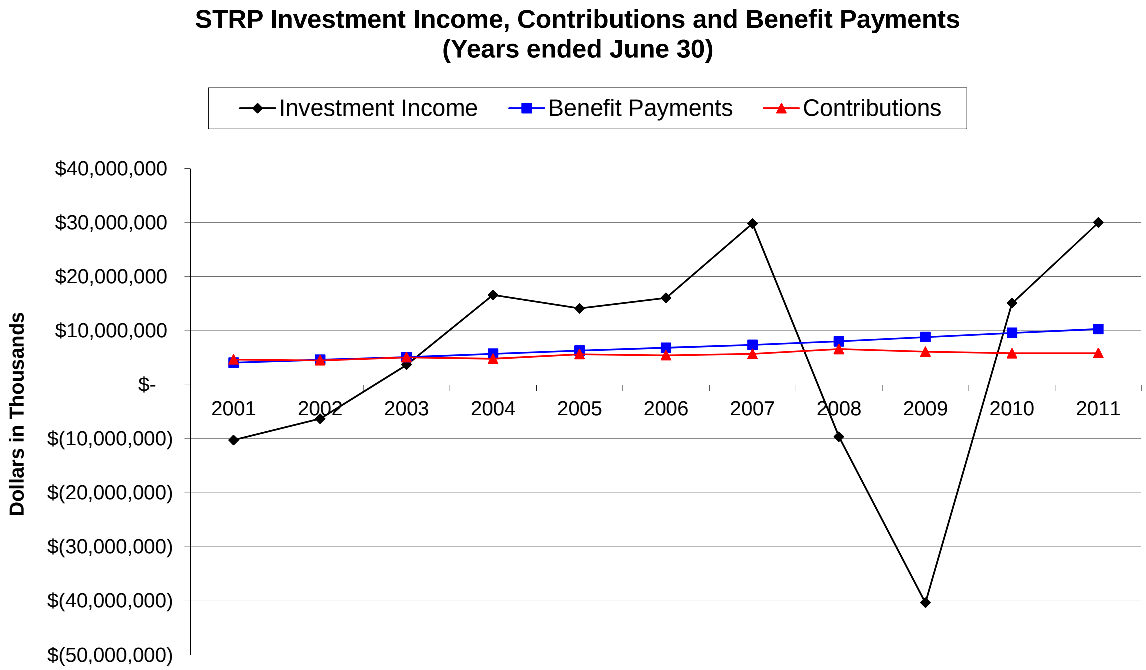

CalSTRS will need a significant increase in revenue to make progress toward the funding target. There are sufficient assets to make benefit payments for at least 30 years, but the projected time horizon before assets are depleted is expected to become shorter and shorter and benefits will have to be paid on a "pay as-you-go basis." Deferring contribution increases and providing for a gradual increase in rates over time is possible; however, the cost of waiting affects the long-term costs of the plan.

INVESTMENT PERFORMANCE

The main goal for CalSTRS is to maintain a financially sound retirement system. The CalSTRS investment philosophy is "long-term patient capital–buying long term net cash flows and capital gain potential at a reasonable price." The investment portfolio is broadly diversified into six asset classes and the board sets the asset allocation targets. The fiscal year 2010-11 goals and targets for the investments are to:

1. Earn at least an absolute return equal to the board's assumed rate, currently 7.75 percent, per year, over 20 to 30 years;
2. Outperform the Policy Benchmark portfolio by 60 basis points annually without excess risk, and;
3. Prudently diversify the portfolio and strive for lower costs.

The CalSTRS Investment Portfolio posted an approximate 23 percent one-year return calculated on a performance basis, the highest in 25 years, as of the end of the 2010-11 fiscal year. The approximately 23 percent one-year return rate exceeded the actuarial assumed rate of 7.75 percent bringing in $30.0 billion in net investment income for the fiscal year ending on June 30, 2011. The market value of CalSTRS Investment Portfolio including securities lending collateral at June 30, 2011 was $181.2 billion. This marks the second consecutive year of higher than anticipated one-year returns, after the fiscal year 2009-10 absolute return of 12.2 percent.

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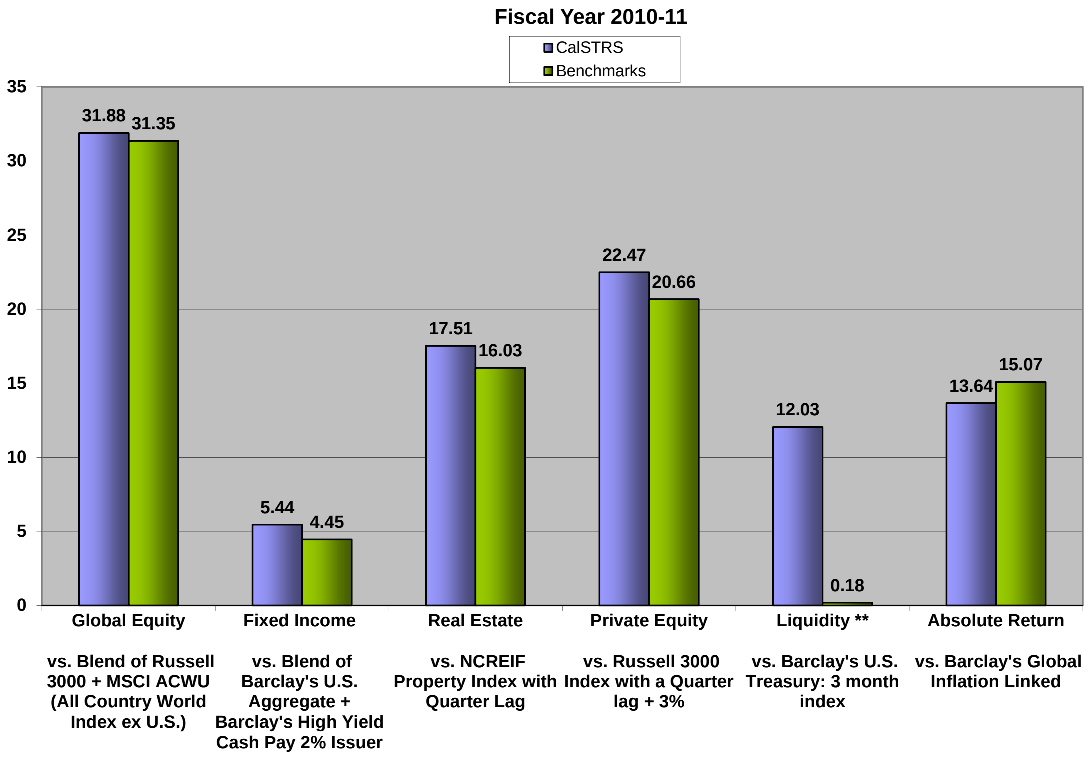
PERFORMANCE VS. BENCHMARKS

The following is a comparison of the CalSTRS returns calculated on a performance basis by asset class versus board approved benchmarks as of June 30, 2011:



* All public market benchmarks exclude tobacco

** The Liquidity portfolio includes short term investments as well as income from the Securities Lending Program, the Credit Enhancement Program, securities litigation and other sources. The 3 month T-bill is a long term benchmark adopted by the Board.

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Global equity markets performed better than expected during fiscal year 2010-11. The equity markets started the fiscal year with the MSCI All Country World Index returning 25 percent in the first six months. However, the pace of the global equity markets' rally slowed at the onset of calendar year 2011 as concerns grew in light of the catastrophe in Japan and the political upheaval in the Middle East that pushed oil prices higher and threatened the strength of the global economic recovery. The equity markets proved to be resilient initially and continued to grind higher through early April on strong corporate earnings and improving economic data in the U.S. and Germany. The end of April was an inflection point for global equity markets as prospects for global economic growth deteriorated. In the U.S., a wide range of leading indicators either lost momentum or turned negative, while Europe's ongoing sovereign debt crisis and growing concerns of inflation and monetary tightening in the emerging markets weighed on investor confidence. Consequently, equity markets declined steadily over May and June 2011.

The Fixed Income Portfolio continued to generate positive returns across all of the strategies and sectors, outperforming the performance benchmark for the 12 months ending June 30, 2011. Cyclical improvements in economic activity were a direct result of monetary and fiscal policy actions and injections of capital into the banking system after the financial crisis. The performance this past year can be attributed in large part to the policies that continued to support and encourage investors' risk appetite and alleviate fears of a double dip recession as well as CalSTRS' asset allocation and security selection decisions.

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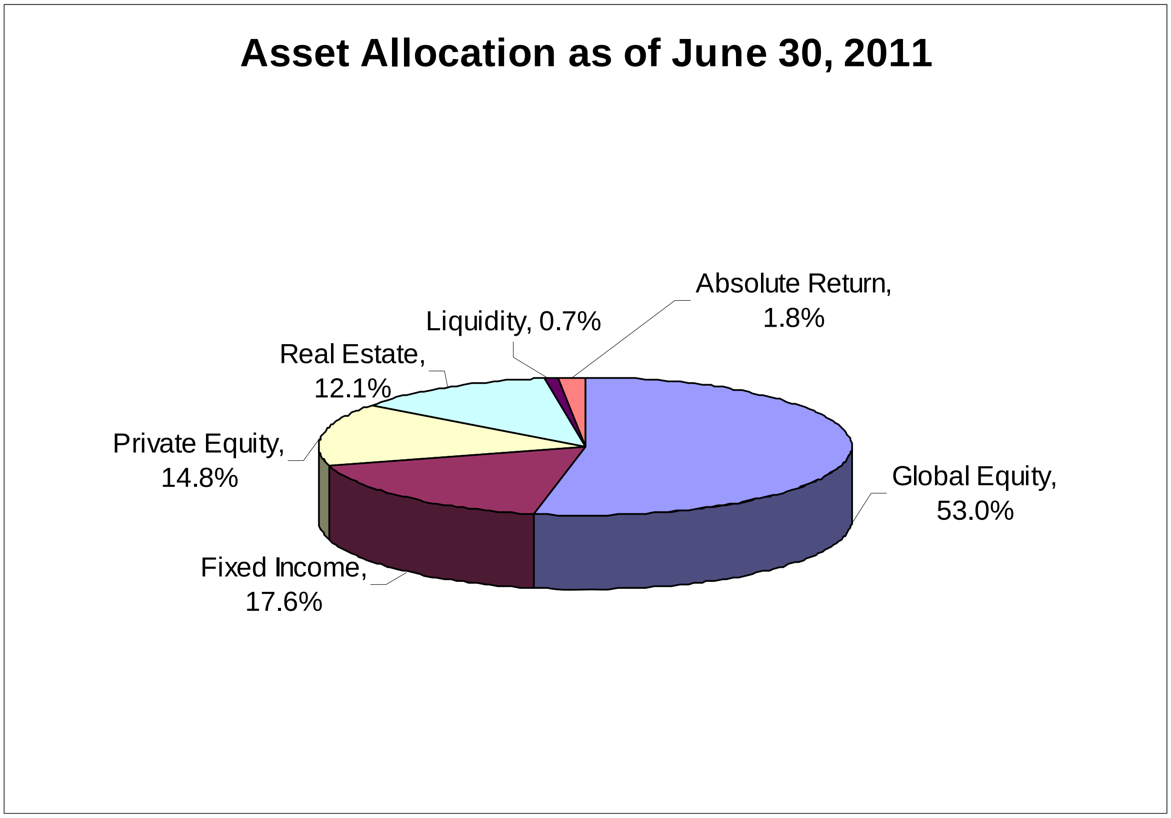
The following chart provides the distribution by asset allocation for investment portfolio management purposes of total fund investments as of June 30, 2011.



Representing over half of the total investments, the Global Equity Portfolio is comprised of U.S., Non-U.S. Developed Countries and Emerging Markets equity securities. The Global Equity Policy sets allocations targets of 67 percent and 33 percent to U.S. securities and Non-U.S. securities, respectively. Approximately 70 percent of the Global Equity assets are managed externally, while the remaining 30 percent is passively managed by internal investment staff.

The Fixed Income Portfolio is comprised of investment grade and non-investment grade securities, both U.S. dollar based and non-U.S. dollar based. The Fixed Income Portfolio includes core and opportunistic fixed income strategies which, in aggregate, are structured to achieve a long-term total return consistent with the board-adopted Policy Benchmark representative of the fixed income markets. The Fixed Income assets are primarily managed internally with approximately 80 percent of the fixed income portfolio using an enhanced indexing strategy, while 20 percent is externally managed using a broader universal fixed income and high yield securities opportunity set.

The Private Equity Portfolio is comprised of limited partnerships and co-investments focusing on commitments to domestic and non-U.S. partnerships as identified in the Private Equity Policy. Private Equity has substantial fees and costs; consequently, emphasis is placed on negotiating, monitoring and controlling the direct and indirect costs of each limited partnership investment.

California State Teachers' Retirement System
Management's Discussion and Analysis (Unaudited)
June 30, 2011

The Real Estate Portfolio is comprised of investments in wholly-owned properties, joint venture / value added investments, and commingled funds (opportunistic funds) with adopted targets of 50 percent to core, 20 percent value added and 30 percent to higher risk tactical investments. Leverage may be applied within the constraints set forth in the Real Estate Investment Policy. To more closely align the interests of CalSTRS and the real estate manager, emphasis is placed on negotiating, monitoring, and controlling the cash flow (both income and expense) associated with each property.

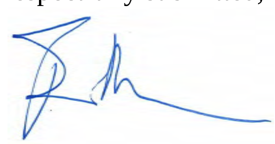
LEGISLATIVE UPDATE

Consistent with CalSTRS' mission, the board authorizes staff to engage in the legislative process to prevent and remove obstacles that impair the ability of CalSTRS members to achieve financial security. Legislative topics related to CalSTRS during the period ending June 30, 2011 included plan funding and pension plan designs. Leaders in the Legislature and the Governor's office have expressed a desire to address both of these issues during the second half of the current legislative session (beginning in January 2012).

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of CalSTRS' finances. For questions concerning the information in this report or for additional information contact CalSTRS, P.O. Box 15275, Sacramento, CA 95851-0275.

Respectfully submitted,



Robin Madsen
Chief Financial Officer

California State Teachers' Retirement System
Statement of Fiduciary Net Assets
As of June 30, 2011 (with Comparative Totals as of June 30, 2010)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension 2 403 (b) Plan	Pension 2 457 Plan	Teachers' Health Benefits	Teachers' Deferred Compensation	Comparative Totals 2011	Comparative Totals 2010
Assets							
Investments, at fair value:							
Short term	$ 2,637,823	$ 12,915	$ 194	$ 744	$ 813	$ 2,652,489	$ 2,372,271
Debt securities	28,018,129	-	-	-	-	28,018,129	29,595,724
Global equity securities	80,580,320	-	-	-	-	80,580,320	65,851,701
Mutual funds	-	215,789	1,336	-	-	217,125	157,002
Guaranteed annuity contracts	-	80,771	627	-	-	81,398	67,558
Absolute return	2,771,698	-	-	-	-	2,771,698	-
Private equity investments	23,138,354	-	-	-	-	23,138,354	19,128,797
Real estate investments	18,865,311	-	-	-	-	18,865,311	13,035,532
Securities lending collateral	25,200,355	-	-	-	-	25,200,355	27,100,866
Total investments	181,211,990	309,475	2,157	744	813	181,525,179	157,309,451
Cash and cash equivalents	343,122	-	-	1	-	343,123	211,689
Receivables:							
Investments sold	691,357	-	-	-	-	691,357	1,327,277
Interest and dividends	419,876	-	-	3	1	419,880	380,940
Member, employer and other	654,264	2,010	17	-	67	656,358	574,427
Total receivables	1,765,497	2,010	17	3	68	1,767,595	2,282,644
Capital assets, net of accumulated depreciation	243,875	-	-	-	-	243,875	246,909
Total assets	183,564,484	311,485	2,174	748	881	183,879,772	160,050,693
Liabilities							
Investments purchase payable	1,919,700	-	-	-	-	1,919,700	1,680,139
Foreign currency forward contracts (net)	1,224	-	-	-	-	1,224	21,811
TALF loan payable	25,985	-	-	-	-	25,985	182,781
Benefits in process of payment	917,085	-	-	-	98	917,183	843,821
Other liabilities	82,617	-	-	150	713	83,480	81,831
Securities lending obligation	25,272,058	-	-	-	-	25,272,058	27,233,195
Total liabilities	28,218,669	-	-	150	811	28,219,630	30,043,578
Net assets held in trust for pension and other postemployment benefits	$ 155,345,815	$ 311,485	$ 2,174	$ 598	$ 70	$ 155,660,142	$ 130,007,115

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, 2011
(with Comparative Totals for the Fiscal Year Ended June 30, 2010)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension 2 403 (b) Plan	Pension 2 457 Plan	Teachers' Health Benefits	Teachers' Deferred Compensation	Comparative Totals 2011	Comparative Totals 2010
Additions							
Contributions:							
Member contributions	$ 2,355,909	$ 47,181	$ 1,289	$ -	$ -	$ 2,404,379	$ 2,385,640
Employer contributions	2,310,251	225	42	36,145	-	2,346,663	2,318,015
State of California/Federal Government	1,193,364	-	-	-	-	1,193,364	1,221,628
Total contributions	5,859,524	47,406	1,331	36,145	-	5,944,406	5,925,283
Investment Income (Loss):							
Net appreciation (depreciation) in fair value of investments	26,586,479	39,905	132	-	-	26,626,516	11,744,860
Interest, dividends and other	3,492,992	3,877	23	10	501	3,497,403	3,436,277
Securities lending income	157,695	-	-	-	-	157,695	151,597
Less investment expenses:							
Cost of lending securities	(58,260)	-	-	-	-	(58,260)	(55,676)
Reverse repurchase agreement	(141)	-	-	-	-	(141)	-
Other investment expenses	(148,490)	-	-	-	-	(148,490)	(170,426)
Net investment income	30,030,275	43,782	155	10	501	30,074,723	15,106,632
Other income	6,546	-	-	-	-	6,546	8,230
Total additions	35,896,345	91,188	1,486	36,155	501	36,025,675	21,040,145
Deductions							
Retirement, disability, death and survivor benefits	9,854,492	-	-	-	-	9,854,492	9,085,362
Premiums paid	-	-	-	35,785	-	35,785	35,421
Distributions and withdrawals	-	16,690	82	-	-	16,772	11,892
Purchasing power benefits	237,572	-	-	-	-	237,572	272,580
Refunds of member contributions	116,089	-	-	-	-	116,089	100,125
Administrative expenses	110,484	538	2	345	569	111,938	141,370
Total deductions	10,318,637	17,228	84	36,130	569	10,372,648	9,646,750
Net increase (decrease)	25,577,708	73,960	1,402	25	(68)	25,653,027	11,393,395
Net assets held in trust for pension and other postemployment benefits							
Beginning of the year	129,768,107	237,525	772	573	138	130,007,115	118,613,720
End of the year	$ 155,345,815	$ 311,485	$ 2,174	$ 598	$ 70	$ 155,660,142	$ 130,007,115

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 CalSTRS and Contribution Information

The California State Teachers' Retirement System (CalSTRS) is the administrator of a hybrid retirement system, consisting of a traditional defined benefit, cash balance and defined contribution plans, including disability and survivor benefits. The Teachers' Retirement Law (California Education Code section 22000 et seq.), as enacted and amended by the California Legislature established these plans and programs and CalSTRS as the administrator. CalSTRS is a component unit of the State. These financial statements include only the accounts of CalSTRS. The state includes CalSTRS' various plans and funds as fiduciary funds in its financial statements. CalSTRS 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

The State Teachers' Retirement Plan (STRP) is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and the Replacement Benefit Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of the Defined Benefit Program, the Defined Benefit Supplement Program, and the Cash Balance Benefit Program. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust.

STRP Defined Benefit Program

The Defined Benefit Program is a defined benefit pension plan. At June 30, 2011, there were 1,669 contributing employers (charter schools, school districts, community college districts, county offices of education and regional occupational programs). The state is also an employer and contributor to the Defined Benefit Program. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2010, membership consisted of:

	2010
Active members	
Vested	320,523
Nonvested	121,021
Inactive members	166,976
Retirees and benefit recipients	243,796
Total members, retirees and beneficiaries	852,316

Information above is the most recent available as of June 30, 2011.

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

The Defined Benefit Program provides defined retirement benefits based on members' final compensation, age, and years of service credit. 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 percent vested in retirement benefits. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2.0 percent 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 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor. In no event does the total benefit age factor exceed 2.4 percent.

- CalSTRS 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 in which 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 accumulated 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 50.0 percent of final compensation plus 10.0 percent of final compensation for each eligible child, up to a maximum addition of 40.0 percent. 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 CalSTRS. The board determines the credited interest rate each fiscal year. For the year ended June 30, 2011, the rate of interest credited to members' accounts was 1.0 percent.

- There is a cost of living postretirement annual benefit adjustment increase of 2.0 percent per year on a simple (rather than compound) basis.

Purchasing power protection is provided to members of the Defined Benefit Program through the Purchasing Power Protection Program. Annual distributions (in quarterly payments) to retired and disabled members and beneficiaries restore purchasing power up to 85.0 percent 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 allocates School Lands Revenue for the program. At June 30, 2011, CalSTRS has a receivable balance from the sale of the Elk Hills Naval Petroleum Reserve in the amount of $15.3 million. The

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

state is required to contribute an amount equal to 4.517 percent of the total of the creditable compensation of the fiscal year ending in the immediately preceding 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 80.0 percent and no more than 85.0 percent of the purchasing power of the initial monthly allowance.

In fiscal year 2010-11 the amount contributed to the SBMA was $689.6 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. CalSTRS 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 Defined Benefit Program are as follows:

Members - 6.0 percent of applicable member earnings through December 31, 2010, increasing to 8.0 percent thereafter.

Employers - 8.25 percent of applicable member earnings.

State - Effective July 1, 2003, the rate increased to 2.017 percent of the member's creditable earnings from the fiscal year ending in the prior calendar year. State contributions totaled $567.7 million in fiscal year 2010-11.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, 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 benefits in place as of July 1, 1990. Based on the most recent actuarial valuation, as of June 30, 2010, there is no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state is required to contribute additional quarterly payments starting October 1, 2011 at an additional contribution rate of 0.524 percent.

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

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

Interest is credited to the nominal Defined Benefit Supplement Program accounts at the minimum guaranteed annual rate established by the board prior to each plan year, which was 4.5 percent for the fiscal year ended June 30, 2011. 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, 2011.

Contributions
Beginning January 1, 2001, and continuing through December 31, 2010, two percent 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 Defined Benefit Supplement 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 eight percent and employer contributions of eight percent are credited to the members' nominal Defined Benefit Supplement Program account. In addition, contributions for compensation as a result of retirement incentives or limited term enhancements are credited to the members' accounts.

STRP Cash Balance Benefit Program
The Cash Balance 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 program. The Cash Balance Benefit Program is designed for employees of California's public schools who are hired to perform creditable service for less than 50 percent of the full-time equivalent for the position. Participation in the Cash Balance 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 Cash Balance Benefit Program. Under such election, the program will automatically cover each eligible employee, unless the employee elects to participate in the Defined Benefit 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 Cash Balance Benefit Program accounts at the minimum guaranteed annual rate established by the board prior to each plan year, which was 4.5 percent for the year ended June 30, 2011. 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, 2011.

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

Participants	-	4 percent of applicable participant's earnings
Employers	-	4 percent of applicable participant'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, 2011, there were 33 contributing school districts and 33,261 contributing participants.

STRP Replacement Benefit Program
The STRP Replacement Benefit Program has an excess benefits arrangement for Defined Benefit Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three STRP programs, 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 Defined Benefit Program each month are instead credited to the Replacement Benefit 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 2010-11, there were 243 retirees participating in the Replacement Benefit Program.

CalSTRS Pension2 Program
Pursuant to Chapter 291, Statutes of 1994, CalSTRS Pension2 (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, 2011, the IRC 403(b) and 457 plans had approximately 6,547 and 148 plan participants with account balances and approximately 761 and 23 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 plans.

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
The Teachers' Health Benefits Fund (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 Defined Benefit Program. At June 30, 2011, there were 7,777 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 Defined Benefit 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 a portion of the monthly Defined Benefit Program statutory employer contributions. 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
The Teachers' Deferred Compensation Fund (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 CalSTRS to enhance the tax-deferred financial options for the members and their beneficiaries.

The TDCF is funded by the fee revenues received by CalSTRS from deferred compensation plans and a vendor registration program.

2. Summary of Significant Accounting Policies

Basis of Accounting
CalSTRS maintains its accounting records using the accrual basis of accounting. It recognizes member contributions in the period in which the contributions are due. Furthermore, CalSTRS recognizes employer and state contributions when due and the employer or state has made a formal commitment to provide the contributions. Also, CalSTRS recognizes benefits when due and payable in accordance with its retirement and benefits programs.

Use of Estimates in the Preparation of Financial Statements
The preparation of CalSTRS financial statements in conformity with accounting principles generally accepted in the U.S. 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 CalSTRS include repurchase agreements, foreign currency, and deposits with the State Treasury.

Investments
CalSTRS investments held at June 30, 2011, are either in the custody of State Street Bank, CalSTRS' master custodian, TIAA-CREF, administrator for Pension2, and/or in CalSTRS' 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.

In the Statement of Changes in Fiduciary Net Assets, CalSTRS presents 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.

The value and performance of CalSTRS investments are subject to various risks, including credit, interest rate, concentration, custodial credit and foreign currency risk, which are in turn affected by economic and environmental factors impacting 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 CalSTRS 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 using 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 CalSTRS 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, CalSTRS holds majority limited partner positions in corporate governance funds, which employ specific investment strategies, and co-investments including, but not limited to, publicly traded equity securities of companies on U.S., Canadian, 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 CalSTRS' 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. The actual rate of return will also vary from year to year at the TIAA Board of Trustee's discretion. CalSTRS' allocation in the TIAA Traditional Annuity is carried at contract value, which approximates fair value.

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

Absolute Return
In accordance with the Investment Policy and Management Plan effective on July 1, 2010, the new absolute return asset class was given a one percent weight as a part of the major asset classes. Prior to July 1, 2010, these investments were held within the fixed income asset class and reported as debt securities. The absolute return asset class primarily holds investments in global inflation-indexed bonds (also known as inflation-linked bonds) which are bonds where the principal is indexed to inflation. It consists of inflation-linked bonds issued by the U.S., Canada, Japan and a wide range of European countries, which are representative of the countries reflected in the performance benchmark. The values of the U.S. inflation-protected debt securities are adjusted periodically based on the Consumer Price Index for Urban Consumers (CPI-U) which is calculated monthly by the U.S. Bureau of Labor Statistics. The U.S. inflation-protected securities are actively traded and the prices are readily available from pricing vendors. Similarly, the inflation-linked debt securities issued by a foreign government are also adjusted to reflect a comparable consumer inflation index by that government and the prices are also readily available from pricing vendors. Additionally the absolute return asset class holds investments in certain mortgage loans retained from the member home loan program. These investments are primarily made up of first and second mortgage liens. Each loan is priced at cost with a discount applied for delinquencies over 90 days. Lastly, the absolute return asset class will hold infrastructure investments. Although a commitment was made to an infrastructure fund in April 2011, no funding has occurred as of June 30, 2011[1]. As of June 30, 2011, the absolute return asset class has approximately 85.3 percent and 14.7 percent invested in global inflation linked bonds and mortgage loans, respectively.

Private Equity
CalSTRS has invested as a limited partner in various funds, which employ specific investment strategies, and co-investments. The most common investment categories for these funds include leveraged buyouts, venture capital, expansion capital, distressed debt and mezzanine investments. 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. CalSTRS' private equity partnerships are valued using their respective NAV calculated in accordance with the general partner's fair valuation policy as of the measurement date, 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 investment advisors and reviewed and approved by CalSTRS management. 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. As of June 30, 2011, the private equity portfolio has approximately 91.5 percent, 6.6 percent and 1.9 percent invested in funds, co-investments and other investments, respectively.

Real Estate
The real estate portfolio holds investments in commingled funds, joint ventures, wholly-owned properties, and debt instruments including, but not limited to, seller-financed loans, notes and preferred equity. Leverage may be used to enhance investment returns as set forth in the CalSTRS Real Estate Investment Policy[2]. Wholly-owned properties are income-producing properties including retail, office, industrial, and multi-family residential. CalSTRS, as limited partner or member partner,

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[1] *See Note 6 regarding the Infrastructure unfunded commitments.*
[2] *See Note 4 regarding the Real Estate Investment Policy.*

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

has invested in joint ventures and open-end and closed-end commingled funds that are managed by the general partner or managing partner of each entity. Wholly-owned properties and joint ventures 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, which are reviewed and approved by CalSTRS' 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 CalSTRS using the NAV of the partnership provided by the general partner. 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' fair valuation policy on a continuous basis, audited annually and periodically appraised by an independent third party as directed by the governing document for each commingled fund investment. The valuation assumptions are based upon both market and property specific inputs. These values are reviewed quarterly in order to ensure they are accurately reported at fair value. As of June 30, 2011, the real estate portfolio has approximately 46.4 percent, 29.4 percent, 16.0 percent, 6.2 percent and 2.0 percent invested in commingled funds, joint ventures, wholly-owned properties, co-investments and other investments, respectively.

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 depreciation-amortization and depreciation-amortization expense for the year ended June 30, 2011 were $14.1 million, and $7.3 million, respectively. CalSTRS 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, 2011, there has been no impairment of capital assets.

Administrative Expenses
The cost of administering the CalSTRS 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. CalSTRS 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
CalSTRS reports securities lent, reinvested cash collateral, and the related liabilities resulting from securities lending transactions on the Statement of Fiduciary Net Assets. CalSTRS also reports the income earned and costs of lending securities as investment income and expenses on the Statement of Changes in Fiduciary Net Assets.

Reverse Repurchase Agreement Transactions
CalSTRS reports the liabilities resulting from the reverse repurchase agreements as obligations under reverse repurchase agreements and the underlying securities used as collateral are reported as investments on the Statement of Fiduciary Net Assets. Any interest cost associated with the reverse repurchase agreements is reported as investment expense on the Statement of Changes in Fiduciary Net Assets.

Reserves
CalSTRS maintains accounts within the Net Assets Held in Trust for Pension Benefits and Other Postemployment Benefits as reserve accounts for various operating purposes. The Teachers' Retirement Law requires CalSTRS to maintain two types of reserve accounts within two programs of the State Teachers' Retirement Plan, the Cash Balance Benefit Program and Defined Benefit Supplement Program. Additionally, the Teachers' Retirement Law requires CalSTRS to maintain an account for the Supplemental Benefit Maintenance Account (SBMA).

Cash Balance Annuitant Reserve
Part 14, Chapter 2 Section 26105 of the Teachers' Retirement Law, establishes the Cash Balance Annuitant Reserve for the payment of monthly annuities with respect to the Cash Balance Program. The Cash Balance Program is a retirement program that can be an alternative to the CalSTRS Defined Benefit Program, Social Security and other retirement plans. During a member's career, funds are accumulated in the Cash Balance Participant Reserve. When a member retires, the funds are converted to the Cash Balance Annuitant Reserve.

Cash Balance Gain and Loss Reserve
Part 14, Chapter 2 Section 26202 of the Teachers' Retirement Law, establishes the Cash Balance Gain and Loss Reserve which represents funds to be drawn upon to the extent necessary to credit interest to participants' accounts at the minimum interest rate during years in which CalSTRS investment earnings with respect to the Cash Balance Program are not sufficient for that purpose, and where necessary, to provide additions to the Annuitant Reserve for monthly annuity payments. Based upon the recommendation of the actuary, the board approves amounts, if any, that will be credited to the Cash Balance Gain and Loss Reserve account.

Defined Benefit Supplement Annuitant Reserve
Part 13, Chapter 2 Section 22104.9 of the Teachers' Retirement Law, formed the Defined Benefit Supplement Annuitant Reserve to establish and maintain a segregated account for expenditures on annuities payable under the Defined Benefit Supplement Program. As a Defined Benefit member, members have a Defined Benefit Supplement account that has been accumulating contributions and interest. The Defined Benefit Supplement Program offers supplemental income in addition to their

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

regular Defined Benefit benefit. During a member's career funds are accumulated in the Defined Benefit Supplement Member Reserve, when a member retires the funds are converted to the Defined Benefit Supplement Annuitant Reserve.

Defined Benefit Supplement Gain and Loss Reserve
Part 13, Chapter 2 section 22139.5 of the Teachers' Retirement Law, established the Defined Benefit Supplement Gain and Loss Reserve which represents a segregated account to maintain either: 1) credited interest to member Defined Benefit Supplement accounts at the minimum interest rate for plan years in which the obligation cannot be met from the plan's investment earnings, or 2) provide additions to the Annuitant Reserve to meet the plan's obligation for annuities payable under the Defined Benefit Supplement program. Funds are allocated monthly to the reserve account based on the gains and losses held in the program.

Supplemental Benefit Maintenance Account
Part 13, Chapter 8 Section 22400 of the Teachers' Retirement Law, established the Supplemental Benefit Maintenance Account to separately maintain and manage the annual supplemental payments disbursed in quarterly installments to all benefit recipients whose purchasing power has fallen below 85 percent of the purchasing power of the initial allowance, after application of the School Lands monies, as long as funds are available. The Supplemental Benefit Maintenance Account is primarily funded by contributions from the state.

The reserve balances as June 30, 2011 are summarized in the table below:

Reserve Type		**Reserve Balance** *(Dollars in Thousands)*
Supplemental Benefit Maintenance Account Reserve	$	6,673,546
Defined Benefit Supplemental Annuitant Reserve		439,305
Defined Benefit Supplemental Gain and (Loss) Reserve		447,337
Cash Balance Annuitant Reserve		549
Cash Balance Gain and (Loss) Reserve		4,742
Other Reserves Not Legally Required for Disclosure		148,094,663
Total	$	155,660,142

Reclassification
Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2010 to conform to the presentation as of and for the year ended June 30, 2011. Reclassifications did not have an impact on net assets held in trust for pension and other postemployment benefits or net increase in net assets held in trust for pension and other postemployment benefits.

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 in the United States of America. Accordingly, such information should be read in conjunction with CalSTRS' financial statements for the year ended June 30, 2010, from which the summarized information was derived.

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

3. Funded Status

State Teachers' Retirement Plan

The funded status of each program within the State Teachers' Retirement Plan (STRP) as of June 30, 2010, 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)
Defined Benefit Program	$ 140,291	$ 196,315	$ 56,024	71%	$ 26,275	213%
Cash Balance Benefit Program	$ 114	$ 130	$ 16	88%	$ 163	10%
Defined Benefit Supplement Program	$ 6,412	$ 7,456	$ 1,044	86%	$ 27,341	4%

As of June 30, 2010, the actuarial valuation report indicated that the actuarial value of assets does not include deferred losses of $23.2 billion, and that future revenue from contributions and appropriations for the Defined Benefit Program are not expected to be sufficient to finance its obligations. The UAAL on a market basis would be $79.186 billion. Based on the current valuation results, the Defined Benefit Program assets, and the assumptions about future experience, CalSTRS' consulting actuary finds that a level contribution rate of 33.512 percent beginning on the valuation date is projected to amortize the Unfunded Actuarial Accrued Liability (UAAL) over a 30-year period. This level contribution rate includes the aforementioned deferred losses of $23.2 billion. The increase in level contribution rate would be equivalent to 14.236 percent of Earned Salaries for a period of 30 years from the valuation date.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of future legal funding limitations on the pattern of cost sharing between the state, employers and members. CalSTRS 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 7.75 percent per year. Still, the Defined Benefit Program assets are projected to be sufficient to make benefit payments through 2042. 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 CalSTRS is not able to secure additional funding.

Teachers' Health Benefits Fund

The funded status of the MPP Program, as of June 30, 2010, the most recent actuarial valuation date, is as follows (dollars in millions):

California State Teachers' Retirement System

Notes to the Basic Financial Statements (Continued)

	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	$ 1	$ 905	$ 904	0.1%	$ 5,011	18%

The above table shows the funded ratio of 0.1 percent from a financial reporting perspective. This ratio is determined using methodology based upon financial reporting requirements, which is different from the methodology used to develop the estimated cost to fund the program.

The estimated amount needed to fully fund the program, $601.2 million based on the June 30, 2010 actuarial valuation, has not been transferred to the THBF. The estimated amount of future employer contributions required to fully fund the MPPP is noted as a commitment and is explained further in Note 6.

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 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.

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

Additional information as of the latest actuarial valuation follows:

	Defined Benefit Program	**Cash Balance Benefit Program**
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll basis	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	7.75%	7.25%
Interest on Accounts	6.00%	Not applicable
Wage Growth	4.00%	4.00%
Consumer Price Inflation	3.00%	3.00%
Post-Retirement Benefit Increases	2.00% simple	Not applicable

	Defined Benefit Supplement Program	**MPP Program**
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level percent of payroll basis	Level dollar basis
Amortization Period	Open	Closed
Remaining Amortization Period	30 years	26 years
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.25%	4.00%
Interest on Accounts	Not applicable	Not applicable
Wage Growth	4.00%	Not applicable
Consumer Price Inflation	3.00%	3.00%
Healthcare Cost Trend Rate Part A premiums	Not applicable	5.00%
Healthcare Cost Trend Rate Part B premiums	Not applicable	5.00%

4. Deposits and Investments

Deposits in the Pooled Money Investment Account (PMIA), administered by the State Treasurer, represent various investments with average days to maturity of approximately 237 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 33 days, and is reported at amortized cost which approximates fair value.

Repurchase agreement transactions as of June 30, 2011 have underlying collateral with fair values of approximately 102 percent of the cost of the repurchase agreement. The agreed-upon yields were 0.01 percent with maturity dates through July 1, 2011.

California State Teachers' Retirement System

Notes to the Basic Financial Statements (Continued)

State of California statutes and board policies permit CalSTRS to make short-term, collateralized loans of its securities to broker-dealers and other entities in order to earn incremental income. CalSTRS 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 percent and 105 percent 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, 2011, the weighted duration difference between the investments and these loans was 45 days. At June 30, 2011, the fair value of the securities on loan was $25.8 billion. The fair value of the re-invested cash collateral was $25.2 billion and the non-cash collateral was $1.1 billion. The securities lending cash collateral obligations were $25.3 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 re-invested cash collateral, the liability represented by the securities lending cash collateral obligation was greater than the re-invested cash collateral. The re-invested cash 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,* the non-cash collateral of $1.1 billion 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 through partnerships established to purchase properties through a combination of equity contributions from CalSTRS and other investors and through the utilization of debt. CalSTRS 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, 2011, the estimated fair value of real estate investments (net of all outstanding debt) totaled approximately $18.9 billion. The CalSTRS' share of outstanding debt is $10.3 billion, excluding obligations of limited partnership interests in commingled funds.

The CalSTRS 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, 2011:

California State Teachers' Retirement System

Notes to the Basic Financial Statements (Continued)

Real Estate Debt Service Requirements

(Dollars in Thousands)

	Principal	Interest	Total
Year Ended June 30, 2012	$ 2,111,854	$ 464,800	$ 2,576,654
2013	1,912,177	361,140	2,273,317
2014	1,371,900	294,717	1,666,617
2015	887,500	244,846	1,132,346
2016	825,432	199,470	1,024,902
2017 - 2021	2,937,056	398,254	3,335,310
2022 - 2026	124,611	44,116	168,727
2027 - 2031	8,508	28,946	37,454
2032 - 2036	11,089	26,433	37,522
2037 - Thereafter	84,761	40,686	125,447
Total	$ 10,274,888	$ 2,103,408	$ 12,378,296

Real estate debt currently bear interest at variable rates ranging from LIBOR + 37 basis points (bps) to LIBOR + 400 bps as of June 30, 2011.

The CalSTRS Real Estate Investment Policy, effective June 2010, states that leverage shall be used to enhance investment returns. Careful consideration will be given to the impact of leverage on investment and portfolio risks. Leverage within each segment of the portfolio will be regularly monitored and reported to the board for compliance. At June 30, 2011, the total leverage on the real estate portfolio was 58.7 percent.

Term Asset-Backed Securities Loan Facility

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.

At June 30, 2011, the aggregate outstanding TALF loan balance was $26 million. The outstanding TALF loans have remaining maturities of 3 years and bear a variable rate of interest, which was 1.50 percent as of June 30, 2011. 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, CalSTRS may repay the loans or surrender the collateral to the Fed in lieu of loan repayment.

Investment Risk Schedules

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

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

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 CalSTRS Investment Guidelines require that, at the time of purchase, at least 95 percent of the market value of the corporate securities comprising the credit portion of the core fixed income portfolio be rated investment grade (that is, 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 non-agency mortgage-backed, asset-backed, and commercial mortgage-backed securities issuer shall be limited to 10 percent of the market value of the portfolio, on the basis of each separate trust (pool of assets), at the time of purchase. Obligations of other issuers are held to a 5 percent 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. CalSTRS 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, 2011, 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	$ 707,777	$ 591,630	$ 1,362,821	$ -	$ -	$ 16,519,719	$ 16,394	$ -	$ 19,198,341
AA	85,271	670,992	435,105	-	-	61,700	15,461	-	1,268,529
A	223,451	2,174,942	175,367	-	-	140,958	-	-	2,714,718
BBB	125,609	2,674,613	253,863	-	-	9,750	-	-	3,063,835
BB	95,057	662,372	4,894	-	-	-	-	-	762,323
B	83,936	1,085,371	3,734	-	-	-	-	-	1,173,041
CCC	38,376	432,982	-	-	-	-	-	-	471,358
CC	6,999	13,256	-	-	-	-	-	-	20,255
C	1,782	4,420	-	-	-	-	-	-	6,202
D	5,006	840	-	-	-	-	-	-	5,846
WR	-	-	-	-	-	893	-	-	893
NR	580,695	322,131	16,680	1,828,963	157,912	1,424,975	-	81,398	4,412,754
NA	-	-	-	-	-	457,512	-	-	457,512
Total	$ 1,953,959	$ 8,633,549	$ 2,252,464	$ 1,828,963	$ 157,912	$ 18,615,507	$ 31,855	$ 81,398	$ 33,555,607

The PMIA $157.9 million is comprised of the following funds: STRP $156.3 million, THBF $744 thousand, and TDCF $813 thousand.

The table above includes $13.1 million in Money Market Securities, and $31.9 million in Mutual Fund, and $81.4 million in Annuity Contracts, which are reflected in Pension2 Program on the Statement of Fiduciary Net Assets.

On August 5, 2011, Standard & Poor's downgraded U.S. Treasury debt from AAA to AA+. The total market value of U.S. government securities downgraded from the AAA rating to AA+ rating listed in the table above was $8.5 billion.

Securities Lending Collateral
(Dollars in Thousands)

Ratings	Money Market Securities	Repurchase Agreements	Short Term Investment Fund	US Treasury	Corporate Floating Rate Notes	Agency Obligations Callables	Agency Obligations Non-Callables (Bullets)	Discount Notes	Asset Backed Securities	Total
AAA	$ 2,076,081	$ -	$ -	$ 49,954	$ 313,019	$ 884,654	$ 841,699	$ -	$ 3,990,037	$ 8,155,444
AA	164,161	-	-	-	3,218,222	-	-	-	36,905	3,419,288
A	2,438,049	4,001,007	-	-	1,348,090	-	-	-	231,741	8,018,887
BBB	-	-	-	-	-	-	-	-	11,654	11,654
BB	-	-	-	-	-	-	-	-	27,796	27,796
B	-	-	-	-	-	-	-	-	505	505
CCC	-	-	-	-	-	-	-	-	3,553	3,553
CC	-	-	-	-	-	-	-	-	17,993	17,993
D	-	-	-	-	-	-	-	-	4,211	4,211
NR	3,585,265	35,228	1,350,983	-	558,504	49,930	-	91,468	-	5,671,378
NA	-	-	-	34,931	-	-	-	-	-	34,931
Total	$ 8,263,556	$ 4,036,235	$ 1,350,983	$ 84,885	$ 5,437,835	$ 934,584	$ 841,699	$ 91,468	$ 4,324,395	$ 25,365,640

The above amount excludes cash and accruals in the total of a negative $165,285 (in thousands) which is included from the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

On August 5, 2011, Standard & Poor's downgraded U.S. Treasury debt from AAA to AA+. The total market value of U.S. government securities downgraded from the AAA rating to AA+ rating listed in the table above was $50 million.

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 the average duration of the portfolio within a range of +/- 20 percent (.80 to 1.20) of the weighted average effective duration of the performance 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.

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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 CalSTRS has investments that 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, 2011, 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	8,004,079	4.82	4.71	0.11
Credit Obligations				
Corporate	5,633,392	6.02	5.98	0.04
High Yield	1,843,672	4.07	4.20	-0.13
Debt Core Plus	2,863,252	4.45	4.49	-0.04
Securitized Obligations				
Commercial Mortgage Backed Securities	761,719	3.77	3.70	0.07
Mortgage Backed Securities	7,821,042	3.21	3.15	0.06
Special Situations	189,252	0.19	4.46	-4.27
Debt Transition	2,836	4.46	4.46	0.00
Total	**$ 27,119,244**	**4.19**	**4.46**	**-0.27**

The above amount excludes Debt Opportunistic and Overlay investments with a Net Asset Value of $269,244 (in thousands) as of June 30,2011.

The absolute return portfolio comprised of global inflation securities and the home loan program at June 30, 2011, was not included in the table above. The global inflation securities had a net asset value of $2.4 billion with an effective duration of 9.80 compared to the benchmark duration of 9.77. The home loan program had a net asset value of $389 million with a weighted average maturity of 27.8 years.

At June 30, 2011, the segmented time distribution for the short term fixed income portfolio based upon the expected maturity, First call date or First 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	366+ days	TOTAL
Money Market Securities	$ 562,757	$ 362,804	$ 30,000	$ -	$ -	$ -	$ 955,561
Short Term Investment Fund	954,715	-	-	-	-	-	954,715
PMIA	157,912	-	-	-	-	-	157,912
Corporate Credit Obligations	89,954	153,350	8,958	-	-	-	252,262
US Government and Agency Obligations							
Bullets (Non-Callables)	65,019	-	30,007	48,520	55,077	-	198,623
Discount Notes	40,000	159,592	-	177,155	77,430	-	454,177
Callable	-	-	15,004	9,166	15,002	130,594	169,766
US Treasury	-	-	-	44,990	171,014	25,097	241,101
Asset Backed Securities	32,134	11,673	-	7,628	-	3,386	54,821
Total	$ 1,902,491	$ 687,419	$ 83,969	$ 287,459	$ 318,523	$ 159,077	$ 3,438,938
Weightings	55.32%	19.99%	2.44%	8.36%	9.26%	4.63%	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

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

level of risk available from investing in a diversified portfolio of short-term fixed income securities. The Investment Guidelines state that the average maturity of the portfolio shall be managed such that it will not exceed 180 days. In addition to short-term securities, the short-term fixed income portfolios also contain debt securities as classified in the investments section of the Statement of Fiduciary Net Assets.

At June 30, 2011, 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	$ 13,109
Vanguard Inflation-Protected Securities Fund	9.0 years	15,461
Vanguard Short-Term Bond Index Fund	2.7 years	16,394
Total		$ 44,964

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 percent 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, 2011, the segmented time distribution based upon the expected maturity, first call date and/or first 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	$ 360,022	$ 613,158	$ 2,323,037	$ 2,128,106	$ 1,520,152	$ 1,319,081	$ 8,263,556
Repurchase Agreements	3,286,235	-	250,000	400,000	100,000	-	4,036,235
Short Term Investment Fund	1,350,983	-	-	-	-	-	1,350,983
US Treasury	-	-	-	-	-	84,885	84,885
Corporate Floating Rate Notes	264,902	94,969	2,120,596	1,936,480	930,240	90,648	5,437,835
Agency Obligations							
Callable	-	-	-	-	55,032	879,552	934,584
Non-Callable (Bullets)	270,076	-	506,574	-	-	65,049	841,699
Discount Notes	-	25,000	-	-	26,497	39,971	91,468
Asset Backed Securities	333	13,027	3,038,764	640,627	586,674	44,970	4,324,395
Total	$ 5,532,551	$ 746,154	$ 8,238,971	$ 5,105,213	$ 3,218,595	$ 2,524,156	$ 25,365,640
Weightings	21.81%	2.94%	32.48%	20.13%	12.69%	9.95%	100.00%

The above amount excludes cash and accruals in the total of negative $165,285 (in thousands) which is included from the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of CalSTRS' investment in a single issuer. As of June 30, 2011, the STRP has no single issuer that exceeds 5 percent 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. CalSTRS' Investment Policy states that no more than 3 percent 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, 2011, CalSTRS was in compliance with this policy. IRC 403(b) and 457 plans investments have no single issuer that exceeds 5 percent of total investments.

Custodial Credit Risk

Custodial credit risk is the risk that in the event a depository institution or counterparty fails, CalSTRS would not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2011, all of CalSTRS' cash and investments, other than Pension2 investments, are held in CalSTRS' name or CalSTRS' nominee name and/or are not exposed to custodial credit risk. There are no general policies relating to custodial credit risk. As of June 30, 2011, 100 percent 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, 2011, the CalSTRS' 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	$ -	$ -	$ -	$ 31	$ 10	$ 41
Australian Dollar	20,470	1,722,189	71,785	(37)	(83)	1,814,324
Brazilian Real	2,696	485,830	78,547	(2)	(1,354)	565,717
Canadian Dollar	17,245	2,335,110	137,988	-	(1,273)	2,489,070
Chilean Peso	3	510	-	155	(105)	563
Colombian Peso	-	-	-	-	-	-
Czech Koruna	-	977	-	-	(1,804)	(827)
Danish Krone	4,641	214,820	-	(1)	-	219,460
Egyptian Pound	16	19,375	-	-	(20)	19,371
Euro Currency	69,479	11,429,461	812,800	128	4,082	12,315,950
Hong Kong Dollar	4,357	1,357,395	-	-	-	1,361,752
Hungarian Forint	1	27,216	-	-	(325)	26,892
Indian Rupee	3,553	255,378	-	-	294	259,225
Indonesian Rupiah	746	151,868	3,469	-	(5)	156,078
Israeli Shekel	927	82,781	-	-	68	83,776
Japanese Yen	44,192	3,877,442	73,878	4	686	3,996,202
Kazakhstan Tenge	-	-	-	-	17	17
Malaysian Ringgit	21	35,459	-	-	28	35,508
Mexican Peso	2,469	204,296	63,377	4	(163)	269,983
Moroccan Dirham	-	-	-	-	(31)	(31)
New Romanian Leu	-	-	-	-	(394)	(394)
New Russian Ruble	-	-	-	-	10	10
New Taiwan Dollar	7,812	307,430	-	-	(221)	315,021
New Turkish Lira	2	121,679	-	-	-	121,681
New Zealand Dollar	246	31,914	11,797	-	(105)	43,852
Norwegian Krone	2,014	213,163	11,368	(1)	230	226,774
Pakistan Rupee	-	17,386	-	-	-	17,386
Peruvian Nouveau Sol	-	-	-	63	373	436
Philippine Peso	20	12,484	-	-	(77)	12,427
Polish Zloty	51	10,554	27,683	-	(1,879)	36,409
Pound Sterling	35,295	3,960,145	626,743	1	1,024	4,623,208
Singapore Dollar	2,925	383,468	-	-	57	386,450
South African Rand	11,766	367,173	-	14	(130)	378,823
South Korean Won	898	598,698	-	-	580	600,176
Swedish Krona	6,180	521,096	59,414	4	(270)	586,424
Swiss Franc	15,541	1,491,676	180	10	(661)	1,506,746
Thailand Baht	628	92,278	-	-	(344)	92,562
Tunisian Dinar	-	-	-	-	(12)	(12)
Turkish Lira	101	41,863	-	-	347	42,311
Yuan Renminbi	-	-	-	-	226	226
Total	$ 254,295	$ 30,371,114	$ 1,979,029	$ 373	$ (1,224)	$ 32,603,587

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, CalSTRS 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, CalSTRS has recognized the need to implement strategies designed to address the management of currency risk. CalSTRS 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. CalSTRS 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 underlying exposure to the foreign denominated assets within CalSTRS in order 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 shall be -25 percent to 50 percent of the total notional value (in U.S. Dollars) of the non-U.S. public and non-U.S. private equity portfolios.

As of June 30, 2011, the IRC 403(b) and 457 plans are not exposed to foreign currency risk.

Derivative Instruments

As of June 30, 2011, the derivative instruments held by CalSTRS 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.

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, 2011:

Investment Derivative Disclosure
(All Figures in Thousands)

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2011		Fair Value at June 30, 2011		
	Classification	Amount	Classification	Amount	Notional
Investment Derivatives Instruments					
Credit Default Swaps	Investment Income / (Loss)	$ 605	Debt Securities	$ 75	29,936
Interest Rate Swaps	Investment Income / (Loss)	(6,079)	Debt Securities	(9,613)	429,153
Total Return Bond Swaps	Investment Income / (Loss)	246	Debt Securities	59	18,944
Foreign Currency Forwards	Investment Income / (Loss)	(115,428)	Foreign Currency Contracts	(1,224)	7,105,386
Futures (Domestic and Foreign)	Investment Income / (Loss)	84,232	Futures	-	(751,635)
Options Bought	Investment Income / (Loss)	(5,475)	Debt Securities	12,120	786,625
Options Written	Investment Income / (Loss)	2,409	Debt Securities	(70)	(46,540)
Rights	Investment Income / (Loss)	3,325	Equities	585	3,518,696 Shares
Warrants	Investment Income / (Loss)	(1,028)	Equities	1,060	421,632 Shares
Total Derivative Instruments		$ (37,193)		$ 2,992	

The total Options Bought of $12,120 is comprised of debt and equity securities option bought of $11,611 and $509, respectively.

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

At June 30, 2011, no derivative instruments were classified as short term, absolute return, private equity or real estate investments or held as part of the CalSTRS securities lending collateral or Pension2 retirement plans.

Valuation methods used by CalSTRS are described in more detail in Note 2. CalSTRS derivative instruments that are not exchange traded, such as credit default swaps and interest rate swaps, 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, 2011, 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, 2011.

Counterparty Credit Risk
Below is a table which depicts the counterparty credit ratings of CalSTRS non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2011:

Counterparty Credit Rating
(Dollars in Thousands)

Ratings	Credit Default Swaps	Interest Rate Swaps	Total Return Swaps	Foreign Currency Forwards	Total
AA	$ -	$ -	$ 34	$ 1,995	$ 2,029
A	688	-	27	5,367	6,082
Subtotal Investments in Asset Position	$ 688	$ -	$ 61	$ 7,362	$ 8,111
Investments in Liability Position	(613)	(9,613)	(2)	(8,586)	(18,814)
Total Investments in Asset / (Liability) Position	**$ 75**	**$ (9,613)**	**$ 59**	**$ (1,224)**	**$ (10,703)**

The counterparty credit exposure for similar instruments with same counterparty is netted for presentation purposes.

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 foreign currency forwards, it is CalSTRS' practice to require counterparty collateral posting provisions in its non-exchange traded derivative instruments where it is consistent with market practice. At June 30, 2011, the aggregate amount of cash collateral held at CalSTRS on behalf of the non-exchange traded derivatives was $3 million.

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2011 was $8.1 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. While

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

CalSTRS did not have any master netting agreements with its counterparties at June 30, 2011, the table presents exposure for similar instruments with the same counterparty on a net basis.

At June 30, 2011, CalSTRS 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, 2011, all of CalSTRS' investments in derivative instruments, other than Pension2 investments, are held in CalSTRS' name or CalSTRS' nominee name and/or are not exposed to custodial credit risk as of June 30, 2011.

Interest Rate Risk
At June 30, 2011, CalSTRS is exposed to interest rate risk on its derivative instruments described below by maturity period.

Investment Maturities
(Dollars in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Credit Default Swaps	$ 75	$ -	$ -	$ (93)	$ 168
Interest Rate Swaps	(9,613)	-	-	(7,510)	(2,103)
Total Return Swaps	59	(13)	-	-	72
Fixed Income Options	11,611	-	11,611	-	-
Total	$ 2,132	$ (13)	$ 11,611	$ (7,603)	$ (1,863)

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
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.905%	$ (4,711)	$ 175,000
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.928%	(1,860)	75,000
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.575%	(475)	75,000
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.575%	(463)	75,000
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 0%	(551)	8,460
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 0%	(446)	6,183
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 0%	(442)	5,900
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 0%	(428)	5,530
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 0%	(237)	3,080
Subtotal - Interest Rate Swaps		$ (9,613)	$ 429,153
Fixed Income Options	Swaption 5YR RTP FEB13 5.11 PUT	1,554	250,000
Fixed Income Options	Swaption 5YR RTR MAR13 3.405 CALL	5,038	175,000
Fixed Income Options	Swaption 5YR RTR APR13 3.428 CALL	2,123	75,000
Fixed Income Options	Swaption 5YR RTR MAY13 3.075 CALL	1,450	75,000
Fixed Income Options	Swaption 5YR RTR MAY13 3.075 CALL	1,446	75,000
Subtotal - Fixed Income Options		$ 11,611	$ 650,000
Total		$ 1,998	$ 1,079,153

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

Foreign Currency Risk
At June 30, 2011, CalSTRS is exposed to foreign currency risk on its investments in rights, warrants, options and forwards denominated in foreign currencies.

Foreign Currency Risk
(Dollars in Thousands)

(In U.S. Dollar Equivalents)

				Foreign Currency Forwards		
Currency Name	**Rights**	**Warrants**	**Options**	**Net Receivables**	**Net Payables**	**Total Exposure**
Argentine Peso	$ -	$ -	$ -	$ 10	$ -	$ 10
Australian Dollar	-	-	91	2,237	(2,320)	8
Brazilian Real	-	-	-	608	(1,962)	(1,354)
Canadian Dollar	-	165	-	748	(2,021)	(1,108)
Chilean Peso	-	-	-	28	(132)	(104)
Colombian Peso	-	-	-	53	(53)	-
Czech Koruna	-	-	-	467	(2,271)	(1,804)
Egyptian Pound	-	-	-	-	(20)	(20)
Euro Currency	541	-	17	15,012	(10,929)	4,641
Hong Kong Dollar	3	67	-	-	-	70
Hungarian Forint	-	-	-	-	(325)	(325)
Indian Rupee	-	-	-	321	(27)	294
Indonesian Rupiah	-	-	-	-	(5)	(5)
Israeli Shekel	-	-	-	68	-	68
Japanese Yen	-	-	-	1,717	(1,031)	686
Kazakhstan Tenge	-	-	-	17	-	17
Malaysian Ringgit	-	-	-	74	(47)	27
Mexican Peso	-	-	-	946	(1,108)	(162)
Moroccan Dirham	-	-	-	-	(31)	(31)
New Romanian Leu	-	-	-	-	(394)	(394)
New Russian Ruble	-	-	-	10	-	10
New Taiwan Dollar	-	-	-	-	(221)	(221)
New Zealand Dollar	-	-	-	816	(921)	(105)
Norwegian Krone	-	-	-	780	(551)	229
Peruvian Nouveau Sol	-	-	-	473	(100)	373
Philippine Peso	-	-	-	56	(132)	(76)
Polish Zloty	-	-	-	1,018	(2,898)	(1,880)
Pound Sterling	-	-	-	1,577	(553)	1,024
Singapore Dollar	-	-	-	104	(47)	57
South African Rand	-	-	-	172	(302)	(130)
South Korean Won	-	-	-	583	(3)	580
Swedish Krona	-	-	-	-	(270)	(270)
Swiss Franc	-	-	-	518	(1,179)	(661)
Thailand Baht	-	-	-	-	(344)	(344)
Tunisian Dinar	-	-	-	-	(12)	(12)
Turkish Lira	-	-	-	347	-	347
Yuan Renminbi	-	-	-	263	(38)	225
Subtotal	$ 544	$ 232	$ 108	$ 29,023	$ (30,247)	$ (340)
Investments Denominated in USD	41	828	11,942	-	-	12,811
Total	**$ 585**	**$ 1,060**	**$ 12,050**	**$ 29,023**	**$ (30,247)**	**$ 12,471**

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, 2011, the net unrealized loss on the foreign currency forward contracts was $1.2 million.

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

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, 2011.

Contingent Features
At June 30, 2011, CalSTRS held no positions in derivatives containing contingent features.

5. Contingencies

CalSTRS 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 CalSTRS financial position.

6. Commitments

In connection with the purchase of partnership interests under various investment portfolios, the STRP has remaining unfunded commitments of approximately $17.5 billion at June 30, 2011. The following table depicts the unfunded commitments by asset strategy:

Asset Strategy	Unfunded Commitments *(Dollars in Thousands)*
Corporate Governance	$ 456,513
Fixed Income	39,815
Infrastructure	146,240
Private Equity	8,133,443
Real Estate	8,731,517
Total	$ 17,507,528

The STRP has entered into agreements through its Credit Enhancement Program to provide credit support and/or liquidity support on certain debt securities. At June 30, 2011, the STRP had commitments of approximately $2.0 billion expiring through December 2014. The STRP is paid a fee over the term of such agreements and earned approximately $13.3 million for the year ended June 30, 2011.

Medicare Premium Payment Program (MPP Program)
Under current board policy, the assets set aside from future employer contributions to fund the MPP Program are equal to its actuarial obligation less the value of any assets already in the THBF. As of the June 30, 2010 actuarial valuation, the future employer contributions committed to funding the MPP Program obligations total $601.2 million.

7. New Accounting Pronouncements

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, modifies certain requirements for inclusion of component units in the financial reporting entity. The amendments to the criteria for including component units will allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The provisions of GASB Statement No. 61 are effective for financial statements for periods beginning after June 15, 2012. We have not yet evaluated the impact to the financial statements related to the implementation of this GASB.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments into a single source, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. The provisions of GASB Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011. We have not yet evaluated the impact to the financial statements related to the implementation of this GASB.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. We have not yet evaluated the impact to the financial statements related to the implementation of this GASB.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of GASB Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011. We have not yet evaluated the impact to the financial statements related to the implementation of this GASB.

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, 2010 except where noted.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Teachers' Retirement Fund						
Defined Benefit Program						
2011	(1)	(1)	(1)	(1)	(1)	(1)
2010	$140,291	$196,315	$56,024	71%	$26,275	213%
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%
Cash Balance Benefit Program						
2011	(1)	(1)	(1)	(1)	(1)	(1)
2010	$114	$130	$16	88%	$163	10%
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)%
Defined Benefit Supplement Program (2)						
2011	(1)	(1)	(1)	(1)	(1)	(1)
2010	$6,412	$7,456	$1,044	86%	$27,341	3.81%
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)%
Teachers' Health Benefits Fund						
Medicare Premium Payment Program						
2011	(1)	(1)	(1)	(1)	(1)	(1)
2010	$0.6	$905	$904	0.1%	$5,011	18%
2009	(4)	(4)	(4)	(4)	(4)	(4)
2008	4	976	972	0.4%	6,604	14.7%
2007 (3)(5)	4	921	917	0.4%	N/A	N/A
2006	3	797	794	0.4%	7,452	10.70%

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

1) Actuarial valuations as of June 30, 2011, are expected to be available by April 2012.

2) 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 Defined Benefit Supplement Program.

3) 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.

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

5) 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] (dollars in millions)					
2011	$ 5,985	$ 2,228	$ 568	$ 2,796	47%
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%
Cash Balance Benefit Program [3] (dollars in millions)					
2011	$ 7.16	$ 6.39	$ -	$ 6.39	89%
2010	7.91	6.71	-	6.71	85%
2009	7.44	7.49	-	7.49	101%
2008	6.80	7.50	-	7.50	110%
2007	5.61	5.93	-	5.93	106%
2006	4.99	5.10	-	5.10	102%
Defined Benefit Supplement Program [3] (dollars in millions)					
2011	$ 122	$ 69	$ -	$ 69	57%
2010	222	145	-	145	65%
2009	121	121	-	121	100%
2008	78	118	-	118	151%
2007	93	111	-	111	119%
2006	90	104	-	104	116%
Purchasing Power Protection Program [4][5] (dollars in millions)					
2011	$ 627	$ 1	$ 626	$ 627	100%
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%
Teachers' Health Benefits Fund [6] (dollars in millions)					
Medicare Premium Payment Program [7]					
2011	$ 57	$ 36	$ -	$ 36	63%
2010	64	32	-	32	50%
2009	62	30	-	30	48%
2008 [7]	58	33	-	33	57%
2007	47	32	-	32	68%
2006	47	30	-	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 Defined Benefit 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 section 24255.

(2) The Defined Benefit and Purchasing Power Protection Programs include state contributions under Education Code sections 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 Naval Petroleum Reserve. Certain reclassifications of our previous presentations of the Purchasing Power Protection Program for fiscal year 2003-04 were made to be consistent with later years' presentations.

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

(6) Fiscal year ending June 30, 2006 was the first year that an ARC was determined for the MPP Program.

(7) 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)**

	Defined Benefit Program	Cash Balance Benefit Program
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll basis	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	7.75%	7.25%
Interest on Accounts	6.00%	Not applicable
Wage Growth	4.00%	4.00%
Consumer Price Inflation	3.00%	3.00%
Post-retirement Benefit Increases	2.00% simple	Not applicable

	Defined Benefit Supplement Program	MPP Program
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level percent of payroll basis	Level dollar basis
Amortization Period	Open	Closed
Remaining Amortization Period	30 years	26 years
Asset Valuation Method	Fair market value of net assets	Fair market value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.25%	4.00%
Interest on Accounts	Not applicable	Not applicable
Wage Growth	4.00%	Not applicable
Consumer Price Inflation	3.00%	3.00%
Healthcare Cost Trend Rate Part A Premiums	Not applicable	5.00%
Healthcare Cost Trend Rate Part B Premiums	Not applicable	5.00%

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	Pension2 IRC 457 Plan	Teachers' Health Benefit Fund	Teachers' Deferred Compensation Fund	Totals
Personnel services:						
Salaries and wages	$ 31,973	$ -	$ -	$ 175	$ 150	$ 32,298
Staff benefits	14,310	-	-	71	44	14,425
Accrued vacation	2,330	-	-	(9)	12	2,333
Accrued worker's compensation expense	8	-	-	-	-	8
Accrued personal leave	(48)	-	-	(3)	-	(51)
Accrued OPEB Expense	7,722	-	-	18	34	7,774
Total personnel services	56,295	-	-	252	240	56,787
Operating expenses and equipment:						
General	2,623	-	-	81	83	2,787
Depreciation	7,284	-	-	-	-	7,284
Printing	1,087	-	-	-	-	1,087
Communications	780	-	-	-	-	780
Postage	1,184	-	-	-	-	1,184
Insurance	22	-	-	-	-	22
Travel	415	-	-	2	15	432
Training	632	-	-	-	-	632
Facilities operations	4,751	-	-	-	-	4,751
Consultants and professional services	23,708	538	2	-	191	24,439
Data processing	5,139	-	-	-	-	5,139
Information technology	1,675	-	-	-	-	1,675
Indirect State central services	4,603	-	-	10	-	4,613
Equipment	227	-	-	-	-	227
Other	59	-	-	-	40	99
Total operating expenses and equipment	54,189	538	2	93	329	55,151
Total	$ 110,484	$ 538	$ 2	$ 345	$ 569	$ 111,938

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

External Equity Managers:		
Domestic:		
Batterymarch Financial Management, Inc.	$	981
Bivium Capital Partners, LLC		1,428
BlackRock Financial Management, Inc.		9
BlackRock Institutional Trust Co, NA		988
Capital Prospects, LLC		884
Chicago Equity Partners		681
Delaware Investment Advisors		986
Delphi Management, Inc.		396
Denver Investment Advisor, LLC		1,262
First Quadrant, LP		508
FIS Funds Management, Inc.		1,839
Leading Edge Investment Advisors, LLC		1,440
Light Green Advisors		191
Mellon Capital Management Corp.		251
NCM Capital Management Group, Inc.		364
New Amsterdam Partners, LLC		288
Northern Trust Global Advisors, Inc.		1,505
Progress Investment Management		1,972
Sasco Capital, Inc.		4,057
State Street Global Advisors		802
Sterling Capital Management, LLC		1,382
T. Rowe Price International, Inc.		1,880
TCW Asset Management Co.		2,736
UBS Global Asset Management (Americas), Inc.		331
Total Domestic:	$	27,161
International:		
Acuity Investment Management	$	510
Allianz Global Investors (Nicholas-Applegate)		1,437
Baillie Gifford Overseas Ltd.		6,077
Batterymarch Financial Management, Inc.		722
BlackRock Institutional Trust Co, NA		505
BlackRock International Ltd.		487
Capital Guardian Trust Co.		1,425
Generation Investment Management US, LLP		4,291
Lazard Asset Management, LLC		8,055
Mondrian Investment Partners Ltd.		8,772
Morgan Stanley Investment Management		1,901
Oechsle International Advisors, LLC		1,685
Pyramis Global Advisors Trust Co.		704
State Street Global Advisors		1,060
T. Rowe Price International, Inc.		3,909
Templeton Asset Management, Ltd.		7,640
UBS Global Asset Management (Americas), Inc.		1,000
Total International:	$	50,180
Total External Equity Managers:	$	77,341

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

External Fixed Income Managers:		
Artio Global Investors	$	2,262
BlackRock Financial Management, Inc.		1,844
EH Williams Capital Management, LLC		370
Goldman Sachs Asset Management		2,190
LM Capital Group, LLC		848
Post Advisory Group, LLC		1,720
Western Asset Management Co.		3,060
Total External Fixed Income Managers:	$	12,294
FX Overlay External Fixed Income Managers		
FDO Partners	$	1,850
Lee Overlay Partners		1,000
Mesirow Financial		202
Millenium		360
Total FX Overlay External Fixed Income Managers	$	3,412
Real Estate Managers/Advisors:		
BlackRock Realty Advisors	$	1,523
CB Richard Ellis Investors, LLC		9,540
Heitman Capital Management, LLC		2,221
ING Clarion Partners		760
Principal Global Investors		4,893
Thomas Properties Group, LLC		624
Total Real Estate Managers/Advisors:	$	19,561
Research and Rating Services:		
Capital IQ	$	45
CEM Benchmarking, Inc.		20
Credit Sights		24
Factiva, Inc.		27
Factset Research System		233
Fitch Information, Inc.		70
Gimme Credit, LLC		13
International Strategy & Investment Group, Inc.		85
Moody's Investors Service		243
Morgan Stanley Capital International, Inc.		66
Oxford Analytica, Ltd.		20
Property & Portfolio Research, Inc.		105
Real Estate Research Corp.		26
RealPoint LLC		42
Russell Investment Group		40
Standard & Poor's		281
Telemet America, Inc.		18
The Yield Book		60
Thomson Reuters Markets, LLC		114
Trepp, LLC		35
Zephyr Associates, Inc.		21
Miscellaneous		23
Total Research and Rating Services:	$	1,611

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

Risk Management Systems:		
Barclay's Capital	$	150
Barra, Inc.		213
BlackRock Financial Management, Inc.		3,038
Total Risk Management Systems:	$	3,401
Trading Systems		
Bloomberg, LP	$	836
Intex Solutions, Inc.		152
IPC Systems, Inc.		63
MarketAxess Corporation		33
Omgeo, LLC		19
Thomson Reuters Markets, LLC		143
Micellaneous		6
Total Trading Systems	$	1,252
Advisers and Consultants:		
Altius Associates Limited	$	604
Altura Capital		65
Bard Consulting		429
Bonuccelli & Associates, Inc.		545
Cambridge Associates		3,609
Capital Hotel Management, LLC		197
Courtland Partners, Ltd.		167
Ennis Knupp & Associates		75
Houlihan Lokey Howard & Zukin		375
Nelson & Bernstein, LLC		127
Pension Consulting Alliance		1,255
Real Estate Fiduciary Services		222
Townsend Group		325
Valuation Research Corporation		70
Total Advisors and Consultants:	$	8,065
Attorneys, Master Custodian and Insurers:		
Bank of America (*Master Servicer-Home Loan Program*)	$	70
Cox Castle Nicholson (*Attorney*)		12
Fulbright & Jaworski (*Attorney*)		5
Groom Law Group (*Attorney*)		218
KPMG, LLP (*Auditor*)		141
Milliman (*Actuary*)		58
Proskauer LLP (*Attorney*)		29
Sheppard Mullin Richter & Hampton (*Attorney*)		83
State Street Bank (*Master Custodian*)		4,708
Total Attorneys, Master Custodian and Insurers:	$	5,324

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

Corporate Goverance:		
Administrative Costs	$	1,379
American Express		57
Council of Institutional Investors		30
Egan-Jones Proxy Services		25
Eva Dimensions, LLC		66
Factset Research System		123
First Rain, Inc.		40
Glass Lewis & Co., LLC		203
Grant & Eisenhofer		23
Idealswork DBA IW Financial		13
Institutional Shareholder Services		355
Investor Communications		18
Mercer Investment Consulting		20
Morgan Stanley Capital International, Inc.		10
Morgan, Lewis & Bockius, LLP		248
Pri Association		12
Symsoft Solutions, LLC		14
The Conference Board		31
The Corporate Library		44
Thomson Reuters Markets, LLC		33
Miscellaneous		68
Total Corporate Goverance:	$	2,812
Other Expenses:		
Administrative Costs		13,334
Court of Common Pleas of Chester County Pennsylvania		72
Miscellaneous		11
Total Other Expenses:	$	13,417
Total	$	148,490

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:		
Accuity, Inc.	$ 31	Consulting Services
Alameda County Office Of Education	32	Regional Counseling Services
Background Profiles, Inc.	11	Consulting Services
Benchmark Consulting Services	298	Consulting Services
Berman Obaldia	10	Consulting Services
Bingham Mccutchen LLP	18	Consulting Services
Business Advantage	316	Consulting Services
Bwise Guys LLC	118	Consulting Services
Cal Gov Technology	92	Consulting Services
Celer Systems, Inc.	174	Consulting Services
Cheiron, Inc.	175	Consulting Services
Ciber, Inc.	1,906	Consulting Services
Comm Vault Systems	113	Consulting Services
Comsys Services LLC	131	Consulting Services
Contra Costa County Office	172	Regional Counseling Services
Cooper Software, Inc.	71	Consulting Services
Cooperative Personnel Services	41	Consulting Services
Crowe Horwath LLP	50	Auditing Services
Crusade	187	Consulting Services
Daniel J. Edelman, Inc.	377	Consulting Services
Deloitte & Touche LLP	3,159	Consulting Services
Department Of Justice	359	Consulting Services
Dickstein Shapiro LLP	62	Legal Services
DSG Group, Inc.	123	Consulting Services
Eclipse Solutions, Inc.	122	Consulting Services
Employment Development Department	43	Consulting Services
Forrester Research, Inc.	169	Consulting Services
Forward Solutions	110	Consulting Services
Fresno County Office Of Education	182	Regional Counseling Services
Gartner, Inc.	262	Consulting Services
Genex Services, Inc.	72	Consulting Services
Goldlink Pacific, Inc.	273	Consulting Services
Hareline Graphics	54	Consulting Services
Hogan Lovells US LLP	202	Legal Services
Humboldt County Office Of Education	89	Regional Counseling Services
Huron Consulting Services LLC	940	Consulting Services
Infiniti Consulting Group, Inc.	310	Consulting Services
Insight Technologies, Inc.	39	Consulting Services
Jaykumar Maistry	646	Consulting Services
Kearnford Application Systems	11	Consulting Services
Kern County Superintendent Of Schools	199	Regional Counseling Services
Kiefer Consulting, Inc.	26	Consulting Services
Los Angeles County Superintendent Of Schools	714	Regional Counseling Services
M Corporation	156	Consulting Services
Macias, Gini & O'connell LLP	301	Auditing Services
Mara Consulting, Inc.	127	Consulting Services
Mayer Hoffman McCann, P.C.	420	Auditing Services
Metavista Consulting Group	246	Consulting Services
Milliman	335	Consulting Services
Monterey County Office Of Education	73	Regional Counseling Services
Montridge Consulting	141	Consulting Services
Mouse Magic	17	Consulting Services
MSLA, A Medical Corporation	101	Consulting Services

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

Consulting and professional services:		
Nanran, Inc.	234	Consulting Services
Netprotex, Inc.	149	Consulting Services
NFP Accounting Technologies	14	Consulting Services
Nossaman LLP	42	Legal Services
Olson,Hagel & Fishburn LLP	47	Legal Services
Orange County Department Of Education	415	Regional Counseling Services
Pinnacle Consulting	161	Consulting Services
Placer County Office Of Education	83	Regional Counseling Services
Proprose	69	Consulting Services
Providence Technology Group	140	Consulting Services
Quest Media & Supplies	162	Consulting Services
Reed Smith LLP	166	Legal Services
Robert Yetman	40	Consulting Services
Russbo, Inc.	141	Consulting Services
Sacramento IT Consulting LLC	133	Consulting Services
San Bernardino County Office Of Education	357	Regional Counseling Services
San Diego County Office Of Education	410	Regional Counseling Services
San Francisco County Office Education	50	Regional Counseling Services
San Joaquin County Office Of Education	90	Regional Counseling Services
San Jose Unified School District	214	Regional Counseling Services
San Mateo-Foster City School District	56	Regional Counseling Services
Santa Barbara County Office Of Education	107	Regional Counseling Services
Santa Cruz County Of Education	102	Regional Counseling Services
Shasta County Office Of Education	155	Regional Counseling Services
Shaw Valenza LLP	14	Legal Services
Sierra Metrics, Inc.	212	Consulting Services
Sjoberg Evashenk Consulting	45	Consulting Services
Solano County Office Of Education	50	Regional Counseling Services
Sonoma County Office Of Education	97	Regional Counseling Services
Staff Tech, Inc.	134	Consulting Services
Stanislaus County Office Of Education	108	Regional Counseling Services
State Controller's Office	2,438	Consulting Services
State Personnel Board	66	Consulting Services
Strata Marketing Group	131	Consulting Services
Thomas V. Ennis Consulting	51	Consulting Services
Thomas/Ferrous	269	Consulting Services
Tulare County Superintendent Of Schools	63	Regional Counseling Services
University Enterprises, Inc.	1,614	Consulting Services
Ventura County Superintendent Of Schools	123	Regional Counseling Services
Verizon Network Integration Corporation	208	Consulting Services
Visionary Integration Professionals, LLC	75	Consulting Services
Yuba County Office Of Education	37	Regional Counseling Services
Other	30	Various Services Under $10K
	$ 23,708	

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**
Department Of Technology Services	$ 3	Data Processing
Office Of The State Chief Information Officer	5,136	Data Processing
Total Data Processing	$ 5,139	

Teacher's Deferred Compensation Fund

Individual or Firm

Consulting and professional services:	**Commission/Fee**	**Nature of Services**
California Teachers Association	$ 8	Consulting Services
Daniel J. Edelman, Inc.	5	Consulting Services
Fiduciary Benchmarks	4	Consulting Services
Jem Resource Partners, LP	13	Consulting Services
Meridian Wealth Management	88	Consulting Services
Target Date Analytics, LLC	5	Consulting Services
Thomas/Ferrous, Inc.	9	Consulting Services
University Enterprises, Inc.	27	Consulting Services
Volt Services Group	32	Consulting Services
Total consultants and professional services	$ 191	

IRC 403(b) Plan

Individual or Firm

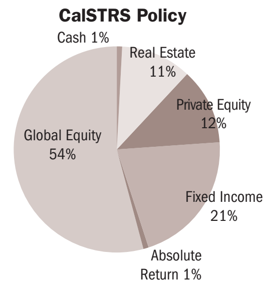
Consulting and professional services:	**Commission/Fee**	**Nature of Services**
TIAA-CREF	$ 538	Administrative Services
Total consultants and professional services	$ 538	

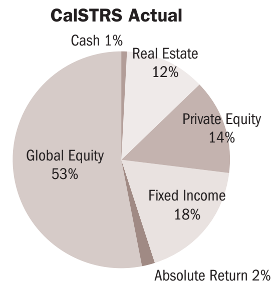
IRC 457 Plan

Individual or Firm

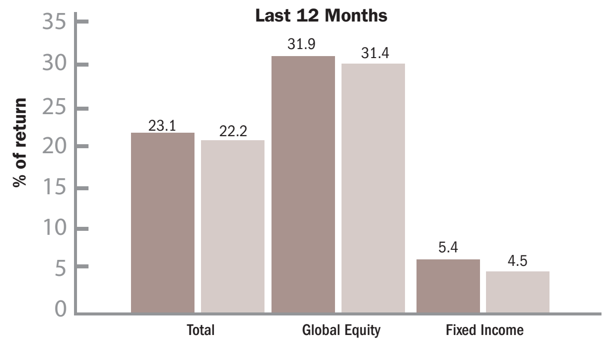
Consulting and professional services:	**Commission/Fee**	**Nature of Services**
TIAA-CREF	$ 2	Administrative Services
Total consultants and professional services	$ 2	

Pension Consulting Alliance, Inc
Los Angeles – Portland – New York



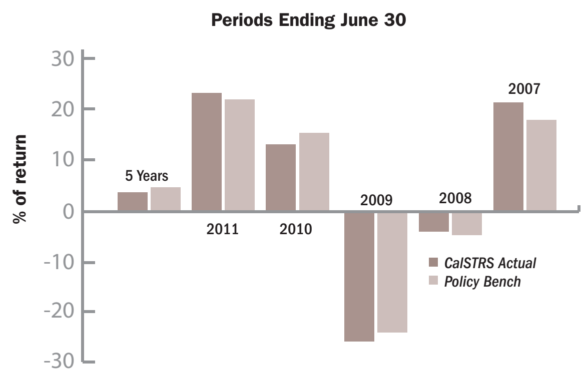


The CalSTRS investment portfolio increased by $25.6 billion over the past twelve months, ending with a value of $155.5 billion on June 30, 2011. As highlighted below, the CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. 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 utilizing 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 2010–2011 fiscal year as adopted by the Board effective July 2010 (see left pie chart). The portfolio's actual allocation is slightly different from policy. The Private Equity, Real Estate, and Absolute Return asset classes are modestly overweighted, while Global Equity and Fixed Income are underweighted (see right pie chart). The allocation to Cash is in line with policy.



Investment Results

Over the last year, the CalSTRS investment portfolio produced an absolute return of 23.1%, ranking in the first quartile among its large public pension fund peers[1] (top bar chart). During this period, portfolio results outperformed the policy benchmark return by 90 basis points.[2] All asset classes, aside from Absolute Return, either matched or outperformed their respective benchmarks over the past twelve months.

During the last three years, CalSTRS' portfolio generated a 1.2% average annual return, underperforming the policy benchmark by (1.8%) per year and ranking in the fourth quartile versus their peer funds. Underperformance over this time period was largely attributable to the underperformance of Real Estate. Over the last five years, the CalSTRS investment portfolio produced an average annual return of 3.8%, trailing its policy benchmark by (50) basis points per year (bottom bar 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 fiscal year periods, ending June 30.[3]

Pension Consulting Alliance, Inc

(1) Per TUCS Universe of Master Trust Public Funds with assets in excess of $10 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 posted the highest investment return in 25 years. In the Fiscal Year 2010–11, the portfolio generated a 23.1 percent return. In addition CalSTRS was named Investment manager of the Year for Large Public Funds by Institutional Investor magazine. Both of these are a cause for a celebration; but we must balance the short term success with the longer term consequences of the 2008 global financial meltdown. The lingering effects of the global crisis weight heavily on the U.S. and global economy and our investment portfolio. Since we use a three year smoothing of investment results in our Actuarial calculation, the declines of 2008 continue to hurt our longer-term results and harm the defined benefit plan's funded status.

Despite consecutive double digit investment return results, the impact of the financial markets has been substantial. The lingering impact of the fall of 2008 on the U.S. economy cannot be ignored as unemployment has remained high and individual and government balance sheets remain constrained and over leveraged. As with the prior fiscal year, the U.S. stock market return can be divided into two time periods. First was a robust summer and fall, as we saw very strong corporate earnings growth and a steady climb in stock prices, followed by a flat to negative February to June, as the economy waned and suffered renewed job losses. The following pages briefly outline the investment portfolio as well as each asset line item in the financial statements. Over the 12 months ending June 30, 2011, the investment portfolio grew $25.5 billion in value, which resulted in a positive 23.1 percent annual return.

Asset Allocation as of June 30, 2011

Total investment portfolio of $155.5 billion

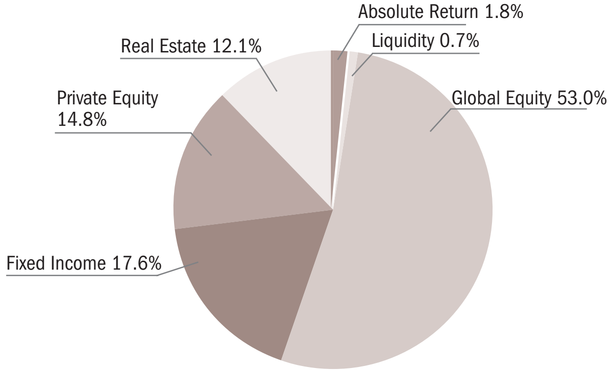
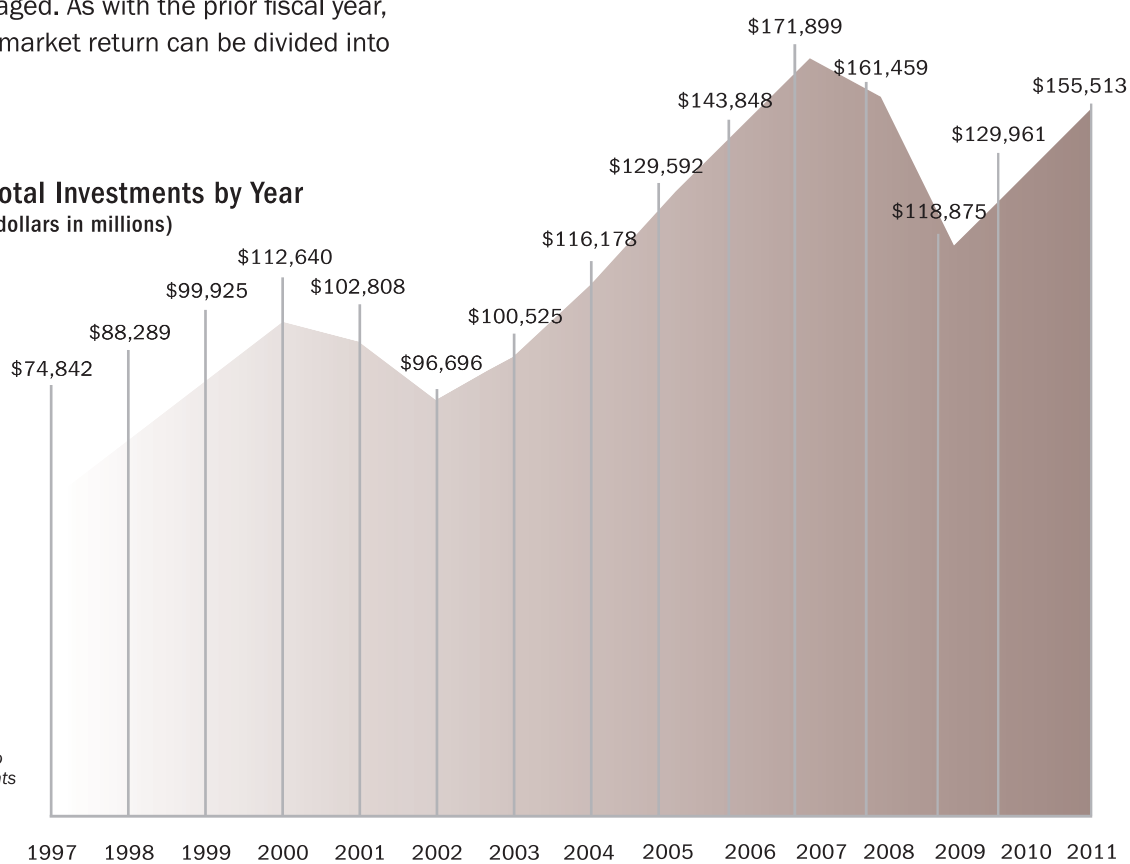


Table 1 | **Total Investments by Year** (dollars in millions)



[1] *"Portfolio values and performance results may vary from information presented in the Basic Financial Statements due to rounding, portfolio management requirements and Generally Accepted Accounting Principles."*

While this annual report provides a great amount of detail into the CalSTRS Investment Portfolio, it only represents a point in time, June 30, 2011. The reader must understand that as a huge global investment portfolio, CalSTRS is exposed and experiences the volatility of these dynamic global financial markets. Subsequent to June 30, 2011, the U.S. Government's credit rating was downgraded by one particular Rating Agency and all investors experienced a significant move in the global financial markets of both equities and fixed income.

Table 2 | Total Returns by Year (percent)

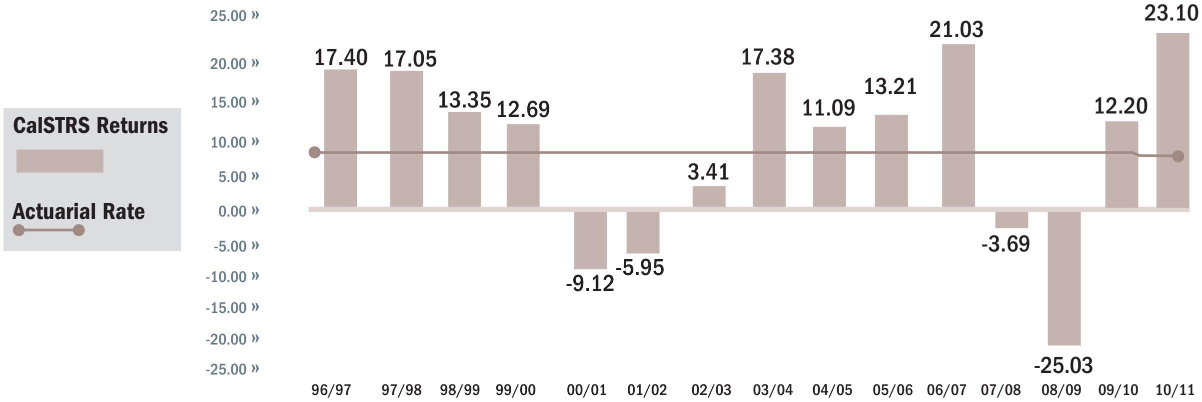


Table 3 | Time-Weighted Performance Returns for Major Asset Categories

PORTFOLIO TYPE / ASSOCIATED INDICES	1 YR	3 YR	5 YR	10 YR
Total Fund	23.10%	1.17%	3.84%	5.66%
Global Equity	31.88	2.72	3.70	4.99
Global Equity Custom [(1)]	31.35	2.49	3.43	4.73
U.S. Equity	32.91	3.90	3.27	3.55
Russell 3000	32.16	3.82	3.18	3.29
Non-U.S. Equity	29.60	0.37	4.41	7.70
MSCI All Country World Index ex-U.S.	29.59	(0.47)	3.64	7.62
MSCI Europe, Australia, Far East & Canada	30.18	(1.69)	1.90	5.85
MSCI Emerging Market	27.66	4.06	11.40	16.35
Fixed Income	5.44	7.35	6.94	6.33
U.S. Debt Custom [(2)]	4.45	6.82	6.66	6.20
Barclays Capital U.S. Aggregate	3.90	6.46	6.52	5.74
Barclays Capital High Yield Cash Pay	15.47	12.77	9.42	8.98
Real Estate	17.51	(16.30)	(2.72)	6.66
Real Estate NCRIEF (lagged 1 quarter)	16.03	(3.63)	3.47	7.54
Private Equity	22.47	2.54	8.96	11.27
Private Equity Custom [(3)]	20.66	6.83	6.40	6.74
Absolute Return	13.64	–	–	–
Barclays Global Inflation Linked	15.07	–	–	–
Liquidity [(4)]	12.03	(3.00)	0.77	3.81
Barclays Capital 3-Month Treasury Bill [(5)]	0.18	0.47	2.07	2.11

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

(2) 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

(3) 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; lagged 1 quarter

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

(5) 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

Therefore, to get the most current information, we encourage you to visit our web site: www.calstrs.com and click on the Investments tab. Our website contains information on the entire investment portfolio and sections of each asset class. Additionally, every three months, the Investment Office posts quarterly reports to the website on all segments of the investment portfolio. These reports provide a picture of the changes in the investment portfolio that occur during the current fiscal year.

While fiscal year 2010–11 was an outstanding year on an absolute return basis, it was also a strong year relative to our Policy benchmarks. At the total fund level the investment staff and investment managers added almost one percent of additional return, which equates to $1.1 billion more for the Defined Benefit Fund. All of the asset classes, with the exception of one, produced double digit returns. Additionally, all except one beat their passive benchmark for the year. The highest returning asset class was Global Equities, up 32 percent. The next highest was Private Equity up 22 percent followed by Real Estate up 18 percent. On a relative basis, the best performing asset class was Private Equity, which beat its market benchmark by almost two percent. This was followed by Real Estate which beat its benchmark by one and one half percent. The only asset class to underperform its policy benchmark was our newly created Absolute Return, now called Inflation Sensitive, which is still in its development stage.

The following pages go into greater detail regarding each asset class and its respective performance. The CalSTRS investment Committee, investment staff and external consultants have thoroughly reviewed the results. During the fiscal year 2011-12, we will be making several changes 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. 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.

During the fiscal year 2010-11 staff continued to work on the implementation of three new strategies and completed a final research report on microfinance for a presentation to the Investment Committee in July 2011. Staff will be making its first capital deployments in fiscal year 2011–12 and is actively working on incubating the following investments: global macro hedge funds, commodities, a multi-asset class risk allocation strategy and microfinance.

Lastly, IR is building a fund-wide risk management process. This new framework will help CalSTRS monitor its investment portfolio sensitivities to changes in the macroeconomic and market environments. The framework will help improve CalSTRS' investment process and provide tools to lessen the impact of a severe macroeconomic or market event.

Absolute Return

CalSTRS Absolute Return portfolio is valued at $2.8 billion. Absolute Return assets are 1.8 percent of the total fund with a short-term target allocation of one percent. Global inflation protection securities make up 86 percent of the portfolio with the balance consisting of whole mortgage loans. At fiscal year-end the unfunded commitment to infrastructure totaled $146 million.

The Absolute Return is a strategic asset class that was adopted by the Teachers' Retirement Board during fiscal year 2009–10. It is not tied to

Table 4 **Largest Fixed Income Holdings as of June 30, 2011**
(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	5/31/14	2.250%	310,000,000	$323,103,691	$312,196,034	$10,907,657
US TREASURY N/B	2/28/17	3.000	295,000,000	310,413,768	309,443,125	970,643
US TREASURY N/B	12/31/16	3.250	280,000,000	298,743,180	287,223,416	11,519,764
US TREASURY N/B	11/30/13	2.000	266,000,000	274,884,389	272,387,075	2,497,314
US TREASURY N/B	8/15/28	5.500	215,000,000	255,288,846	241,135,987	14,152,859
US TREASURY N/B	9/30/13	3.125	240,000,000	253,888,807	243,579,012	10,309,795
US TREASURY N/B	1/15/13	1.375	250,000,000	253,827,478	249,666,619	4,160,859
US TREASURY N/B	11/30/12	0.500	250,000,000	250,584,985	249,579,711	1,005,274
US TREASURY N/B	2/15/20	3.625	225,000,000	238,000,500	226,758,759	11,241,741
US TREASURY STRIP	11/15/16	N/A	260,000,000	234,449,792	202,036,528	32,413,264

a specific asset, but is objective-oriented and was modeled using Inflation Protection Securities and Infrastructure. Over time it will likely evolve to include other asset classes and investment strategies. This asset class will consist of several asset types that, when combined, should produce a relatively stable return stream, with return level between equities and fixed income and an overall higher correlation to inflation than equity or fixed income.

The Absolute Return asset class objective is to produce inflation-protected income/returns over extended periods of time. The long-term target allocation will be 5 percent of the total portfolio split evenly between global inflation protection securities (GIPS) and infrastructure. GIPS are liquid and are actively traded. It was our funding strategy to implement GIPS and then methodically integrate the more illiquid infrastructure asset types. Additionally, the whole mortgage loan portfolio previously reported under fixed income was moved to this asset class at the beginning of the fiscal year.

The annualized one year return for the asset class was 13.6 percent and the comparable benchmark return is 15.1 percent. The GIPS portfolio annual return was 14.7 percent slightly below its benchmark at 15.1 percent primarily due to cash flow timing during the implementation throughout the year.

Fixed Income

At June 30, 2011, the Fixed Income portfolio amounted to $27.39 billion, representing 17.6 percent of the total fund. 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 Investment 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 continued to generate positive returns across all of the strategies and sectors, outperforming the performance benchmark by 99 basis points for the twelve months ending June 30, 2011, and adding value over each of the longer term five- and ten-year time frames as well. The outperformance this past year can be attributed in large part to the overweight within the portfolio to spread (i.e., non- Government) assets which benefited from the accommodative policies that continued to support/encourage investor's risk appetite throughout the period. Looking forward over the next year, we will watch for signs that economic growth will become self sustaining, as the monetary and fiscal stimulus is being removed. Pending further clarity into the health of the global economy, efforts will be taken to reduce risk within the portfolio.

Two additional 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 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 Fund'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.

High volatility relative to historical norms has provided additional challenges for the Program this past fiscal year. In effect, strategies designed to protect the Fund against the looming sovereign debt crisis in Europe didn't perform as expected. Within the Core (internally managed) Strategy, staff made the decision to protect the translation value of a portion of the Fund's European denominated assets by reducing exposure to the Euro through derivative products as an investment hedge. However, the Federal Reserve's Quantitative Easing policy put a strain on the U.S. dollar (USD), causing the dollar to weaken and the Euro to unexpectedly strengthen, even in light of significantly negative European economic and political activity. As a result of these activities, performance for this strategy was below expectations. Alternatively, as the Federal Reserve's actions emboldened investors to move into riskier assets, emerging market currencies performed very well for yet another year. Our external managers within the Opportunistic Strategy were able to take advantage of this environment, as they generally underweighted developed market currencies and overweighted the emerging markets over the period. The Euro hedge strategy within the Core component this past fiscal year hurt the total Program performance over the 1, 3, and 5 year time periods of -.50 percent, -.24 percent, and -.14 percent respectively, while the "since inception" return of the Program remains positive at .67 percent.

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 program has consistently added 4-5 basis points in value to the Fund over the past twenty-three years, 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.

The program has continued to recoup a majority of the losses taken during the financial crisis as the securities lending markets continued to stabilize. Importantly, there has been an increased sensitivity to managing cash collateral risk throughout the securities lending industry. To help further lessen this risk exposure, CalSTRS is looking into expanding its usage of non-cash collateral within the program to help improve liquidity, reduce cash collateral balances and to provide the opportunity to optimize our utilization rates. Furthermore, in order to strengthen the quality of our program income overall, focus has shifted from a cash collateral management emphasis to amplifying the intrinsic value of each loan. For the fiscal year ended June 30, 2011, the Securities Lending Program earned approximately $99.4 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.

New originations for the Home Loan Program were temporarily suspended on October 1, 2011, as CalSTRS seeks a new provider for program administration, master servicing, and compliance. CalSTRS intends to resume the program as soon as possible.

Private Equity

CalSTRS Private Equity portfolio is valued at $23.0 billion. Private equity assets are 14.8 percent of the total fund with a 12 percent target allocation. Unfunded commitments total $8.1 billion.

The Private Equity portfolio consists of three components: 1) limited partnership interests, 2) co-investments, and 3) secondary partnership interests. There are 231 partnerships, 48 co-investments and three secondary interests in the Private Equity portfolio. On a net asset value basis, limited partnerships comprise 91 percent of the portfolio, co-investments comprise 7 percent and other investments comprise 2 percent.

Annualized returns for the asset class have been 22.5 percent, 2.5 percent and 9.0 percent over one, three and five year periods respectively. Comparable benchmark returns are 20.7 percent, 6.8 percent and 6.4 percent respectively.

Credit Enhancement

CalSTRS enters into agreements with a number of domestic issuers of debt to provide credit support and/or liquidity support on specific debt obligations. In return, CalSTRS earns fee income for these commitments. As of June 30, 2011, the Credit Enhancement Program had commitments of approximately $2 billion and fee income earned during the fiscal year was approximately $13.3 million.

Real Estate

CalSTRS portfolio of real estate assets is valued at $18.9 billion. Real estate assets are 12.1 percent of the total fund with an 11 percent target allocation. Unfunded commitments total $8.7 billion.

At the June 2010 Investment Committee meeting a revision to the real estate policy was approved. The current policy divides the Real Estate portfolio into four segments: 1) Core, 2) Value Add, 3) Opportunistic and 4) Public.

The Core portfolio comprises 31 percent of the total Real Estate portfolio and primarily consists of investments in stabilized, income producing properties located principally in economically diversified metropolitan areas.

The Value Add portfolio comprises 18 percent of the total Real Estate portfolio and represents investments in properties and/or strategies that require specialized acquisition and management expertise to mitigate business and leasing risks associated with the investment strategy. The Value Add portfolio may include some international investments.

The Opportunistic portfolio is 49 percent of the total Real Estate portfolio and consists of investments aimed at capitalizing on tactical opportunities, mispricing or distress in the real estate and capital markets. Opportunistic investments may include international and emerging markets.

The Public portfolio is currently at 2 percent of the total Real Estate portfolio. With the June 2010 policy revision, the long-term goal will be to rebalance the portfolio to 50 percent, Core; 20 percent, Value Add; and 30 percent, Opportunistic.

The CalSTRS Real Estate portfolio has achieved gross annualized returns of 17.5 percent, negative 16.3 percent and negative 2.7 percent for the one-, three-, and five-year periods, respectively. CalSTRS returns outperformed the NCREIF benchmark by 1.5 percent for the one-year period, and underperformed the benchmark by 12.7 percent and 6.2 percent for the three and five year periods, primarily due to the unleveraged nature of the NCREIF benchmark.

Global Equity

At the end of Fiscal Year 2010–11, the $82.4 billion Global Equity portfolio represented 53 percent of the total fund. U.S. Equity accounted for 66 percent of the total equity allocation, while Non-U.S. Equity accounted for the remaining 34 percent.

The Global Equity portfolio outperformed its policy benchmark by 53 basis points (31.88 percent vs. 31.35 percent) for the fiscal year ending June 30, 2011. This out-performance was driven by the strong relative returns of the U.S. equity portfolio, which surpassed the Russell 3000 ex-Tobacco Index by 75 basis points (32.91 percent vs. 32.16 percent).

Although the Non-U.S. equity portfolio lagged the U.S. equity portfolio, it beat the MSCI ACWI ex-U.S. ex-Tobacco Index by 1 basis point (29.60 percent vs. 29.59 percent) during the fiscal year.

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

During Fiscal Year 2010–11, the Global Equity group completed the following key initiatives:

- Staff conducted a three-part study to identify the key factors that go into the decision of whether to implement an investment strategy using internal or external management. During the study, staff provided a historical context of how various strategies across the portfolio were implemented (i.e., internally vs. externally) over time, presented a peer comparison of CalSTRS' internal/external mix relative to similar organizations, and developed a criteria matrix to standardize the process of determining whether to implement a strategy internally or externally. The study concluded in June 2011 with the Teachers' Retirement Board's acceptance of the criteria matrix and approval to expand CalSTRS' range of internally managed strategies, including two passive strategies currently managed externally, Russell 3000 ex-Tobacco Index and MSCI EAFE + Canada ex-Tobacco Index portfolios.

Table 5 | **Largest Equity Holdings as of June 30, 2011**
(CalSTRS maintains a complete list of portfolio holdings)

ISSUE	SHARES	MARKET VALUE	AVERAGE COST	UNREALIZED GAIN/(LOSS)
EXXON MOBIL CORP	15,195,323	$1,236,595,386	$725,181,633	$511,413,753
APPLE INC	2,940,496	987,036,292	271,223,968	715,812,324
CHEVRON CORP	6,414,422	659,659,158	341,362,051	318,297,107
INTL BUSINESS MACHINES CORP	3,828,271	656,739,890	320,598,343	336,141,547
MICROSOFT CORP	22,969,580	597,209,080	456,578,210	140,630,870
JOHNSON + JOHNSON	8,933,809	594,276,975	393,953,685	200,323,290
AT+T INC	18,852,389	592,153,538	519,814,952	72,338,586
GENERAL ELECTRIC CO	30,921,092	583,171,795	605,576,797	(22,405,002)
PROCTER + GAMBLE	8,062,292	512,519,902	335,267,948	177,251,954
JP MORGAN CHASE	12,518,007	512,487,207	404,871,391	107,615,816

- Controlling costs is a high priority for staff, given the difficult economic and budgetary environment, especially with regard to external manager fees. While these management fees are favorable relative to peers, staff embarked on an effort to better align the cost structure. During this effort, most of the external managers agreed to lower fee schedules, which has resulted in roughly a 15 percent cost savings. Staff will continue to conduct fee negotiations with the remaining external managers with the goal of reducing costs even further.

Corporate Governance

During Fiscal Year 2010–11, CalSTRS staff voted on 66,572 proxy proposals submitted by 6,210 corporations that were held in the portfolio. Some companies had multiple meetings and the fund ended up voting at 6,568 meetings for portfolio companies. The 66,572 proposals represented a 9.9 percent increase from the 60,563 proposals voted on in 2009–10. The increase in the number of proposals is due to CalSTRS bringing all foreign proxies in-house to vote.

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: 17,179
   » Voted For: 9,919 (58 percent)
   » Voted Against: 7,260 (42 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. 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: 2,819
   » Voted For: 2,563 (91 percent)
   » Voted Against: 256 (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: 1,263
   » Voted For: 622 (49 percent)
   » Voted Against: 641 (51 percent)

4. ***Advisory Vote on Compensation:*** More commonly known as Say-on-Pay, these are 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.

   » Number Voted: 2,350
   » Voted For: 1,811 (77 percent)
   » Voted Against: 539 (23 percent)

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

   » Number Voted: 151
   » Voted For: 141 (93 percent)
   » Voted Against: 10 (7 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: 627
   » Voted For: 419 (67 percent)
   » Voted Against: 208 (33 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: 571
   » Voted For: 270 (47 percent)
   » Voted Against: 301 (53 percent)

8. ***Frequency of Advisory Vote on Compensation:*** More commonly known as Say-When-On-Pay, this vote is a requirement of the Dodd Frank Act and allows shareholders to vote on the frequency of future advisory votes on compensation. Under the rule, shareholder can choose to vote every 1-, 2-, or 3-years. CalSTRS routinely supports annual Say-On-Pay votes.

   » Number Voted: 2,276
   » 1-year: 2,276 (100 percent)
   » 2-year: 0 (0 percent)
   » 3-year: 0 (0 percent)

9. ***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: 475
   » Voted For: 333 (70 percent)
   » Voted Against: 142 (30 percent)

The Corporate Governance unit continues to manage eight governance funds, accounting for a combined $3.9 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, 2011, the Corporate Governance funds returned 36.3 percent.

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

	June 30, 2010		June 30, 2011			
PORTFOLIO TYPE	**BOOK VALUE**	**NET ASSET VALUE**	**BOOK VALUE**	**NET ASSET VALUE**	**% OF NET ASSET VALUE**	**NET VALUE CHANGE**
Global Equity	$63,739	$67,059	$64,566	$82,365	53.0%	$15,306
Fixed Income	27,755	28,466	27,359	27,388	17.6%	(1,078)
Private Equity	20,251	19,158	21,224	22,987	14.8%	3,829
Real Estate	23,179	13,040	25,975	18,859	12.1%	5,819
Absolute Return	1,221	1,217	2,660	2,826	1.8%	1,609
Liquidity	1,021	1,021	1,087	1,088	0.7%	67
PORTFOLIO TOTAL	**$137,166**	**$129,961**	**$142,871**	**$155,513**	**100.00%**	**$25,552**
Adjustments:						
Securities Lending Collateral		$27,101		$25,200		
Accruals		223		842		
Cash & Cash Equiv		(212)		(343)		
PLAN ASSETS-INVESTMENTS		**$157,073**		**$181,212**		

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 invested in the Teachers' Retirement Fund, excluding Private Equity and Real Estate investments. The market value, as of June 30, 2011, was $150.8 million. The rate of return for the Cash Balance Benefit Program for the fiscal year was 23.9 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, 2011, was $7.9 billion. Since the inception of the Defined Benefit Supplement Program, the annualized rate of return is 4.8 percent. The rate of return for the Defined Benefit Supplement Program for the fiscal year was 23.9 percent.

Table 7 | Schedule of Investment Expenses July 1, 2010 Through June 30, 2011 (dollars in thousands)

	NET ASSET VALUE	INVESTMENT EXPENSES	BASIS POINTS
Investment Categories			
Global Equity	$82,365,084	$93,290	11.3
Fixed Income	27,388,487	20,123	7.3
Private Equity	22,987,403	9,714	4.2
Real Estate	18,858,689	24,669	13.1
Liquidity	2,826,260	173	0.6
Absolute Return	1,087,569	521	4.8
TOTAL ASSETS AND EXPENSES	**$155,513,492**	**$148,490**	**9.5**

Table 8 | Global Equity Broker Commissions July 1, 2010 Through June 30, 2011

BROKER NAME	COMMISSION	SHARES	COMMISSION PER SHARE
J P Morgan	$3,244,425	399,681,058	$0.008
Credit Suisse Bank	2,687,387	302,566,314	0.009
Merrill Lynch	2,468,572	480,543,259	0.005
Citigroup	2,252,871	213,695,908	0.011
Instinet	1,976,848	100,689,757	0.020
Goldman Sachs	1,967,656	293,728,513	0.007
State Street Bank and Trust Company	1,865,037	275,378,218	0.007
UBS AG	1,553,544	223,577,276	0.007
Deutsche Bank	1,257,553	164,504,402	0.008
Ridge Clearing	963,636	94,006,403	0.010
Other Brokers	15,212,672	1,189,225,141	0.013
TOTAL COMMISSIONS	**$35,450,201**	**3,737,596,249**	**$0.009**

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October 28, 2011

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, 2008	87%
June 30, 2009	78%
June 30, 2010	71%

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, 2010 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 2011 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, 2010 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 in April of 2008. Revised economic assumptions were adopted at the December 2010 meeting. The assumptions will be reviewed in detail again in 2012.

ACTUARY'S CERTIFICATION LETTER, CONTINUED

Milliman

Teachers' Retirement Board
October 28, 2011
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. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

We certify that the June 30, 2010 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
Principal and Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
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.

An additional study focusing on economic assumptions was completed in 2010. The studies were adopted by the Teachers' Retirement Board on April 3, 2008, and December 2, 2010, respectively. The most recent actuarial valuation was completed as of June 30, 2010, and adopted by the Teachers' Retirement Board on April 8, 2011. 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, except for some economic assumptions which were adopted December 2, 2010. All information is considered in the June 30, 2010 actuarial valuation.

Following is a summary of the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.75 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 4.00 percent, of which 3.00 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, 2010 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 2010–11 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, 2010.

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, 2010.

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, 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.

Effective January 1, 2009

Funding

- Effective with fiscal year 2009–10 through fiscal year 2012–13, payment of previously 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.

The most recent actuarial valuation of the system as of June 30, 2010, determined there is an unfunded actuarial obligation for this program. The prior actuarial valuation as of June 30, 2009, also indicated there was an unfunded actuarial obligation.

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

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

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

Independent Actuarial Review

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the 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 2007 Actuarial Experience Analysis of the Defined Benefit Program was performed by the firm The Segal Company. The result of the audit was reported to the board on September 8, 2011.

An audit of the 2008 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 February 11, 2011.

The current actuarial consultant was retained on January 15, 2000 and in 2006, as a result of the competitive bid process.

CalSTRS is in the process of releasing a competitive solicitation for actuarial services with April 1, 2012 start date.

Summary of Defined Benefit Program Provisions

(The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2010 actuarial valuation.)

NORMAL RETIREMENT

Eligibility Requirement

Age 60 with five years of credited service.

Benefit

2 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 was 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. No additional contributions were made in 2010–11.

Changes in Defined Benefit Program Provisions

None

DEFINED BENEFIT PROGRAM

All demographic assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on April 3, 2008; some new economic assumptions were adopted at the December 2, 2010 Board 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

	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	–	–	–

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	3.00%
Investment Yield (Net of Expenses)	7.75
Wage Inflation	4.00
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
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
2010	441,544	26,274,889,981	59,507	0.0

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	777,293	6,499	165,404	243,796	9,171,309	10.0	37,619
2011	14,599	671,868	6,938	181,927	253,041	9,802,995	6.9	38,741

[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)
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
2010	27,105	99,135	70,075	140,291	100.0	100.0	20.1

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	
	2010 (2009)	2009 (2008)
Actuarial Obligation at June 30:	$185,683	$177,734
Normal Cost	4,605	4,772
Benefit Payments	(8,941)	(8,170)
Expected Interest	14,685	14,085
Expected Actuarial Obligation at June 30:	196,032	188,421
Expected Actuarial Value of Assets at June 30:	152,418	164,046
Expected UAO at June 30	43,614	24,375
Actuarial (Gains) or Losses		
Change in Assumptions	4,384	0
Investment Return Assumptions	10,931	18,003
Demographic Assumptions	(4,101)	(2,738)
Net Change Other Sources	1,196	901
Total Actuarial (Gains) & Losses	12,410	16,166
Unfunded Actuarial Obligation at June 30	$56,024	$40,541
Funded Ratio	71%	78%

DEFINED BENEFIT SUPPLEMENT PROGRAM | ACTUARY'S CERTIFICATION LETTER

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October 28, 2011

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, 2008	100%
June 30, 2009	78%
June 30, 2010	86%

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, 2010 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 2011 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, 2010 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 in April of 2008. Revised economic assumptions were adopted at the December 2010 meeting. The assumptions will be reviewed in detail again in 2012.

ACTUARY'S CERTIFICATION LETTER, CONTINUED

Milliman

Teachers' Retirement Board
October 28, 2011
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. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

We certify that the June 30, 2010 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

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Principal and Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
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, 2010, and adopted by the Teachers' Retirement Board April 8, 2011. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2010 actuarial valuation.

The Defined Benefit Supplement Program was established January 1, 2001. The demographic assumptions were based on those adopted for the Defined Benefit Program by the Board on April 3, 2008, and December 2, 2010, respectively, and were 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, except for some economic assumptions which were adopted December 2, 2010. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.25 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 4.00 percent, of which 3.00 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, 2010, result in an unfunded actuarial obligation of $1,044,262,000.

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

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

Independent Actuarial Review

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the 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 2007 Actuarial Experience Analysis of the Defined Benefit Supplement Program was performed by the firm The Segal Company. The result of the audit was reported to the Teachers' Retirement Board on September 8, 2011.

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

DEFINED BENEFIT SUPPLEMENT PROGRAM

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, 2010 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 was 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, 2010 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; some new economic assumptions were adopted at the December 2, 2010, Board 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 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	3.00%
Investment Yield	7.25
Wage Inflation	4.00
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
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
2010	441,326	27,340,8410,174	61,952	(1.195)

[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
2011	8,811	31,693,536	343	1,329,718	36,110	103,087,388	27.9	2,855

[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)
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	–	–
2010	7,012,291,000	444,151,000	0	6,412,180,000	91.4	–	–

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)
(Dollars in Thousands)

	ACTUARIAL VALUATION AS OF JUNE 30	
	2010 (2009)	2009 (2008)
Actuarial Obligation at June 30	$6,599,315	$5,627,344
Expected Changes:		
Contributions	796,743	822,010
Benefits Paid	(237,406)	(186,281)
Expected Earnings/Credits	533,121	460,754
Expected Actuarial Obligation at June 30	7,691,773	6,723,827
Expected Actuarial Value of Assets at June 30	6,125,806	6,733,275
Expected UAO at June 30	1,565,967	(9,448)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(235,331)	(124,512)
(Gain) on Assets	(286,374)	1,587,294
Total Actuarial (Gains) & Losses	(521,705)	1,462,782
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	$1,044,262	$1,453,334
Funded Ratio	86%	78%

CASH BALANCE BENEFIT PROGRAM | ACTUARY'S CERTIFICATION LETTER

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October 28, 2011

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, 2008	101%
June 30, 2009	80%
June 30, 2010	88%

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, 2010 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 2011 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, 2010 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 in April of 2008. Revised economic assumptions were adopted at the December 2010 meeting. The assumptions will be reviewed in detail again in 2012.

ACTUARY'S CERTIFICATION LETTER, CONTINUED

Milliman

Teachers' Retirement Board
October 28, 2011
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. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

We certify that the June 30, 2010 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, 2010, and adopted by the Teachers' Retirement Board April 8, 2011 and December 2, 2010, respectively. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2010 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 December 2, 2010, respectively, and were 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, except for some economic assumptions which were adopted December 2, 2010. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.25 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 4.00 percent, of which 3.00 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, 2010, 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, 2010, result in an unfunded actuarial obligation of $15,156,000.

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

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

Independent Actuarial Review

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the 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 2007 Actuarial Experience Analysis of the Cash Balance Benefit Program was performed by the firm The Segal Company. The result of the audit was reported to the Teachers' Retirement Board on September 8, 2011.

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, 2010 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.

CASH BALANCE BENEFIT PROGRAM

Minimum Interest Rate

Annual rate determined for the plan year by the Teachers' Retirement Board in accordance with federal laws and regulations. The minimum interest rate is equal to the average of the yields on 30-year Treasury Notes for the 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, 2010 actuarial valuation.

All demographic assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on April 3, 2008; some new economic assumptions were adopted at the December 2, 2010 Board 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 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	3.00%
Investment Yield	7.25
Wage Inflation	4.00
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
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
2010	10,378	163,248,119	15,730	(2.5)

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
2011	24	59,374	2	6,679	67	172,824	57.0	2,579

[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)
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	–	–
2010	129,065,000	509,000	0	114,418,000	88.7	–	–

Table 13 | Analysis of Financial Experience

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

	ACTUARIAL VALUATION AS OF JUNE 30	
	2010 (2009)	2009 (2008)
Actuarial Obligation at June 30:	$114,680	$98,031
Expected Changes:		
Contributions	13,199	14,970
Benefits Paid	(3,110)	(2,276)
Expected Earnings/Credits	9,279	8,089
Expected Actuarial Obligation at June 30:	134,048	118,814
Expected Actuarial Value of Assets at June 30:	109,387	119,742
Expected UAO at June 30	24,661	(928)
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(4,474)	(4,134)
(Gain) on Assets	(5,031)	27,949
Total Actuarial (Gains) & Losses	(9,505)	23,815
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	$15,156	$22,887
Funded Ratio	88%	80%

MEDICARE PREMIUM PAYMENT PROGRAM | ACTUARY'S CERTIFICATION LETTER

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October 28, 2011

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, 2010.

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. $601 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, 2010.

The June 30, 2010 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 2011 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, 2010 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. Revised economic assumptions were adopted at the December 2010 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

ACTUARY'S CERTIFICATION LETTER, CONTINUED

Milliman

Teachers' Retirement Board
October 28, 2011
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, 2010 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. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their 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 0.1% of the accrued liabilities. It should be noted that these calculations do not include $601 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 CalSTRS Medicare Premium Payment Program. The GASB 43 reporting information was completed as of June 30, 2010, and adopted by the Teachers' Retirement Board April 8, 2011. 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. Assumptions specific to the Medicare Premium Payment Program were adopted by the Teachers' Retirement Board on June 5, 2009. The economic and demographic assumptions were based on those adopted for the Defined Benefit Program by the Teachers' Retirement Board on April 3, 2008, some economic assumptions were adopted at the December 2, 2010 Board meeting. 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 the price increase is 3.00 percent.
- 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, 2010 valuation. The most significant changes were the reductions in the probabilities of enrollment in the MPP Program and the reduced investment return assumption. 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, 2010, result in an unfunded actuarial accrued liability of $904.4 million.

MEDICARE PREMIUM PAYMENT PROGRAM

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.

An audit of the 2007 Actuarial Experience Analysis of the Medicare Premium Payment Program was performed by the firm, The Segal Company. The result of the audit was reported to the Teachers' Retirement Board on September 8, 2011.

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, 2010.)

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 ($450 per month in 2011)

Part B – Part B penalty. Based on Part B premium ($115.40 per month in 2011). Small group of high earners will have higher premiums, up to $369.10 in 2011.

Changes in the Medicare Premium Payment Program Provisions

The following amendments were considered for June 30, 2010 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

Demographic assumptions used for GASB 43 reporting were adopted by the Teachers' Retirement Board on April 3, 2008, some new economic assumptions were adopted at the December 2, 2010 Board meeting. 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	5.00%
Price Inflation	3.00%

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)[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.*

MEDICARE PREMIUM PAYMENT PROGRAM

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		Entry Age Under 40	Entry Age 40 and Up
Male			**Female**		
25	0.012%	–	25	0.021%	–
30	0.018	–	30	0.021	–
35	0.036	–	35	0.042	–
40	0.090	–	40	0.078	–
45	0.123	0.118%	45	0.126	0.139%
50	0.171	0.202	50	0.219	0.252
55	0.252	0.312	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

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
2011	537	2,202	231	695	6,709	34,677	1.9	5,169

[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.*

MEDICARE PREMIUM PAYMENT PROGRAM

Table 12 | Solvency Test[1]

AGGREGATE ACCRUED LIABILITIES FOR (in millions)					FUNDING OF LIABILITIES		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefit to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2006	$0	$796.5	$0	$2.7	100%	0.3%	0%
2008	0	976.3	0	4.2	100	0.4	0
2010	0	905.0	0	0.6	100	0.1	0

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

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	
	2010 (2009)	2008 (2007)
Actuarial Obligation at June 30:		
Expected Changes:		
Eligibility Extended	not calculated	not calculated
Benefits Paid	($36.0)	($33.0)
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	$904.4	$972.1
Funded Ratio	0.1%	0.4%

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	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Additions										
Member Contributions	$2,007.6	$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
Employer Contributions	2,228.9	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
State of California/ Federal Government[1]	1,193.3	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
Investment Income	28,488.5	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)
Other Income	6.5	7.7	7.5	213.1	0.5	0.1	1.4	(0.3)	0.0	0.7
Total Additions	**$33,924.8**	**$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)**
Deductions										
Benefit Payments to Members	$9,596.1	$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
Refunds of Member Contributions	88.8	85.4	74.9	83.5	87.5	82.9	79.1	79.2	78.7	73.9
Purchasing Power Benefits	237.6	272.6	348.1	229.8	230.3	215.3	221.3	223.5	233.8	257.0
Administration Expenses	104.2	134.0	109.7	106.4	103.4	93.6	92.9	93.5	72.1	63.5
Other Expenses	0.0	0.0	0.0	(0.2)	0.0	0.0	10.1	1.7	0.1	2.3
Total Deductions	**$10,026.7**	**$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**
Change in Net Assets	**$23,898.0**	**$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)**

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	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Type of Benefit										
Age & Service Benefits										
Retired Members	$8,925.7	$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
Survivors	463.6	502.7	443.0	426.2	376.7	351.9	329.8	233.8	247.6	233.5
Death	29.2	35.0	32.3	35.0	26.5	27.6	34.2	74.0	78.1	69.6
Disability Benefits										
Retired Members	177.7	172.7	161.7	155.6	145.6	137.2	125.1	115.0	105.4	94.7
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Benefits	**$9,596.2**	**$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**
Type of Refund										
Separation	$88.8	$85.4	$74.9	$83.5	$87.5	$82.9	$79.1	$79.2	$78.7	$73.9
Total Refunds	**$88.8**	**$85.4**	**$74.9**	**$83.5**	**$87.5**	**$82.9**	**$79.1**	**$79.2**	**$78.7**	**$73.9**

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
2011	429,600	64,069	45.3	11.7	26.3

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

Table 4 Members Retired for Service During Fiscal Year 2010–11, Classified by Unmodified Allowance[1]

MONTHLY MEMBER-ONLY BENEFIT[2]	COUNT	AVERAGE AGE AT RETIREMENT[3]	AVERAGE SERVICE CREDIT[3]	AVERAGE FINAL COMPENSATION[3]	AVERAGE BENEFIT PAYABLE[3]
Less than $500	733	62.3	5.784	$3,338	$317
500–1000	1,021	62.2	9.065	4,284	711
1000–1500	822	61.6	12.752	5,135	1,204
1500–2000	900	61.9	15.322	5,875	1,702
2000–2500	966	61.9	18.297	6,161	2,165
2500–3000	926	62.1	20.984	6,386	2,653
3000–3500	1,031	62.2	23.133	6,690	3,129
3500–4000	919	62.7	25.109	6,911	3,616
4000–4500	881	62.4	27.591	7,007	4,089
4500–5000	810	62.3	29.558	7,105	4,558
5000–5500	836	61.9	31.585	7,199	5,043
5500–6000	902	62.1	33.211	7,295	5,514
6000 & Greater	3,149	62.7	36.365	8,893	7,395
Total	**13,896**	**62.3**	**24.534**	**6,763**	**3,911**

[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 2010–11[1], Classifed by Age and Joint & Survivor Option Elected[2]

			OPTION TYPES							
Age	Total	Member-Only	2	3	4	5	6	7	8	9
Under 55	28	17					5	6		
55	550	367					108	33	7	35
56	410	265					77	31	5	32
57	497	295	1				97	60	4	40
58	725	409					154	88	2	72
59	907	468	5	2		1	195	122	5	109
60	1,396	720	19	3			321	188	11	134
61	1,873	928	44	2	1		435	254	15	194
62	1,873	925	47	5	1	1	402	284	30	178
63	1,506	828	24	3			299	199	30	123
64	1,129	630	25	3	1		227	140	17	86
65	773	456	14	2	1		135	91	15	59
66	553	322	12		1		101	71	6	40
67	432	261	13			1	63	58	5	31
68	330	208	5				68	26	5	18
69	223	141	6				35	24	5	12
70	186	123	7				26	16	2	12
71	128	84	5				17	15	4	3
72	103	64	2	1			16	12	4	4
73	53	39	1	1			6	2	1	3
74	51	34	2				7	6		2
75 and over	170	125	1				19	15	5	5
Age Unknown	0	0	0	0	0	0	0	0	0	0
Total	**13,896**	**7,709**	**233**	**22**	**5**	**3**	**2,813**	**1,741**	**178**	**1,192**
% of Total	**100%**	**55.48%**	**1.68%**	**0.16%**	**0.04%**	**0.02%**	**20.24%**	**12.53%**	**1.28%**	**8.58%**

[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
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

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
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
2011	504	2,784	14.297	5,781	55.0

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
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
2011	222,222	8,813	22,006	253,041

[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
7/1/2001 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**
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**

[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
7/1/2004 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	8,759	8,409	65.4
Total	15,493	25.5	4,256	6,800	62.2
7/1/2010 thru 6/30/2011[2]					
0 - 5	194	2.401	305	6,182	62.0
5 - 10	1,388	7.301	663	4,187	62.9
10 - 15	1,506	12.508	1,487	5,491	62.7
15 - 20	1,571	17.475	2,320	6,191	62.2
20 - 25	2,005	22.433	3,278	6,729	62.5
25 - 30	1,834	27.053	4,237	7,186	62.4
30 - 35	2,874	32.412	5,693	7,508	61.3
35 - 40	2,068	37.241	7,313	8,091	61.8
40 & over	456	42.267	9,037	8,738	65.6
Total	13,896	24.534	4,088	6,763	62.3

[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
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
2011	61.0	26.3	5,138	3,417

[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	18,565	15,842	158	2,565	13,700	1,833	607	76	92	1,439	564	78	176
500 - 1000	26,946	22,754	811	3,381	18,080	2,687	1,532	134	121	2,453	1,454	86	399
1000 - 1500	27,697	23,015	1,094	3,588	16,313	3,176	1,891	235	170	2,999	2,298	73	542
1500 - 2000	28,199	23,348	1,663	3,188	15,761	2,897	1,398	490	194	3,355	3,320	109	675
2000 - 2500	27,243	22,206	2,200	2,837	14,115	2,632	1,130	424	229	3,863	3,929	135	786
2500 - 3000	22,410	18,749	1,608	2,053	11,080	1,986	688	327	133	3,827	3,502	132	735
3000 - 3500	17,590	15,284	877	1,429	8,350	1,368	429	264	74	3,383	2,874	139	709
3500 - 4000	13,326	12,231	268	827	6,262	949	298	175	59	2,570	2,315	101	597
4000 - 4500	11,939	11,277	84	578	5,397	771	235	106	41	2,359	2,328	145	557
4500 - 5000	11,570	11,050	27	493	5,098	704	218	71	31	2,560	2,192	139	557
5000 - 5500	11,494	11,147	15	332	4,954	673	178	65	20	2,635	2,176	153	640
5500 - 6000	9,943	9,686	3	254	4,258	567	156	61	18	2,303	1,824	143	613
6000 & Greater	26,119	25,633	5	481	9,859	1,881	324	138	43	6,977	4,523	557	1,817
Total	**253,041**	**222,222**	**8,813**	**22,006**	**133,227**	**22,124**	**9,084**	**2,566**	**1,225**	**40,723**	**33,299**	**1,990**	**8,803**

[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	2011 COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	2002 COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
Los Angeles Unified	43,790	1	8.95%	51,979	1	10.52%
San Diego Unified	11,524	2	2.35	11,658	2	2.89
Long Beach Unified	5,715	3	1.17	7,064	3	1.51
Fresno Unified	5,316	4	1.08	5,812	4	1.32
San Francisco Unified	4,639	5	0.95	4,597	5	1.14
Elk Grove Unified	3,986	6	0.81	3,568	10	0.72
San Bernardino City Unified	3,919	7	0.80			
Santa Ana Unified	3,495	8	0.71	3,995	8	0.81
Sacramento City Unified				3,882	9	0.79
Corona-Norrco Unified	3,429	9	0.70			
Oakland Unified	3,302	10	0.67	4,306	6	0.87
San Juan Unified				4,095	7	0.83
All Other	400,201		81.79	391,491		79.50
Total (64 Employers)	**489,316**		**100.00%**	492,447		**100.00%**

DEFINED BENEFIT SUPPLEMENT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2011	2010	2009	2008	2007	2006	2005	2004	2003
Additions									
Member Contributions	$341.9	$651.5	$700.8	$684.8	$638.5	$599.1	$574.1	$565.8	$532.6
Employer Contributions	68.9	145.3	121.2	117.6	111.4	104.0	95.6	125.3	72.2
Investment Income	1,514.0	712.9	(1,122.5)	(387.8)	798.1	339.0	235.5	247.6	63.9
Total Additions	**$1,924.8**	**$1,509.7**	**($300.5)**	**$414.6**	**$1,548.0**	**$1,042.1**	**$905.2**	**$938.7**	**$668.7**
Deductions									
Benefit Payments to Members	$249.9	$223.7	$156.4	$139.4	$97.2	$98.0	$75.4	$42.0	$0.6
Refunds of Member Contributions	26.0	13.7	29.8	17.7	18.0	14.0	8.6	3.1	0.7
Administration Expenses	6.1	6.1	3.4	2.9	2.5	2.0	1.7	1.2	0.6
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Deductions	**$282.0**	**$243.5**	**$189.6**	**$160.0**	**$117.7**	**$114.0**	**$85.7**	**$46.3**	**$1.9**
Change in Net Assets	**$1,642.8**	**$1,266.2**	**($490.1)**	**$254.6**	**$1,430.3**	**$928.1**	**$819.5**	**$892.4**	**$666.8**

[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	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Benefit									
Age & Service Benefits									
Retired Members	$233.6	$205.8	$146.7	$129.6	$91.3	$94.0	$71.4	$39.0	$0.5
Survivors	1.2	1.2	0.6	0.4	0.2	0.1	0.0	0.2	0.0
Death	5.8	7.6	4.3	4.2	2.6	1.9	2.0	1.1	0.1
Disability Benefits									
Retired Members	9.4	9.1	4.8	5.2	3.1	2.0	2.0	1.6	0.0
Total Benefits	$250.0	$223.7	$156.4	$139.4	$97.2	$98.0	$75.4	$42.0	$0.6
Type of Refund									
Separation	$26.0	$13.7	$29.8	$17.7	$18.0	$14.0	$8.6	$3.1	$0.7
Total Refunds	**$26.0**	**$13.7**	**$29.8**	**$17.7**	**$18.0**	**$14.0**	**$8.6**	**$3.1**	**$0.7**

[1] *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 Members Retired for Service During Fiscal Year 2010–11[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	23	2	3	1	1	5		1	1		5		4
55	327	122	42	4	13	48	2	1	3	4	42	9	37
56	229	62	40	4	6	36	3	2	3	5	37	6	25
57	311	91	41	8	11	50	5	6	4	2	55	3	35
58	425	98	60	11	25	82	2	9	18	8	58	11	43
59	607	148	87	15	31	112	7	7	9	22	108	3	58
60	826	196	127	18	35	135	6	9	9	21	175	16	79
61	1,227	271	218	25	57	236	16	17	22	13	208	35	109
62	891	204	156	22	41	136	13	19	17	12	128	15	128
63	744	233	110	17	38	120	5	3	10	10	96	6	96
64	546	155	78	9	15	102	12		4	15	83	8	65
65	383	109	44	16	32	73	6	1	5	8	54	6	29
66	281	94	40	5	13	45	2	3	1	5	40	5	28
67	220	70	37	4	7	40	2	1	2		31	3	23
68	150	56	13	2		32	1		3	1	19	3	20
69	101	29	10	3	2	25	3		1	4	16		8
70	96	31	12		5	14	3	1	4		13	3	10
71	56	13	6	2	3	11	4		1		11		5
72	51	16	8		4	10				3	5	1	4
73	31	12	2	1		6			1		6		3
74	32	12	3	1	2	4					4		6
75 and over	74	29	4	1	4	9		2	2	2	12		9
Age Unknown	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**7,631**	**2,053**	**1,141**	**169**	**345**	**1,331**	**92**	**82**	**120**	**135**	**1,206**	**133**	**824**

[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
2011	34,917	241	12,004	61.9

[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
2011	575	239	9,436	55.4

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

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

Table 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	23,191	8,105	2,708	575	338	34,917
Disability	393	130	39	7	6	575
Survivors	361	139	49	17	8	574
Total	**23,945**	**8,374**	**2,796**	**599**	**352**	**36,066**
Type of Payment						
Regular Annuity						
Single Life Without Cash	1,129	1	0	0	0	1,130
Single Life With Cash	8,894	500	30	5	1	9,430
100% J&S	5,990	424	31	6	5	6,456
75% J&S	652	50	11	0	0	713
50% J&S	1,783	126	18	3	0	1,930
Period-Certain Annuity						
10 Year	3,544	1,817	205	41	23	5,630
9 Year	300	166	18	5	2	491
8 Year	175	160	13	4	1	353
7 Year	238	292	34	15	4	583
6 Year	196	405	68	11	6	686
5 Year	770	3,414	890	131	68	5,273
4 Year	45	389	202	23	16	675
3 Year	229	630	1,276	355	226	2,716
Total	**23,945**	**8,374**	**2,796**	**599**	**352**	**36,066**

CASH BALANCE BENEFIT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Additions										
Participant Contributions	$6,386.0	$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
Employer Contributions	6,503.0	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
Investment Income	27,823.0	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)
Total Additions	**$40,712.0**	**$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**
Deductions										
Benefit Payments to Participant	$2,463.0[1]	$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]
Refunds of Participant Contributions	1,305.0	1,090.5	1,054.4	608.1	664.3	472.4	244.8	196.7	132.5	89.8[2]
Administration Expense	114.0	112.7	65.5	52.1	44.1	36.0	34.0	27.7	16.8	10.8
Other Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Deductions	**$3,882.0**	**$3,222.6**	**$2,341.8**	**$1,713.5**	**$1,592.3**	**$1,838.1**	**$1,514.0**	**$804.7**	**$337.3**	**$206.1**
Change in Net Assets	**$36,830.0**	**$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**

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, 2009/10, and 2010/11 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, $396,434, and $638,212 respectively.

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

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

FISCAL YEAR ENDING JUNE 30	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Type of Benefit										
Age & Service Benefits										
Retired Members	$2,161.8[1]	$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
Death	301.2	216.5	397.9	59.8	48.0	91.4	92.0	44.9	48.3	22.8
Disability Benefits										
Retired Members	0.0	0.0	0.0	0.0	5.8	1.3	0.0	0.0	7.5	0.0
Total Benefits	$2,463.0	$2,019.4	$1,221.9	$1,053.3	$883.4	$1,329.7	$1,235.2	$580.3	$188.0	$105.5
Type of Refund										
Separation	$1,305.4	$1,090.5	$1,054.4	$608.1	$664.3	$472.4	$244.8	$196.7	$132.5	$89.8
Total Refunds	**$1,305.4**	**$1,090.5**	**$1,054.4**	**$608.1**	**$664.3**	**$472.4**	**$244.8**	**$196.7**	**$132.5**	**$89.8**

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, 2009/10, and 2010/11 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, $396,434 and $638,212 respectively.

Table 3 Members Retired for Service During Fiscal Year 2010–11[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	0												
56	0												
57	0												
58	0												
59	2	1											1
60	3					1							2
61	2					1							1
62	2	2											
63	1	1											
64	2	1											1
65	1					1							
66	0												
67	2					1					1		
68	2	1				1							
69	0												
70	1											1	
71	2					1							1
72	2					1					1		
73	0												
74	0												
75	0												
Over 75	2	2											
Total	**24**	**8**	**0**	**0**	**0**	**7**	**0**	**0**	**0**	**0**	**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
2011	67.8	13,388	215

[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	47	14	4	2	0	67
Disability	0	0	0	0	0	0
Survivors	0	0	0	0	0	0
Total	**47**	**14**	**4**	**2**	**0**	**67**
Type of Payment						
Regular Annuity						
Single Life Without Cash	2	0	0	0	0	2
Participant Only	20	0	1	0	0	21
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	9	3	0	0	0	12
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	4	0	0	0	7
4 Year	0	1	1	0	0	2
3 Year	7	4	2	2	0	15
Total	**47**	**14**	**4**	**2**	**0**	**67**

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

	2011			2002		
PARTICIPATING EMPLOYERS	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM	COVERED EMPLOYEES	RANK	PERCENTAGE OF TOTAL SYSTEM
* Los Angeles CCD	4,228	1	12.71		–	–
Contra Costa CCD	2,238	2	6.73	1,365	1	8.66
Peralta CCD	2,170	3	6.52	1,219	2	7.73
West Contra Costa Unified	2,130	4	6.40	1,159	5	7.35
City College of San Francisco	1,869	5	5.62	1,196	4	7.59
Chabot-Las Positas CCD	1,711	6	5.14	1,214	3	7.70
San Jose/Evergreen CCD	1,679	7	5.05	980	6	6.21
Santa Rosa Junior College	1,377	8	4.14	796	8	5.05
Glendale CCD	1,296	9	3.90	722	9	4.58
Foothill De Anza CCD	1,268	10	3.81	842	7	5.34
Ohlone CCD				681	10	4.32
All Other	13,296		60.03	5,593		35.47
Total	**33,262**			**15,767**		**100.00%**

** *Los Angeles Community College District does not have covered employees reported for 2002. This is due to Los Angeles CCD not offering CB membership until 2006. Data was incorrectly reported for 2000 in the 2009 CAFR and 2001 in the 2010 CAFR for Los Angeles CCD. The exact same data was reported two years consecutively for the top ten employers. The 2002 data reported reflects this correction.*

PROGRAMS ADMINISTERED OR OVERSEEN BY THE RETIREMENT SYSTEM

PENSION2

Table 1A | Changes in Net Assets for Pension2 IRC 403(B) (dollars in thousands)[2]

FISCAL YEAR ENDING JUNE 30	2011	2010	2009[2]	2008[2]	2007	2006	2005	2004	2003	2002
Additions										
Participant Contributions	$47,181	$53,536	$42,966	$26,289	$23,338	$21,509	$20,379	$19,535	$17,481	$14,472
Interest, Dividends and Investment Income	43,782	17,175	(28,479)	(12,569)	22,793	10,245	6,143	9,754	1,054	(6,158)
Other Income	225	0	0	17	16	0	0	0	0	0
Total Additions	**$91,188**	**$70,711**	**$14,487**	**$13,737**	**$46,147**	**$31,754**	**$26,522**	**$29,289**	**$18,535**	**$8,314**
Deductions										
Distributions and Withdrawals[1]	$16,690	$11,892	$8,644	$9,570	$8,451	–	–	–	–	–
Benefit Payments to Participant	0	0	0	0	0	$2,286	$2,645	$1,617	$1,965	$453
Refunds of Participant Contributions	0	0	0	0	0	7,481	6,131	6,440	3,478	2,553
Administration Expenses	538	374	278	526	782	935	917	807	504	372
Total Deductions	**$17,228**	**$12,266**	**$8,922**	**$10,096**	**$9,233**	**$10,702**	**$9,693**	**$8,864**	**$5,947**	**$3,378**
Change in Net Assets	**$73,960**	**$58,445**	**$5,565**	**$3,641**	**$36,914**	**$21,052**	**$16,829**	**$20,425**	**$12,588**	**$4,936**

[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.*

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

FISCAL YEAR ENDING JUNE 30	2011	2010	2009
Additions			
Participant Contributions	$1,289	$674	$37
Interest, Dividends and Investment Income	155	60	1
Other Income	42	0	0
Total Additions	$1,486	$734	$38
Deductions			
Distributions and Withdrawals	$82	$0	$0
Benefit Payments to Participant	0	0	0
Refunds of Participant Contributions	0	0	0
Administration Expenses	2	0	0
Total Additions	$84	$0	$0
Change in Net Assets	$1,402	$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 Five Years Ago[1]**

	2011			2006		
PARTICIPATING EMPLOYERS	PARTICIPATING EMPLOYEES	RANK	PERCENTAGE	PARTICIPATING EMPLOYEES	RANK	PERCENTAGE
Los Angeles USD	1,365	1	20.39%	525	1	14.47%
San Diego City USD	164	2	2.45	65	2	1.79
LA Comm College Dist	105	3	1.57			
Long Beach Unified	95	4	1.42	43	4	1.18
Sacramento City USD	76	5	1.14	42	5	1.16
San Juan Unified	76	6	1.14	29	9	0.80
San Diego Comm College	71	7	1.06			
San Francisco USD	71	8	1.06	44	3	1.21
City College of San Francisco	70	9	1.05			
Elk Grove Unified	56	10	0.84			
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	4,546		67.88	2,752		75.83
Total (679 employers)	**6,695**		**100%**	**3,629**		**100.00%**

[1] *Due to change in record keeper, data is only available since 2006.*

MEDICARE PREMIUM PAYMENT PROGRAM

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

FISCAL YEAR ENDING JUNE 30	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Additions										
Employer Contributions	$36,145	$31,749	$29,962	$33,239	$32,257	$29,602	$28,483	$26,496	$22,221	$19,060
Interest, Dividends and Investment Income	10	33	106	205	240	143	87	41	53	118
Other Income	0	0	0	0	0	0	(158)	8	0	31
Total Additions	**$36,155**	**$31,782**	**$30,068**	**$33,444**	**$32,497**	**$29,745**	**$28,412**	**$26,545**	**$22,274**	**$19,209**
Deductions										
Premiums Paid	$35,785	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536
Administration Expenses	345	309	316	334	190	359	429	373	355	377
Total Deductions	**$36,130**	**$35,730**	**$29,731**	**$33,023**	**$31,460**	**$29,672**	**$27,845**	**$26,021**	**$22,381**	**$21,913**
Change in Net Assets	**$25**	**($3,948)**	**$337**	**$421**	**$1,037**	**$73**	**$567**	**$524**	**($107)**	**($2,704)**

Medicare Premium Payment Program began in 2001.

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

FISCAL YEAR ENDING JUNE 30	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Type of Benefit										
Age & Service Benefits										
Retired Members	$35,785	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026	$21,536
Total Benefits	$35,785	$35,421	**$29,415**	**$32,689**	**$31,270**	**$29,313**	**$27,416**	**$25,648**	**$22,026**	**$21,536**

Medicare Premium Payment Program began in 2001.

MEDICARE PREMIUM PAYMENT PROGRAM

Table 3 | Retired Members Enrolled in Medicare Premium Payment Program During Fiscal Year 2010–11 Classified by Age at Retirement

AGE	TOTAL
<55	7
55 - 56	42
56 - 57	29
57 - 58	37
58 - 59	44
59 - 60	50
60 - 61	96
61 - 62	96
62 - 63	50
63 - 64	18
64 - 65	20
65 - 66	12
66 - 67	10
67 - 68	11
68 - 69	2
69 - 70	5
70 - 71	5
71 - 72	1
72 - 73	1
73 - 74	0
74 - 75	1
>=75	0
Grand Total	**537**

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
2011	60.3	431

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